

AffinityWater

ICG Meeting Minutes 17 July 2023



Minutes of the Meeting of the Independent Challenge Group

Monday 17th July 2023, 14:00 – 17:00 (Teams)

ICG members in attendance		
Caroline Warner	<i>Chair</i>	CW
Ana Maria Millan	<i>CCW</i>	AM
Bob Winnington	<i>Independent</i>	BW
Unette Spencer	<i>Independent</i>	US
David Holden	<i>Independent</i>	DH
Anthony Smith	<i>Independent</i>	AS
Todd Holden	<i>Independent</i>	TH
Affinity Water members		
LW	<i>Director of Regulation and Strategy</i>	LW
RF	<i>Director of Customer Experience</i>	RF
ES	<i>PR24 Project Support</i>	ES
CC	<i>Head of PR24 Engagement</i>	CC
SJ	<i>WRMP Community and Stakeholder Engagement</i>	SJ
FR	<i>PR24 Stakeholder Engagement Manager</i>	FR
MH	<i>Head of Economic Regulation</i>	MH
Guests		
JH	<i>Accent</i>	JH
RS	<i>Sia</i>	RS
HF	<i>Sia</i>	HF
AP	<i>Eftec</i>	AP
SN	<i>Eftec</i>	SN
Apologies		
Jonathan Sellars	<i>Environment Agency</i>	JS

Agenda Item	Minute	Action
1.0	Welcome and Introduction	
	Welcome from Caroline.	
2.0	PR24 &WRMP update	
	<p>2022/23 Performance update – the annual performance report has been published for the last financial year and a slimline customer report has also been produced for the first time. Of the 28 performance commitments Affinity met or exceeded 20 in terms of targets, including leakage. Positive performance also achieved around environmental obligations</p> <p>This is now a critical point in the Business Plan process with submission due in October. Data tables are being checked and audited for the regulatory submission. Business Plan narrative is being drafted and a customer version of the plan is also being produced. WRMP is in a good position.</p> <p>ICG asked if the recent Thames Water news is causing financial clouds around affordability of plans and capital. LW confirmed that AWL shareholders are very committed to the business and that a lot of what is being reported isn't accurate. AWL will produce their yearly finance statement in a couple of months time, as they did last year, which explains more around financial structure and resilience.</p> <p>ICG explained that they are happy with the 'Silver' report that they have produced for Affinity Water Board and that a 'Gold' report will be finalised in due course to complement the business plan submission in October. The ICG raised concerns that an updated business plan has not been available since the 'Planning Our Future' customer draft business Plan. LW confirmed that the ICG would receive the updated customer version of the final business plan in September and that the ICG had received the substantive detail of the business plan through the series of ICG and sub-group meetings.</p> <p>WRMP update – the revised draft plan and statement of response will be published on 31 August 2023 and submitted to DEFRA. They will decide later this year if we can go ahead and publish our final plan or if we need to make any changes.</p>	

ICG asked about the demand management programme ambition, CC confirmed that a bigger PCC reduction is required than originally planned for. Smart metering plans will continue over a three AMP period. Focus continues on reduction in PCC relating to the behavioural change campaign. ICG would be interested in seeing the quantification modelling for behavioural change. RF confirmed that figures will be shared with the ICG quarterly.

ICG queried if there were any additional themes coming through from the draft WRMP statement of response. CC confirmed that there were 700 pages of responses that were all very varied. All have been answered individually. In terms of the best value question, some responses were around cost, doing things quicker and different views on what should be the key focus areas e.g., environment.

RF

ICG asked that if bills go up would demand come down? LW outlined that bills increased by 10% this year as a result of inflation and is a good datapoint to see if that increase is influencing people's behaviour. Smart meters will also enable regular data to track usage.

CW confirmed that there will be an environment focused ICG in the autumn.

3.0 Bespoke PCs and ODI update

Low Pressure performance – ICG asked if there is a scale across the industry and why AWL has scored so high compared to others. LW confirmed that although AWL does perform poorly compared to other companies, there is no consistency of reporting across the industry and that AWL have been engaging with Ofwat as it is an unfair representation of true low pressure being reported by some. AWL plans remain to focus on those customers experiencing low pressure.

The ICG asked what will happen to the bespoke PC definitions that were not successful? CC confirmed that where Ofwat have confirmed that a bespoke PC is not suitable for progression the company can continue and submit as is or they can try to change the PC and resubmit on their business plan which would be high risk. It is positive that AWL had both of their bespoke PC's approved as suitable by Ofwat.

ODI – There are sizable penalties/rewards at stake this time around against performance commitments. MH provided an update on the ODI rates from Ofwat. If a company outperforms a PC target, they can expect to achieve more rewards and these incentives rates are

	<p>symmetrical in terms of penalties if the company does not achieve its targets. There is a plus or minus 3% RoRE impact set out by Ofwat.</p> <p>ICG asked if the rewards are worth chasing. MH confirmed that there is a financial incentive plus there is a league table across the industry which brings with it reputational benefit.</p> <p>CMEX – 2025-2030 there are some proposed changes from Ofwat, placing less weight on the CMEX experience score and placing more weight on the contact element, where customers have had direct contact. There is currently a consultation out for response.</p>	
4.0	Acceptability and Affordability Research	
	<p>JH from Accent joined the meeting. Quant survey material is almost ready to go but there are a couple of changes required due to changes to guidance from Ofwat. The ICG asked if the company would like them to review the materials and JH confirmed that it is very prescriptive but happy to share if desired. The ICG confirmed that they would welcome seeing the results once completed.</p> <p>Launch should be in the next couple of days with full launch of email towards the end of the week, postal survey, followed by 3 weeks of field work and then on to reporting. Findings report should be available of the end of August. ICG asked if the business has a view on how they will determine that their plan is affordable and acceptable according to these responses e.g., it is 70% acceptable 40% affordable according to the qualitative responses gathered so far. CC confirmed that this question has been raised in the Ofwat working group and there is an expectation that this score will go down when tested quantitatively, affordability in particular, but there is currently no indication of 'pass mark' from Ofwat. Instead, AWL is focussing on what the company are doing to help customers to find their bill affordable.</p> <p>CC confirmed that survey questions response are based on a 5 point scale quite often people will score in the middle and only the positives will be counted. ICG asked if the Voice of the Customer is included in the quant work? JH confirmed that it is. Data being collected in the quant survey for non-households is based on the reliance on water, how many sites the organisation has in the UK, how many employees (banded) and their core activities.</p>	
5.0	Social Tariff	
	<p>AP and SN From Eftec joined the meeting. MH outlined how AWL are using customer research to shape the Social Tariff. The customer</p>	

	<p>research that they have got provides mixed results and there isn't a clear majority mandate from customers within that research for one path or another. However, the area for strongest support at 45% from customers, was to extend the scheme coverage to include customers in receipt of certain disability benefits and to include an additional £2 per customer in terms of the financial resources being cross subsidised into the scheme. The business plan proposal extends the number of social tariff customers from about 91,000 or 6% of customers today, to about 149,000, or 9%, by 2029/20. Lifting an estimated 25,000 customers out of water poverty at the 2.5% of income threshold. Cross subsidy will be about £8 per customer, up from £5 today, and within indicative willingness to cross subsidise.</p> <p>ICG queried that sometimes, in research situations, people say what they think someone might want to hear. AP confirmed that the research found some people quite supportive of the contribution to the scheme and also eligibility criteria with a proportion of customer's not that comfortable with extending the scheme but confirmed that the research did focus independently on the social tariff question. ICG asked for some clarity in the report that the increase from £5 to £8 is what customers want. AP confirmed that customers were offered four choices for increase and the majority (45%) favoured the average increase. There were five scenarios in the report of ways the scheme could be extended to show the spread of views.</p> <p>The ICG agreed it would be useful, when building the business case, for AWL to show the train of evidence from various research (including willingness to pay) and how this will all be joined together for the narrative to justify why this amount is right.</p> <p>The ICG asked for some rationale behind the increases. LW confirmed rather than looking at the marginal increase percentage it is more helpful to look at it as the percentage increase of the whole bill which looks a lot less extreme.</p> <p>In the report the question that "all customers should be on the same social tariff scheme whatever their circumstances" and in the bullet point it says 44% of customers are unfamiliar with the social tariff. Considering the replies to that question it would appear 80% do not understand what a social tariff is.</p> <p>Another question in the survey was "It would be better if there was one social tariff scheme that was the same across all water companies." Responses showed that this was supported by 76% of respondents. ICG queried if the research questions read like the question was about social tariff scheme in principle rather than Affinity social tariff. AP confirmed that the survey did provide an explanation of social tariffs in general and also what Affinity social tariff scheme is about. An explanation was also provided so respondents to confirm that there isn't a national social tariff scheme.</p>	
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	<p>ICG asked if consideration has been given to means-testing around this as, over the last few months more people are having financial challenges. RF confirmed that it is a focus for the company, although they don't means-test they do apply various different levers to understand at what rate customers are able to pay and at what rate it is seeing a decline. The teams are working hard to review those subsets of customers and currently offer various ways to aid paying bills. There is ongoing work reviewing ways of guiding/supporting customers through the range of different options available.</p> <p>The ICG agreed it would be beneficial to see the structure behind all of the financial support that is on offer to customers.</p>	
6.0	Sia Assurance	
	<p>RS/HF from Sia joined the meeting. In summary what has been reviewed is of high quality and further assurance review work is still being completed. The ICG queried the wording used in several of the summary of findings mainly "largely and "generally." RS confirmed that this wording has been used until complete sign off of the programme has taken place. Further review of LTDS research and triangulation still to take place.</p> <p>The ICG asked if in depth interviews with vulnerable customers is going to be built into future workstreams for this to be developed? RS confirmed that this is an optional Ofwat recommendation/ guidance to be considered by AWL. CC confirmed that it highlights the need to be clear in the narrative on what in depth research has already taken place.</p> <p>The ICG asked what triangulation will involve. RS confirmed that the Ofwat methodology asks to assess the use of customer engagement. First part being, has the customer engagement use been triangulated appropriately to demonstrate that the evidence being used in the business plan is an accurate representation of the research e.g., Transparent approach to weighting evident sources, has the company invited challenge and scrutiny etc. ICG asked if consideration could be given in both Qual and Quant to the sample demographics across all four key areas to be more representative.</p> <p>ICG asked that if given the timeline pressure that companies are under to conduct research, are people go to tried and tested providers and asked if Sia felt that this looked like good practice? Sia confirmed that if the work that is being delivered is of a high quality there would not be a concern about who is delivering it. Independent assurance work undertaken does not look at names of agencies but what is provided within the report that they provide.</p>	



I confirm that the Minutes of the ICG July 2023 Meeting are a true and accurate record of the business discussed and agreed.

ICG Chair

AWL Director of Regulation and Strategy

Signature:



Signature



Date: 18th August 2023

Date: 17th August 2023