



ANGLIAN WATER INDEPENDENT CHALLENGE GROUP

MINUTES

Date: 15 September 2023
Time: 09.30-12.30
Location: Virtual

Present:

- Craig Bennett – Chair (M)
- Gill Holmes – CCW (M)
- Joanne Lancaster – MD, Independent (M) (joined at 10:00)
- Paul Metcalfe – MD, PJM Economics (M)
- Sarah Thomas – CCW (M)

- Pete Holland – Director of Customer and Wholesale Services, Anglian Water
- Neil Manning – Head of Income and Tariffs, Anglian Water (joined at 10:30)
- Abi Morgan – Regulation Programme Advisor, Anglian Water
- Darren Rice – Regulation Director, Anglian Water

- Vicky Anning – Secretariat (O)

Apologies:

- Peter Simpson – Chief Executive, Anglian Water
- Claire Higgins – Cross Keys Homes (M)
- Peter Holt – Chief Executive, Uttlesford District Council (M)
- Nathan Richardson – Waterwise/Blueprint for Water (M)
- Justin Tilley – Natural England (M)
- Richard Tunnicliffe – CBI (M)
- John Vinson – CCW (O)
- Victoria Williams – Environment Agency (M)

Summary of actions

Action	Status
Craig to circulate papers from COG meeting	Open
Vicky to finalise July minutes	Closed
Darren to share letters to sector from the Environment Agency	Closed
Darren to provide more details underpinning AW decisions on financeability etc	
Darren to take away ICG recommendations on highlighting pollution incident reduction work in the Executive Summary	
Pete to share interactive diagram on affordability with ICG members	Closed
Pete and Neil to liaise with Jo on NHS contacts/housing associations	
Darren to circulate Accent slide deck on Affordability and Acceptability testing	Closed
ICG members to input into ICG report	Closed
Vicky to circulate updated challenge log	Ongoing
Darren to share customer engagement details from BP and latest Synthesis Report	Closed

Meeting minutes

Item	Action
<p>1. <u>Welcome from ICG Chair</u></p> <p>Craig Bennett, Chair of the Independent Challenge Group (ICG), thanked everyone for attending this virtual ICG meeting at this critical juncture in Anglian Water’s Business Plan timeline.</p> <p>Central Oversight Group (COG) updates Craig explained there hadn’t been a meeting of the COG (bringing together ICG Chairs) since the last ICG meeting in July. A COG meeting was due to take place the following week. Craig would report back.</p> <p>Action: Craig to circulate relevant COG papers to the ICG.</p> <p>July minutes ICG members approved minutes from 25 July (Gill Holmes had sent an update regarding actions that could be regarded as closed).</p>	<p>Action CB</p> <p>Action VA</p>
<p>2. <u>Business Plan update</u></p> <p>Darren Rice provided an update on Anglian Water’s Business Plan, which was due for submission on 2 October 2023.</p> <ul style="list-style-type: none"> The proposed draft Executive Summary of the Business Plan had been shared with ICG members and was circulated to the AW Board on Wednesday. Board approval was expected on Monday. 	

Item	Action
<ul style="list-style-type: none"> • AW wanted to make sure the Business Plan (BP) was accessible to as wide an audience as possible and had focused on the scale of ambition and what the company was planning to deliver by 2030 (rather than focusing on performance levels and regulatory mechanisms). • Four key long-term ambitions for the region are driving the BP, which is clearly linked into the 25-year Strategic Direction Statement (SDS) and Long-term Delivery Strategy (LTDS). • These ambitions are: resilience to the risk of drought and flooding, ecological status, carbon neutral business, working with others to improve ecological quality of catchments, and facilitating economic and sustainable growth. • This dovetails with AW's business purpose: to bring environmental and social prosperity to the region • AW has tried to contextualise the key drivers to highlight the significance of the proposed investments. • There was a headline bill increase of 15.5% in AMP8 (this was likely to be at the lower end of the scale compared to other companies). • Customer engagement and support from shareholders means that AW is comfortable they will be able to offer support for customers at risk of water poverty. • Darren was very proud to be part of an organisation that's able to offer this level of support to vulnerable customers. <p>Questions/comments</p> <p>Craig pointed out that shareholder support for vulnerable customer initiatives was something the ICG recommended as feedback to the Board. A key challenge was whether the company was going to use any of its shareholders' money to fund support for customers, rather than relying on cross subsidies from customers.</p> <p>Gill Holmes praised the Executive Summary for its readability. She had two questions:</p> <ul style="list-style-type: none"> • did the 15.5% bill increase include inflation? • what was the maximum and minimum range for the ODI impact on bills (and is that included in 15.5% bill increase)? <p>Darren: there was no assumption around ODI penalty or reward reflected in the 15.5% bill increase. As Ofwat had currently calibrated the methodology, the ODIs were quite load bearing so that could have potential bill implications, predominantly downwards. From some of the modelling AW has done, there's a potential range between £350 million downside penalty in AMP8 vs potential upside of £146 million.</p> <p>Overview of Part 2: Executive Summary</p> <p>Darren went on to give an overview of the second part of the Executive Summary (from Section 8 onwards), which focused on Ofwat requirements.</p>	

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<p>He pointed out that the scale of programmes was still subject to a lot of discussions; volatility was continuing for longer than previous AMPs.</p> <p>AW had met with the Environment Agency (EA), Defra and Ofwat on 31 August in response to two letters from the EA driven by input from the Secretary of State around a request to see what the sector could do smooth phases of investment across AMP8 and AMP9.</p> <p>AW's position on this was that there were certain changes that would need to be reflected in AMP8 delivery that were not currently reflected in the bill profile. This was because the changes had come too late for AW's assurance processes.</p> <p>Darren outlined two areas of volatility:</p> <ol style="list-style-type: none"> 1) Changing guidance around obligations for continuous water quality monitoring – guidance was reissued very late but it meant the scope and scale had been reduced. It was previously driving £310m of investment in AMP8. Under current guidance, the scale of activity reduced investment by about £190 million in AMP8. 2) There was also still live discussion around potential phasing of WINEP – AW had proposed phasing out some nutrient schemes into early AMP9. There were about 73 statutory plus schemes where cost-benefit analysis wasn't as clear cut. EA had formed a view that these would need to be delivered by 2030 rather than 2032. By coincidence, scale of cost for putting those back into AMP8 is also around £190 million for AW. <p>These two areas of flux therefore won't have a dramatic impact on bills for customers or financeability/deliverability of the programme. However, Darren wanted to point out that AW was aware of these issues, although they weren't included in the current iteration of the BP.</p> <p>Nathan Richardson had submitted a question in advance of the ICG, which related to the above discussion:</p> <p style="padding-left: 40px;">It would be useful to know what the company has changed in response to the letters from the EA asking companies to model deferred WINEP and WRMP investment pathways and lower climate impact scenarios.</p> <p>Action: Darren to share the EA letters.</p> <p>Affordability:</p> <ul style="list-style-type: none"> • Darren explained the company was striving to achieve efficient costs for delivering the BP; however, there was a £300 million funding gap for AMP8. • The enhancement programme's cost stood at £4.4 billion. <p>Challenge/question</p> <p>Paul Metcalfe asked about the distribution between enhancement and base Totex.</p>	<p>Challenge</p> <p>Action DR</p> <p>Challenge</p>

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<p>Darren explained that the increase in base Totex was primarily due to operating costs, especially energy costs, which represented around £600 million of predicted operating costs. AW had engaged with Ofwat and other companies to make sure that energy costs were equivalent across the sector; this was a sector-wide issue.</p> <p>Deliverability</p> <p>Darren explained that the scale of investment and bill increases meant that Defra, EA and Ofwat were looking for confidence around the deliverability of company BPs. Ofwat had increased their Board assurance requirements on deliverability.</p> <p>AW had a lot of confidence in the deliverability of their plan because they had operational partnerships in place that were ready to deliver. Other companies without operating alliances wouldn't be in such a strong position.</p> <p>Financeability and financial resilience</p> <p>Darren said the actual company and notional company were both financeable, based on the BP.</p> <p>In terms of financial resilience, however, although AW Services was financially resilient, AW was drawing into question the financial resilience of the notional company. This related to the assumption that there's a willingness for incoming investment and equity from shareholders into the sector, which AW doesn't think is a certain position, particularly in light of Ofwat's position on the cost of equity. One of AW's lead concerns is the relationship between returns on cost of debt and return on cost of equity. AW is making a case to Ofwat to seek to revise the cost of equity upwards.</p> <p>Balance of risk and return</p> <p>Darren explained that Ofwat's methodology assumed a balance of risk and return but AW does not think that's a fair reflection of the risks the company is exposed to. This was one of the issues that needed to be resolved.</p> <p>Questions/comments:</p> <p>Paul agreed with other ICG members that the Executive Summary was readable but he wanted to see more details underpinning some of the decisions outlined above (e.g. the argument against Ofwat's view on cost of capital).</p> <p>Action: Darren to provide more details. Further discussions to be taken offline.</p> <p>ODIs and common Performance Commitments</p> <p>Paul also asked about the direction from Ofwat on ODIs and common PCS and how AW planned to respond.</p>	<p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p>Action DR</p> <p></p> <p>Challenge</p>

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	<p>Darren explained that AW would be adopting Ofwat’s central incentive rates, for the majority of ODIs. He referred to slide 5 of the pre-reading deck.</p> <p>Four incentives weren’t following Ofwat’s central ODIs:</p> <ul style="list-style-type: none"> • Per Capita Consumption • Business demand • Total pollution incidents • Serious pollution incidents <p>This was because AW believes they have stronger, more compelling customer evidence around the rates for those.</p> <p>Paul followed up by asking why the company was rejecting Ofwat’s methodology for these specific ODIs?</p> <p>Darren explained that it was because these ODIs had a material impact. AW was going to challenge Ofwat’s rates and use rates backed by their own customer research.</p> <p>Gill said she didn’t feel the ICG had enough detail to know whether AW’s evidence was ‘compelling’. Her concern was that AW’s performance on pollution incidents hadn’t been very good and the rates proposed were quite different from those proposed by AW. She asked whether AW was confident of delivering on those pollution targets?</p> <p>Darren responded that AW was confident of delivering both Performance Commitments levels. They were aiming for zero pollutions far sooner than that and would continue to engage with the ICG on that. He accepted it was an unacceptable level of performance.</p> <p>Darren was confident that the rates would provide strong incentives for the company. There was no diminution of AW’s intent linked to the change in the incentive rates.</p> <p>Craig thanked Darren for a useful overview of the Executive Summary, which flowed well. However, he felt the story of pollution reduction didn’t come through strongly enough in the Exec Summary and should be highlighted more clearly.</p> <p>Jo agreed that the company needed to highlight these priorities more strongly.</p> <p>Action: Darren would take this suggestion away for consideration.</p>	<p>Challenge</p> <p>Challenge</p> <p>Challenge</p> <p>Challenge</p> <p>Action DR</p>
<p>3.</p>	<p><u>Customer Engagement update</u></p> <p>Pete Holland gave an overview of support for vulnerable customers. He shared an interactive flow diagram to show areas of focus for tariffs, payment options and looking after customers. Customers can click on areas and it will link through to</p>	

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<p>show more details about what AW is doing, divided into the following four categories.</p> <p>You're in Control:</p> <ul style="list-style-type: none"> • The company currently has 2.5 million digital contacts with customers and plans to build on this. Smart meters provide flexibility and control for customers, particularly in managing billing. • A new process for vulnerable customers who can't afford to fix leaks is set to start a trial next year, directly through smart meters. This will be included in the next AMP as a funded capacity for customers. <p>We're Here for You:</p> <ul style="list-style-type: none"> • The company emphasises active communication and are recruiting behaviour change specialists as part of the communication team. They are using platforms like TikTok to share educational videos. • The company's content was available in 8 different languages, but additional language accessibility would now be provided through ReciteMe (available in 127 languages). • Over 150 partnerships are currently in place, and the company plans to continue securing partnerships in the future. <p>Enablement:</p> <ul style="list-style-type: none"> • The company aims to continue smart meter rollout and adjust customer behaviour based on their preferences and needs. • A customer champions group has been formed focusing on vulnerability. • This group is already active and will continue into the next AMP, acting as a critical friend to guide the company in these initiatives. <p>Data:</p> <ul style="list-style-type: none"> • The company commits to continue unlocking data in the next AMP to provide visibility as early as possible to identify vulnerable customers. <p>Options for Customers:</p> <ul style="list-style-type: none"> • A new "Medical Needs Tariff" had been introduced, specifically for customers who do not qualify for existing tariffs. This discount is intended to support customers with medical needs. • The discount is expected to average around £100 per year. The company is analysing data to understand the additional water use associated with various medical conditions. • Approximately 9,000 customers with unmanageable needs are expected to benefit from this tariff, although discussions are ongoing. • A new portal for more convenient bill payment was being introduced and next month, AW was due to go live with payment options including Apple Pay and Google Pay. 	

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<ul style="list-style-type: none"> • There are a number of customers who don't support social tariffs at all, which is relatively consistent and highlights the importance of making sure the cross subsidy is very well targeted. • AW has produced a glide path of tariffs/number of customers based on historic trends and expect to be able to assist all customers in water poverty through different social tariffs. <p>Discussion/questions</p> <p>Jo suggested engaging housing associations to help identify more vulnerable customers.</p> <p>Paul asked about non household customers and asked whether customers were given reasons for increased cross subsidies, other than rise in water bills.</p> <p>Neil responded that non household customers were not asked to cross subsidise; this area of work was focused on household customers only. He explained that AW talked about water poverty as a consequence of rising bills. The research was done in the context of 2022/23 bills and customers weren't given explicit information about rising bills in AMP8. The increase in cross subsidy that's been approved is a nominal amount. There isn't an automatic expectation that's going to automatically index move forward.</p> <p>Your Water Your Say</p> <p>Darren reported that the second Your Water Your Say session was being scheduled into calendars after the BP submission.</p> <p>Final guidance for the session was issued on 18 August, and AW colleagues would have the opportunity to review this in more detail after 2 October.</p> <p>An invitation to all ICG members would be extended, and efforts would be made to advertise and gather support for attendance.</p> <p>The session was tentatively scheduled for 28 November from 5:30-7:30 pm, but this timing is to be confirmed.</p> <p>Craig said he was pleased to see that the second session was happening at a different time of day from the previous session, to help maximise attendance.</p> <p>Affordability and Acceptability Testing</p> <p>Darren gave ICG members an overview of slides that had just been received from Accent, related to the results of the latest round of Affordability and Acceptability Testing carried out in August.</p> <p>Darren reminded ICG members that AW had some questions around the structure and flow of the mandated survey from Ofwat and CCW; they had deliberately run an alternative/shadow version alongside the mandated version of the survey.</p>	<p>Challenge</p>

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<p>Principle variations were around the flow of questions. In the guidance, there was a preference for a full uninformed view on bill impacts, without information about what was driving bills.</p> <p>The only other specific change in shadow study was a question about the acceptability of the bill impacts proposed in the AMP. Accent reported that customers in general struggled to understand the affordability question as it was mandated.</p> <p>There was a live request for feedback around the guidance at a sector level (deadline 30 Sept).</p> <p>Darren shared headline figures from the mandated survey:</p> <p>Acceptability - 7 out of 10 customers found the plan acceptable – direction of travel was lower compared to PR19, although this is a fairly high level of acceptability. The shadow survey came out with a slightly lower acceptability but was largely the same.</p> <p>Affordability – 20% of customers responded that proposed bills were affordable – this is significantly down relative to customer sentiment in PR19. (Darren believed that AW was not an outlier in the water sector and was likely at the higher end of the range of affordability.)</p> <p>Feedback from Accent was this was heavily driven by the form of the question itself and the challenge customers were finding around forward looking/how affordable this would be in five years.</p> <p>Action: Darren would share slide deck from Accent.</p> <p>Discussion/questions</p> <p>Gill asked what AW would use the shadow survey for and how this would be received by Ofwat, who are looking at comparability? Are the figures for the survey going to form part of the data tables/business plan.</p> <p>Darren responded that this was still a live discussion. He believed AW had been compliant with Ofwat’s requirements because they had carried out the mandated survey in line with their requirements but they had complemented this with wider surveys to draw their own conclusions.</p> <p>The research had shortcomings and collectively AW would raise those issues as a sector. He was inclined to populate the data tables with mandated figures in the data tables but flag the differences in the narrative.</p>	<p>Action DR</p> <p>Challenge</p>
<p>4. <u>Long-term Delivery Strategy (LTDS)</u></p> <p>Darren provided a verbal update on the Long-term Delivery Strategy (LTDS), which would be published alongside the Business Plan on 2 October.</p>	

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<p>Engagement with customers and stakeholders was ongoing, with a focus on the bill impact over a 25-year time horizon.</p> <p>Working with Accent, they are using materials from some of the focus groups that were designed to inform the interactive game planned for earlier in the year. AW decided not to pursue the gamification option, in light of feedback from ICG and customers, but would be using some of the materials developed for the game.</p> <p>AW was carrying out research with family groups and households of different generations to understand different views of the long term.</p> <p>Timing was tight in terms of direct feedback before 2 October. Results would be reflected in the next Synthesis Report – due on 25 September.</p>	
<p>5. <u>General discussion</u></p> <p>Darren gave a brief recap of key dates for the next 6-12 months following the BP submission on 2 October.</p> <p>There was no formal Ofwat engagement scheduled between now and Draft Determination in late May/early June 2024. However, Darren anticipated live discussions with Ofwat before then.</p> <p>Final determination was due in December 2024.</p> <p>AW had received positive feedback from EA and Ofwat on WINEP. AW’s approach had been approved, with funding of £26 million.</p> <p>Questions</p> <p>Jo asked whether a pending general election could potentially change context or timelines.</p> <p>Darren said there were no changes to timetable planned, to his knowledge; the sector would require final determinations by the end of the next financial year.</p> <p>Craig asked whether AW was confident that Ofwat would look favourably at the proposed BP?</p> <p>Darren responded that AW had come up with a really balanced, stretching, ambitious plan. The bill impact is going to be at the smaller end of the scale compared to the rest of the sector and they have proposed one of the best, most comprehensive affordability/vulnerability strategies. The combination of these factors gives his confidence in the shape of the plan.</p> <p>He felt that, if AW faced material differences with the regulator, the vast majority of sector would also be facing similar issues.</p> <p>Craig felt that this was a fair assessment but was aware that Ofwat might push back on some areas as they would want to be seen to be tough on water companies. He hoped there were ongoing discussions between companies and Ofwat and thought there would likely be some challenging issues to grapple with</p>	

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<p>next spring (after the Draft Determinations were released). The ICG would need to put dates in for conversations between the company and ICG.</p> <p>ICG report</p> <p>Craig and Vicky Anning had met to discuss the work done as an ICG, the category of challenges and worked through a proposed narrative for the ICG report. This would be submitted to Ofwat alongside the company's BP and also published on the AW/ICG website, alongside the Challenge Log.</p> <p>Vicky had recently shared a working draft with ICG members and said it would be helpful to have a discussion about next steps; updates would be needed after this meeting.</p> <p>Craig asked ICG members to give feedback on the draft report over the next days and suggested an ICG only meeting may be needed the following week. In terms of schedule, the Board was satisfied with Craig's verbal update; the ICG report did not need to go to Board before submission to Ofwat. AW had also requested a few paragraphs from Craig for the Executive Summary of the company's Business Plan.</p> <p>Actions</p> <p>Craig to provide paragraph for Executive summary.</p> <p>Vicky to update ICG report and to update/circulate latest challenge log.</p> <p>VA requested chapter from Business Plan of customer engagement from Business Plan.</p> <p>AW to share relevant chapters from BP relating to customer engagement, as well as latest Synthesis Report.</p>	<p>Action ICG/AW</p> <p>Action ICG members</p> <p>Action CB</p> <p>Action VA</p> <p>Action VA</p> <p>Action DR/AM</p>