

## Customer Challenge Group

<b>Purpose of Meeting:</b>	<b>Customer Challenge Group planned meeting Number 5</b>	
<b>Location:</b>	Hub	
<b>Date of Meeting:</b>	22 May 2013	
<b>Present:</b>	Chair Robin Dahlberg	
	Jim Barker, EA Allyson Broadhurst, Charis Grants Karen Gibbs, CCWater Tim Hutchings Lucy Lee, BluePrint for Water Hazel Smith, GlaxoSmithKline Jill Thomas, CCWater Mark Tomkins, Heathrow Airport Ltd	
<b>Observers</b>	Richard Bienfait, CEO, AW (part)	<b>Presenters</b> Tim Monod AW Tim Yearsley AW Joseph Sanders, AW David Barlow, AW Liz Allen, AW Lisa Gahan, ICS
<b>Apologies:</b>	Jacky Atkinson DWI Keith Cane, East Kent Housing Mark Kibble, Dacorum Council Allan Johnson, Tendring Council	
<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 13 March 2013 were approved and signed by the Chair. These will be published on the public web site.</p> <p>The Chair invited statutory members to provide an update of their activity.</p> <p>Jim Barker, Environment Agency explained that draft Water Resource Management Plans (dWRMP) were out for consultation and the EA would be undertaking a strategic review. He said he would make the EA report on AWL available, in confidence, to CCG members.</p> <p>In addition JB passed comments about the way Affinity Water had submitted their dWRMP and expressed some concerns around the delivery of correct information in a timely manner. He said that Affinity Water were the only company to have had difficulty submitting the correct information on time.</p> <p>The Chair commented that he was looking to the EA to comment on the dWRMP and to provide assurance to the other members of the CCG.</p> <p>Karen Gibbs, CCWater reminded the CCG about an information paper that CCWater had produced on engagement and a newly published paper on expectations when testing customer views on acceptability of business plans. The proposals included a number of principles to allow a degree of comparability across companies.</p>	

	<p>The Chair asked how that would fit with the localism agenda being promoted by Ofwat. KG pointed out that many customers have two service providers (separate water and waste water services) and that a means to provide comparability and assurance on the way prices were determined would be useful.</p> <p>The Chair presented his report on key meetings and actions since March, including recent meetings with other Southern CCG chairs, attending an Ofwat Workshop and meetings with the Affinity Water Board.</p> <p>The Chair reported that the Chief Executive of Ofwat, Regina Finn had resigned but she would remain in post until November. This raised some concerns about potential changes to expectations and delivery dates (latest date for Business Plan submission in 2 December). Following discussions with the other Southern CCG Chairs and AW, it was concluded that it was unlikely that submission dates would change; however, all parties would have to monitor developments and be prepared to act.</p> <p>The Chair attended the AW Board meeting 21 May and informed members about the make up of the Board and their commitment to fulfil their requirements in relation to PR14. Non-Executive and Independent Directors have been invited to attend the CCG meeting on 18 September.</p> <p>In response to the change of submission dates announced by Ofwat, the Chair stated that he would attend the AWL Board in October to provide them with a draft of the CCG report, prior to the final sign off by CCG in November.</p> <p>The newly appointed Chair to the AWL Board, Dr Phil Nolan, will meet with the CCG Chair separately.</p> <p><b>Objectives for the meeting</b></p> <ul style="list-style-type: none"> <li>• Close of Phase one of the Engagement Programme</li> <li>• Review plans for Stage two of the Engagement Programme</li> </ul>	
<p>1</p>	<p><b>CCG report</b></p> <p>Affinity Water employees were asked to excuse themselves while the CCG members reviewed the drafts of parts of their report on Affinity Water's Business Plan.</p> <p>The CCG Chair provided the minute for this part of the meeting.</p> <p>The Chair noted that the two representatives from CCWater had reviewed all five versions of chapter four, and he thanked them for their contributions.</p> <p>The members decided that "Stages" was not the best name for chapter four. The members agreed to propose alternative titles by Friday 7 June 2013.</p> <p><b>Action: CCG members to propose alternative titles for chapter four by Friday 7 June 2013.</b></p> <p>The members decided that when the report includes an opinion or view expressed by the CCG, this should be put in a separate paragraph and highlighted either by italics or bold.</p> <p><b>Action: CCG Chair to amend the drafts.</b></p> <p>The members decided that the opinions expressed in the draft of part of chapter four represented the collegiate view of the CCG.</p> <p>The members decided that a précis or abstract should be added to the beginning of each module in the report.</p>	

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	<p>The members decided to add a new section to chapter four on acceptability testing.</p> <p>The CCG reviewed in detail the following paragraphs of chapter four, and agreed amendments: 4.1, 4.5, 4.12, 4.14, 4.15, 4.19, 4.20, 4.38, 4.39, 4.50, 4.58, 4.62, 4.66 and 4.67.</p> <p><b>Action: CCG Chair to make the necessary amendments.</b></p> <p>The CCG members challenged the accuracy of paragraph 4.15 in chapter four.</p> <p><b>Action: Affinity Water to advise under what circumstances do the company refund overpayments. For example, do customers have to ask for a repayment?</b></p> <p>The CCG considered the diverse styles used in the biographies / autobiographies appendix. The members decided to retain the diversity. Hazel Smith noted that her contribution had not been updated to incorporate the latest material she submitted. The CCG Chair said that members were free to make further amendments, but the version agreed at the September CCG meeting should be the final version.</p> <p><b>Action: CCG Chair to update Hazel Smith's autobiography.</b></p> <p><b>Action: Affinity Water should send CCG members a reminder in August 2013 that they should make any further amendments in good time for the September CCG meeting.</b></p> <p>The CCG Chair advised that he expected to provide drafts of additional material at all the remaining CCG meetings in 2013. For each paper, the Chair would provide a version control document highlighting the new material.</p>	
2	<p><b>Agenda item 2 (paper item 2) The completion of phase one of the Engagement Programme, Liz Allen, Stakeholder Engagement Manager.</b></p> <p>Much of the content of the paper had been discussed during item one and members commented that the findings had not revealed any surprises.</p> <p>CCG</p> <ul style="list-style-type: none"> <li>• Agreed that the activity undertaken in phase one was appropriate to meet the objectives of listening and learning about customer attitudes and opinions</li> <li>• Supported that the summary findings were the most significant issues to be taken forward</li> </ul> <p>To provide further assurance CCG members requested a summary for 3 issues to show where issues arose and how these will be taken forward.</p> <p><b>Action</b> AW to produce a detailed information flow showing how the following issues were identified and validated.</p> <ul style="list-style-type: none"> <li>• Support for metering</li> <li>• Value for money</li> <li>• Abstraction</li> </ul> <p>In addition two contextual issues were discussed and members requested addition information on.</p> <ul style="list-style-type: none"> <li>• Comparative increases in water bills over time</li> <li>• Affinity Waters' view of the broader political situation and whether they felt there was any political pressure on bill levels</li> </ul>	LA 7/13

3	<p><b>Agenda was re-arranged to accommodate an external speaker</b>  <b>Agenda Item 4 Background and approach to Willingness to Pay Research, Lisa Gahan, ICS Consulting.</b></p> <p>The purpose of the presentation was to inform members of the purpose of Willingness to Pay Research, how it was used and applied. A presentation was given showing how a value for services could be assessed in financial terms. This financial value could then be used to provide a measure of 'benefit' within a cost benefit assessment.</p> <p>As part of the context for the WTP work interviewees are asked a number of questions these include:</p> <ul style="list-style-type: none"> <li>• How they feel about the amount paid for the water supply services received from Affinity Water</li> <li>• Commenting on the service areas and on those that need improvement or not</li> <li>• Whether they feel bills should go up, stay the same or go down in the future</li> </ul> <p>As part of the choices there is range of questions to capture the range of bill impacts which customers seem to think is appropriate. Sewerage bill charges are introduced – to see whether this influences views on what should be delivered in terms of water service.</p> <p>After questioning about choices, questions are asked about motivations – to give respondents the opportunity to say what they think companies should pay for improvements, whether the company is inefficient, whether they trust the company to deliver the improvements etc.</p> <p>An analysis of customers' views on current services and bill levels will be included in the WTP survey responses. The acceptability testing will be designed to make this explicit and will include the sewerage element.</p> <p>Members raised a number of questions and the answers provided helped to increase understanding. Questions raised included:</p> <p>Q: Customers affected by a single attribute – such as low pressure would place a higher value on improving that service, than someone who had no experience. How was this taken into account to ensure bias was minimised?  A: The sample size of the stated preference survey would address this bias. However, if it was found that there was 'over' sampling for any attribute – this could be addressed through weighting results but this would be unlikely.  A: ICS set the sample size to be quite large – this should ensure that issues that do occur occasionally in the population are captured. The sample selection is random to avoid bias. ICS generally avoid oversampling customers with known issues on the grounds that their WTP will pull the average up. If we were to find a large portion of the sample experienced issues not experienced in general across the population we could address this bias through weighting. But this is not expected.</p> <p>Q: How big is the sample size? And who is excluded?  A: The number of interviews planned will be sufficient to give a statistically robust response. A high level of confidence is required and this will influence the numbers surveyed. Additional, the more analysis performed on the results, ie by region, Socio-Economic Group, age etc, the higher the response rate required. Final numbers are being agreed and these will significantly exceed the minimum.  A: All respondents are screened to ensure they meet basic requirements – such as being responsible for paying the Affinity Water bill; no one will be excluded for non payment. (They are not asked whether they have paid their bill.)</p> <p>Q: Do the choices include a reduction in bills – with a potential reduction in service?  A: Yes, the blocks of choices will always include the current situation and two alternatives. These are generated at random and will include reductions both in service level and bill.</p>
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	<p><b>Q: How is the total bill tested?</b>  <b>A: A separate piece of research is being undertaken to assess total bill acceptability as it is understood that customers will want to trade off different services if they each have an impact on bills.</b></p> <p><b>Q: The research is assuming that customers already place a value on the service they are receiving. Customers may be dissatisfied with the service but cannot choose to go somewhere else, how will this WTP make a difference?</b>  <b>A: The purpose of WTP research is to gain a monetary 'value' of change in service, not whether the absolute level of service and the bill is worth what is being paid. However we do include questions to find out the customer view on this important issue. The acceptability testing, that considers the whole bill impact, is more closely aligned to answering the type of question raised. The design of the survey questionnaire will include a range of questions on current bill levels and service levels and seeks to understand customer's views of the existing service before considering the impact of future changes.</b>  <b>A: In the absence of direct competition, it is the role of Ofwat to ensure that the charges made to customers reflect the cost to deliver those services. If companies are less efficient than the level of performance assumed by Ofwat when it sets prices then it is the company shareholders and not the customers who pay for this inefficiency.</b></p> <p><b>Q: Are domestic and commercial customers surveyed with the same information?</b>  <b>A: The same choices will be given to commercial and domestic customers, however, some of the language will be changed to ensure it is appropriate for the audience.</b>  <b>The surveys are performed separately and the responses aggregated. The numbers of domestic customer surveyed is higher than commercial customers.</b></p> <p><b>Q: The illustration provided shows a linear progression for the marginal benefit. Is that realistic?</b>  <b>A: There are many interdependencies on each of the attributes and it would not be possible to show and use multiple variables. The survey results are only valid in the range set, so there is a level of the service and price change that is implicit in the estimated WTP and set the boundary for the validity of the numbers used.</b></p> <p><b>Q: How are the surveys undertaken?</b>  <b>A: A variety of methods are used. Face to face is considered the most robust, but all methods have pros and cons so we are including on-line. The testing and pilot stages identify opportunities to improve the language and the approaches taken so that the issues are explained in clear way enabling respondents to provide valuable responses. Most interviews are carried out in the presence of an interviewer.</b>  <b>A: The experts who undertake this work are aware of the challenges, such as people skipping through pages etc and build in checks, such as the amount of time spent on page, to ensure the quality of the data.</b></p> <p><b>Affinity Water has chosen to undertake a two stage survey. The scope of stage one will be for the whole of the business plan and will be aligned with the Customer Outcomes. The stage two work will focus on Water Resources.</b></p> <p><b>The draft surveys are under construction and are open for review until 24 June. CCG members will be given the opportunity to see and test the questions.</b></p>	
4	<p><b>Agenda Item 5 (paper item 5) Business Plan Governance, Tim Monod, Director of Legal and Regulation</b>  <b>Richard Bienfait, CEO Affinity Water joined for the presentation</b></p> <p><b>The presentation started with a reminder of the changes in ownership of the business and the impact that is having, and will continue to have on the governance arrangements.</b></p>	



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	<p>The role of the Board, in relation to its responsibilities for PR14, was discussed and it was noted that a significant proportion of Board time was being spent on the subject.</p> <p>Members raised some questions about the defined roles and membership of the Board, including their involvement with customer issues and terms of office. The members were assured that the Independent Directors took an active interest in customer issues including challenging the business on SIM scores. The existing Independent Directors had a wealth of water industry experience, having held board positions under the previous ownership. The Board worked within the guidance of best practice for membership, terms of office etc. and these would be considered as part of the general review of corporate governance.</p> <p>A revised timetable of activity for the Board, in relation to PR14 was shared. This reflected the change in submission date.</p> <p>The Board have recently reviewed the proposed structure for the business plan and this will be shared with the CCG in July.</p> <p>While the CEO was present members used the opportunity to ask some questions. These included:</p> <p>Q: Is Affinity Water expecting to standardised ways of working and produce a business plan covering all three regions?  A: Standardisation will be progressively introduced where it is appropriate – such as IT systems, consistent processes etc. Operationally, each region has different characteristics and challenges and there is no intention to loose the benefits of local skills and knowledge. As far as possible the business plan development process will be standardised to deliver priorities which will be tailored to respond to the local needs.</p> <p>Q: When committing to four outcome measures how will Affinity Water demonstrate that environmental concerns are appropriately reflected?  A: The Outcome Measure Framework is still under consultation and development. Once the metrics and measures have been defined, they will be shared with the CCG. This should provide assurance of the importance of environmental measures. The performance levels will also be identified with an indication of where each measure will contribute to either a financial or reputational driver.</p> <p>Members asked to see the outcome measures framework and the supporting metrics and performance measures.</p>	<p>CO 7/13</p> <p>CO 7/13</p>
<p>5</p>	<p><b>Agenda Item 6 Updates. Capital Investment Portfolio Optimiser, Tim Yearsley, Asset Delivery Manager, Joe Sanders, senior Asset Engineer, David Barlow, Head of Asset Delivery</b></p> <p>The presentation explained how the use of dedicated software will help to optimise capital investment in physical assets. Asset and maintenance costs will be balanced with the preferred service levels for customers in order to identify the investment options that deliver best value.</p> <p>The tool will be run periodically to re-optimize investment in light of changes in performance or need and incorporate revised customer preferences.</p> <p>The first output is due shortly and will provide the baseline for the business plan. Customer views from Willingness To Pay studies will then be applied to demonstrate the impact of customer preferred service levels.</p>	
<p>6</p>	<p><b>Agenda was re-arranged to accommodate an external speaker  Agenda Item 4 part 2 Acceptability Testing, Lisa Gahan, ICS Consulting.</b></p>	

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	<p>Customer Acceptability Research complements Willingness to Pay (WTP) and Cost Benefit Assessment activity. WTP research allows for a value to be determined for a service or a change in service, which are then proposed within a plan(s). Customer Acceptability is assessing the plan(s) to determine which is most acceptable. This means wider influences on bills such as customer affordability and mandatory investment can be considered.</p> <p>The options include testing acceptability for a preferred plan or testing a number of plans. Affinity Water have not finalised the approach they will be taking.</p> <p>The methodology ensures a robust statistically significant sample of customers is questioned in order to provide evidence of acceptability.</p> <p>Q: How will any efficiencies gains (from unification) or previous inefficiencies etc be managed so that customers are not paying for past poor decisions?  A: Customers in the current regulatory period are not paying for inefficiencies. Ofwat assume a level of efficiency for all companies. Any divergence, from that level of efficiency, results in a cost carried by the shareholder.</p> <p>Q: When will a preferred plan be available for consultation?  A: Consultation on a preferred plan will run in parallel with the Willingness to Pay work. The two pieces of work do not have to be sequential.</p> <p><b>ACTION</b>  The CCG would like to see a timetable of the different activities which ICS are carrying out identifying when and where they may be able to comment.</p>	<b>CO 6/13</b>
<b>7</b>	<p><b>Agenda was rearranged. Agenda Item 3 Plan for Phase 2, Process and timetable overview, Liz Allen, Stakeholder Engagement Manager.</b></p> <p>The phase two programme for engagement 'Testing and Valuing' was shared with the members. This showed how action was planned to build on the findings from Phase One. Members were reminded of the process followed. A summary of the objectives, success factors, including proposed indicators, were shared.</p> <p>Members were advised that Affinity Water proposed segmenting stakeholders into three tiers and that they were developing a range of activities for each tier in order to show that 'sufficient engagement' was planned.</p> <p>A timetable of activity was shared and members will be advised of dates and locations for events so that they can observe or attend.</p> <p>The CCG</p> <ul style="list-style-type: none"> <li>• Supported the approach</li> <li>• Were provided with information about the outline programme and content, showing how gaps, identified in phase one, were to be addressed</li> <li>• Confirmed that they would like to be involved throughout the campaign</li> </ul>	
<b>8</b>	<p><b>Agenda item 6 Audit activity</b>  The item will be carried over until the next meeting when AWL will be sharing the approach and timetable to auditing.</p>	
<b>9</b>	<p><b>AOB</b>  Discussions about additional meetings either in person or by telephone conference in October were discussed.  It was suggested that one of the meeting dates booked with the Chair might be suitable. Dates to be confirmed once AWL confirmed the date for the completion of the second version of the</p>	



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	Business Plan.  The meeting closed at 16:00hrs	
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Minutes of 5<sup>th</sup> CCG meeting held on 22 May 2013

Approved by Robin De Hoog

Date 24 July 2013