

Date: 22 November 2018
Time: 10.30 – 14.30
Location: Henderson House, Ermine Business Park, Huntingdon, PE29 6XU

Present:

- . Jeff Halliwell – Independent Chair (M)
- . Beth Corbould – Economist, Civil Aviation Authority (M)
- . Bev Finnegan – Lincolnshire County Council's Community Engagement team (representing Cllr Davie)
- . John Giles – Environment Agency (M) (outgoing)
- . Gill Holmes – CCWater (M)
- . David Howarth – Environment Agency (M) (incoming)
- . Paul Metcalfe – MD, PJM Economics (M)
- . Nathan Richardson – RSPB/Blueprint for Water (M)
- . Daniel Storey – Director, High Point Economics (M)
- . Zac Alexander – Jacobs (O)
- . Carolyn Cooksey – Anglian Water (O)
- . Kevin Ensell – Anglian Water (O)
- . Natalie Jones – Anglian Water (O)
- . Darren Rice – Anglian Water (O)
- . Andrew Snelson – Anglian Water (O)
- . Vicky Anning – CEF Report Author (O)

Apologies:

- . Craig Bennett – Chair, Sustainability & Resilience Panel (M)
- . Bernard Crump – CCWater (M)
- . Cllr Colin Davie – Lincolnshire County Council (M)
- . Graham Hindley – Jacobs (O)
- . Joanne Lancaster – MD, Huntingdonshire District Council (M)
- . Martin Lord – Chair, Vulnerability & Affordability Panel (M)
- . Peter Olsen (M) – Hartlepool Independent Advisory Panel (M)
- . John Torlesse – Natural England (M)
- . Richard Tunnicliffe – CBI (M)
- . Cat Carlon – Anglian Water (O)
- . Alex Plant – Anglian Water (O)
- . Peter Simpson – Anglian Water (O)
- . Jane Taylor – Anglian Water (O)

Presentations and papers are shared in Anglian Water's Sharefile: <https://anglian-water.sharefile.com>

Item	Action
<p>1. <u>Chair's introduction: Jeff Halliwell</u></p> <p>Jeff Halliwell introduced the first CEF meeting since the company's business plan and CEF report were submitted to Ofwat.</p> <p>He welcomed two new faces to the CEF:</p> <ul style="list-style-type: none"> - Bev Finnegan from Lincolnshire County Council, who would be representing Cllr Colin Davie at future CEF meetings - David Howarth, who would be representing the Environment Agency at future meetings - Jeff thanked John Giles for his contribution to the CEF and wished him well in his new role with the EA <p>Minutes from 31 July and 13 August were approved with minor changes and could now be posted on the Anglian Water website.</p> <p>Action: VA to share/circulate final minutes</p>	<p>VA</p>
Section A: The national and regional picture	
<p>2. <u>Roundtable updates</u></p> <p>Gill Holmes: CCWater had published their household complaints report. Anglian Water did well (country's best performer for unwanted contacts). CCWater also published two reports about affordability and vulnerability. See https://www.ccwater.org.uk/research/</p> <p>CCWater's central teams have been analysing water company's PR19 plans and pulling out positives and concerns. Details will go to CCWater board in December and areas of concern will be passed on to companies.</p> <p>Next year, CCWater will be doing acceptability research on Ofwat draft determination - surveying 500 bill payers per water company. Showcards were due to be shared with companies soon.</p> <p>Nathan Richardson: Blueprint for Water had commissioned a consultant to go through water company's PR19 plans and to produce scorecards, which will be available later this month. These will be shared with EA and Ofwat and will be published end of January (same time as Ofwat's draft determinations).</p> <p>Blueprint had also been very engaged with the Environment Bill, the first part of which is due out on Boxing Day (with second part due to come out in spring).</p>	

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<p>John Giles said that the Environment Agency is also assessing water company business plans against WISER document. They are now writing advice to Ofwat and Defra highlighting good practice and teasing out concerns.</p> <p>Due to internal changes at EA, John has been asked to take on a national role to work with water industry. David Howarth is taking over John's former role and will focus on AW, Southern and Thames. David will sit on CCGs for all three of these companies going forward. Other members of the EA team will focus on smaller water only companies in the region.</p> <p>EA still has major concerns around the country with supply and other water issues (drought permits and lack of water is an ongoing concern).</p>	
Section B: Anglian Water approach for PR19	
<p>3. <u>Update on 24 September meeting with Ofwat</u></p> <p>Anglian Water was invited to present their Business Plan to Ofwat on 24 September. Craig Bennett had attended to represent the CEF.</p> <p>Darren Rice gave a verbal summary of the meeting. The general perception from the AW attendees was that Ofwat had not necessarily been able to read through all of the BP materials, including the pro forma, in the time available.</p> <p>Focus areas for Ofwat:</p> <ol style="list-style-type: none"> 1) Questions around leakage: <ol style="list-style-type: none"> i. Proposal for enhanced rewards (question was around the principle of this – there are six companies proposing this, not all of which are frontier). Officials felt uncomfortable about this, although it is set out in the Ofwat methodology. ii. The cost adjustment claim proposed by Anglian in relation to maintaining their base leakage performance at the current level (which is industry leading). 2) Ongoing discussion about flow obligations 3) Regional population growth: AW growth projections are quite large (Ofwat asked how customers are protected if growth goes in other directions). <p>AW had some positive feedback from Mark Bayley, Ofwat non-executive director, who spent half a day with AW in July at</p>	

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<p>Ingoldisthorpe and regeneration projects in Wisbech. He felt that AW's BP was underselling itself on technology and innovation.</p> <p>Ofwat weren't fully aware of the scale of efficiencies in plan. AW wrote the following day to clarify this.</p> <p>Putting the Sector Back in Balance and financeability issues weren't discussed at the meeting.</p> <p>Craig Bennett sent a written summary of the meeting, which Jeff shared with CEF members (see Annex 1 below). He was asked questions about leakage, innovation and WINEP. He was also asked whether CEF had discussed directors' remuneration (which it hadn't).</p> <p>Ofwat also asked if there were any problems regarding process and mentioned that some details came late in the day, though it was difficult to know what the reason was for this.</p> <p>Action: VA to circulate Craig's summary with minutes</p>	<p>VA</p>
<p>4. <u>Business Plan debrief</u></p> <p>Darren Rice: AW is currently engaged in the query process with Ofwat before the initial assessment and categorisation of plans is received on 31 January. 39 queries have been received so far, which is consistent with other companies. Darren was surprised that Ofwat hadn't asked for more details on efficiencies given the apparent differences in how companies had completed Ofwat's data table requirements.</p> <p>Darren also shared AW's film, available here: https://www.anglianwater.co.uk/about-us/our-plan-2020-2025.aspx</p> <p>5. <u>Business plan update and overview of industry plans</u></p> <p>Darren Rice reported that teams within AW have been looking at different company business plans to try and understand some of the differences:</p> <ul style="list-style-type: none"> • To reflect on AW PR19 plan, having compared it with other companies' plans • To provide an overview of some key aspects of other companies' plans • To recap on Ofwat's Initial Assessment of Plans process (IAP) 	

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<p>and the consequences of the different categories for companies</p> <ul style="list-style-type: none"> • PR19 timetable: next steps <p>Headlines:</p> <ul style="list-style-type: none"> • AW wasn't sure how Ofwat will weight their 9 test areas in the IAP process • Based on AW analysis of all companies' plans across the key areas, Darren said they believed AW BP looks strong in most (but not all) areas • There are some areas of the IAP where it is very difficult to form views ahead of publication, for example on the assessment of enhancement expenditure. <p>Analysis commissioned from KPMG ahead of submission supports the view that AW plan is strong, well evidenced, and addresses each of Ofwat's proposed 9 test areas:</p> <ol style="list-style-type: none"> 1. engaging customers; 2. addressing affordability and vulnerability; 3. delivering outcomes for customers; 4. securing long-term resilience; 5. targeted controls, markets and innovation; 6. securing cost efficiency; 7. aligning risk and return; 8. accounting for past delivery; and 9. securing confidence, trust and assurance. <p>AW's Internal Audit providers (PWC) have commented that AW's programme was well organised, with strong governance and that the strength of processes allowed them to handle late changes in the PR19 approach from Ofwat better than other companies.</p> <p>Ofwat review</p> <p>AW's analysis of companies' tables and commentaries reveal that Ofwat's analytical task is complex. This is a function of the regulatory regime itself, but also because of the wide divergence in how companies have completed their submissions. Specific examples include the range of company approaches to ODIs and efficiency.</p> <p>AW carried out comparative analysis of BPs in the following areas:</p> <ol style="list-style-type: none"> 1. Proposed bill profiles 2. Totex 3. Leakage 	

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<p>4. Customer engagement 5. Affordability and vulnerability support 6. WINEP 7. ODIs 8. Financials – Back in balance, gearing, financials 9. Efficiency 10. Direct procurement for Customers (DPC)</p> <p>Bill profiles There was huge variability in industry plans. AW sits third in terms of bill profile (Yorkshire at top with 3.5% increase and Northumbrian reducing bills by 13%).</p> <ul style="list-style-type: none"> • In preparing plans, all companies except Wessex, appear to have used Ofwat’s indicative WACC of 2.4% • Wessex Water have put forward a plan based on an appointee WACC of 2.6%, this is 0.2% higher than indicated by Ofwat. <p>Daniel Storey: would like to see chart showing start and endpoint of bills Action: Darren would provide this and also information for wastewater and water only companies</p> <p>Totex Broad range of expenditure. AW’s change in Totex is towards the top end +25% (cf Northumbria -14%).</p> <p>Leakage AW plotted frontier performance against other companies and come out on top. Comfortable that delivering frontier performance on leakage and will be doing so at end of AMP7 too.</p> <p>Customer engagement In terms of number of engagements, some companies are saying they had over 1 million engagements. AW had 500k engagements, which represents 20% of AW customers.</p> <ul style="list-style-type: none"> • Headline: AW is satisfied that this number stands up to scrutiny and is genuine engagement, but it remains to be seen whether Ofwat will dig any deeper than the data table. (Some companies claiming 140% of customers engaged!) • Numbers not directly comparable given there was no definition of what a customer engagement was and how engagements should be counted • For example, Southern report 1.6m engagements in the 	<p>DR</p>

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<p data-bbox="418 231 1218 336">data table, but talk about “42,000 direct interviews as well as engagement insight from over one million customers”.</p> <p data-bbox="263 373 1177 478">CEF members discussed that the usefulness of the Ofwat data table and said that how companies did their triangulation was important.</p> <p data-bbox="263 516 1133 583">Nathan Richardson: it was difficult for individual CCGs to compare company performances against each other.</p> <p data-bbox="263 621 1230 831">Carolyn Cooksey: she had read all the CCG reports. All were quite similar and quite positive. They had taken different approaches to assessing company plans but all used Ofwat’s Aide Memoire as a framework, which was useful. All highlighted a number of challenges but it’s difficult to differentiate between the different reports.</p> <p data-bbox="263 869 1201 1008">Jeff Halliwell also noted similarities rather than differences on his reading of other CCG reports. There seemed to have been some severe challenges in some areas and some reports were prettier than others.</p> <p data-bbox="263 1045 763 1081">Affordability and Vulnerability</p> <ul data-bbox="311 1081 1250 1612" style="list-style-type: none"> • Common themes from plans relate to the reduction and/or elimination of water poverty (Northumbrian, South West, Bristol) and increasing the number of customers on the Priority Services Register (Dwr Cymru, Severn Trent, Thames, United Utilities, Bristol, South East). • Several other companies have focussed on water poverty, AW is differentiated by focussing on broader benefits maximisation. • Despite being relatively silent on proposed PSR increase compared to other companies, projections for 2025 are that AW will have more than double the number of customers on PSR compared to any other company. • The vast majority of affordability and vulnerability ODIs proposed by companies are non-financial. <p data-bbox="263 1650 1247 1755">AW’s vulnerability panel proposal is unique and innovative. There’s a multitude of approaches in this area. Ofwat may look for more consistency.</p> <p data-bbox="263 1860 381 1894">WINEP</p>	

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<p>AW looked at number of obligations by company. AW has nearly 2,500 obligations. Other closest company is Severn Trent.</p> <p>Daniel Storey asked whether graph reflected size of companies and customer base. Darren responded that this information wasn't reflected in the graph.</p> <p>ODIs There was no clear path or consistency between companies. Ofwat have a tricky path in terms of coming up with measured view of how ODI framework will operate, and that's just on common measures. AW has proposed 35 performance commitments (including the common measures). This is lowest amongst the companies, with 42 being proposed on average.</p> <p>AW's proposals compare favourably to the rest of the industry. There are few areas where they are stark outliers. A number of companies have proposed limited or no caps & collars on their incentives. This is driving their incentive range as a proportion of RORE. AW has made greater use of caps and collars to credibly align incentives over the appropriate ranges. Generally few deadbands have been proposed. AW has proposed a number of deadbands. In areas where some comparability should be expected (e.g. mandatory bespoke areas and non-common asset health measures such as low pressure), companies have taken a variety of approaches.</p> <p>Darren was confident that AW was on target on most areas (except interruptions to supply, where there's more volatility).</p> <p>Financials AW is de-gearing but is around average compared to other companies (in comparison, Yorkshire's gearing is going up) Dividends – AW is the only water company that isn't receiving dividends across the AMP</p> <p>On Putting the Sector Back in Balance, AW has accepted Ofwat proposals in full:</p> <ul style="list-style-type: none"> • AW acted first and fastest on Cayman Islands • In terms of rebalancing boards, AW now has a majority of Independent Non Executive Directors (they haven't seen other companies taking such a broad stance) <p>Efficiency</p>	

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<ul style="list-style-type: none"> • There is little consistency between companies on how they presented their efficiency positions • The bulk of Ofwat’s cost assessment will be found for Botex from their own models. Ofwat’s Totex allowances remain the most significant area of uncertainty. • Analysis of plans by OXERA, using a selection of models submitted to Ofwat’s March modelling consultation, suggests that AW’s efficiency has declined on AMP7 projected costs relative to the historical period • On frontier efficiency there was a consensus among several companies on AW figure of 1% pa • AW proposals on Real Price Effects were 0.1 – 0.6% higher than the industry average <p>Direct Procurement for customers There is not a high number of potential schemes across the board. Some are well below Totex threshold anticipated by Ofwat. Ofwat may be disappointed at number of schemes presented.</p> <p>Next steps Ofwat will publish an initial assessment of each water company’s BP on 31 January 2019. Ofwat will categorise companies depending on the level of quality, ambition and innovation they have demonstrated in their plan. Categories will be: exceptional, fast-track, slow-track and significant scrutiny.</p> <ul style="list-style-type: none"> • Both exceptional and fast-track business plans will benefit from procedural and financial incentives, through an early determination with early certainty on specified components of costs and outcomes. • Business plans categorised as significant scrutiny will receive reduced cost sharing rates and potentially capped outcome delivery incentive outperformance payments. • In March/April 2019, Ofwat will publish draft determinations for companies with exceptional & fast track plans • By April 2019, companies categorised as either significant scrutiny or slow track must submit revisions to their business plans addressing the shortcomings Ofwat has identified • In July 2019 Ofwat will publish draft determinations for companies categorised as either slow track or significant scrutiny • In December 2019 Ofwat will publish final determinations for all companies. <p>Future CEF meetings have been set around these dates (see below</p>	

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<p>for meeting dates)</p> <p>6. <u>Customer engagement update</u></p> <p>Carolyn Cooksey reported that AW had shared the company’s 300-page Business Plan with the online community. A few customers had read the whole report.</p> <p>There was a lot of engagement – customers were pleased to see how much their views had actually impacted on the plan. They liked that AW included quotes from the community and to see how comments were translated into action.</p> <p>Key areas of interest:</p> <ul style="list-style-type: none"> • Carbon emissions • Leading on resilience • Efficiencies • Half a million interactions <p>Questions:</p> <ul style="list-style-type: none"> • Some questions around 22% leak reduction (rather than aiming for 0% leakage) • 10% on bills (customers don’t feel they’ve seen benefits) • Support 475,000 vulnerable customers (not all customers supported this initiative) • Concern about growth and 200,000 new homes <p>Corporate governance</p> <p>AW did a reprise on corporate governance and transparency Feedback earlier in the year was generally good (when press release was circulated). AW went back to customers in September and provided online community with update on what had been done about info in press release.</p> <p>Customers were still concerned about Cayman Islands structure. They asked why this arrangement was there in the first place – and were glad it was gone.</p> <p>Customers wanted to make sure AW was held to account for acting in public interest.</p> <p>Carolyn reported back on on-going customer engagement on:</p> <ul style="list-style-type: none"> - Yellow Mellow campaign - Disconnecting Downpipes, including consultation around design of smart water butts - Keeping water healthy in the home - Flushing plastics (ran an online community survey at same time as on-street survey looking at amount of plastic flushed away, which is something public are very interested). 	

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<p>Community Ambassadors Scheme has taken time to develop and grow. Community Ambassadors have delivered 61 talks with 18 booked for next year. They use clickpad technology to measure customer views</p> <p>Groups include: faith groups, WI, local environmental groups, U3A</p> <p>Ofwat planned to visit a talk next week to gather water stories. Action: Carolyn will share output at the next CEF</p> <p>Nathan Richardson asked about comparing customer views across companies. Carolyn said she was keen to do this and wondered if there was something similar in the pipeline from Water UK.</p> <p>AW will continue to update the Customer Engagement Synthesis Report on a regular basis.</p> <p>Customer Engagement Steering Group: will continue to have a role in setting Customer Engagement strategy. Next meeting was scheduled for following week.</p>	<p>CC</p>
<p>Section C: Current performance/matters</p>	
<p>7. Andrew Snelson reported on AW's performance. He stated that the majority of ODIs are in period during this AMP. Ofwat issued draft interim determination last month with a final determination due in December. The impact for AW would be about £2.50 on water bills (applied to bills next April).</p> <p>Service Incentive Mechanism (SIM) – for second quarter running, AW has come out on top for SIM. For year to date, AW is in top position for this measure.</p> <p>Interruptions to supply – target is 12 minutes; AW is close to 7 minutes.</p> <p>Serviceability – 1,000 of 1,500 customers affected by major incident in Aldney in September (pressure didn't build enough to get customers back on water; they were offline for 12 hours). This will have a major impact on serviceability measure for 2018.</p> <p>Leakage – this has been a challenge this year; highest maximum temperature (July), low rainfall leading to dehydration of soil leading to movement of pipes and burst mains. This will impact</p>	

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<p>leakage performance (179 target vs 192 actual). Expecting leakage to be higher than 2017/18, which seems to be an industry trend. Prospects depend on whether this winter is harsh or mild.</p> <p>Water quality contacts: on track for target of 1.23</p> <p>Good performance on flooding and pollution incidents, assisted by low rain fall this year.</p> <p>Bathing waters: season now finished for 49 bathing waters in AW region. Target to get 33 bathing waters to excellent (currently at 31). 10 are ranked good (up to end of 2018). Hard to predict whether they'll hit the target. (2 bathing waters ranked as poor are Clacton and Southend).</p> <p>Outperformance payments will be in order of £10 million, in line with period to date. AW will be in reward territory for pollution incidents, leakage and interruption to supply</p>	
<p>7. AOB</p> <p>Jeff reported that there will be a meeting between CCG chairs and Ofwat on 13 February.</p> <p>Depending on the determination from Ofwat on 31 January, there may need to be further customer engagement on Business Plan in Feb/March to test any revisions.</p> <p>If this is the case, CEF will need to scrutinise any further customer engagement in the spring.</p> <p>CEF meetings have been set around Ofwat's dates, but further meetings may need to be scheduled, depending on whether AW's BP is assessed exceptional, fast-track, slow-track etc.</p> <p>Next CEF meetings are:</p> <ul style="list-style-type: none"> • 15 February 2019 • 11 April 2019 • 6 August 2019 • 17 January 2020 	
<p>8. CEF only session</p>	14.30
<p>A short CEF only session. It was agreed that no further action could be taken until 31 January, following Ofwat's draft determination.</p>	

Item	Action
Following the discussion on Bathing Waters under agenda item 7, John Giles circulated the following link: https://www.gov.uk/government/publications/bathing-waters-in-england-compliance-reports/2018-compliance-report	

Annex 1: Note of meeting between Anglian Water and Ofwat on 24 September 2018

Author: Craig Bennett

The purpose of the meeting was to allow Anglian Water to present the business plan to Ofwat and answer any headline questions.

In attendance from Ofwat were Jonson Cox (Chair), Mark Bayley (NED), John Russell (Senior Director), Bart Schoonbaert (Engagement Lead) and Aoife McNally (Engagement Manager).

In attendance from Anglian Water were Peter Simpson (CEO), Scott Longhurst (Chief Financial Officer), Alex Plant (Regulation Director), John Hirst (Independent NED).

I attended on behalf of CEF, in absence of Jeff Halliwell.

Peter presented the strategy, including showing a video emphasising key highlights.

I was then asked to give the perspective from the CEF.

I started repeating Jeff's standard phrase that our role has been to provide independent challenge to companies and independent assurance to Ofwat on:

- The quality of the company's customer engagement, and
- The extent to which the results of this engagement have driven the company's decision making and are reflected in the final plan.

I said that our view is that on both challenges the company has responded well. The quality of the customer engagement has been excellent / "leading edge" and gave some further details about this. Our considered view is that the final plan accurately reflects the priorities of customers in the region.

I also made some additional points:

- The CEF has operated independently, with regular opportunities for discussion with staff present
- We also had the opportunity to influence the Strategic Direction Statement in 2017, which laid the long term strategic foundations and context for PR19. The incorporation of fourth goal on ecological quality followed input from Sustainability and Resilience Panel was particularly welcome
- We were pleased that company brought in additional expertise to CEF to allow us to test robustly complex regulatory building blocks (such as RCV run off rates, PCs and ODIs calibration and financeability)

We discussed around these issues for a while, with company representatives present.

Ofwat asked me questions around leakage, innovation and WINEP. They then also asked if the CEF had discussed Director remuneration. I said that, to my knowledge, we hadn't. Ofwat suggested that we

might want to consider this after the final determination, just to ensure we were comfortable (they said they are suggesting this to all challenge groups).

The representatives of the company were then asked to leave and I was asked some further questions privately

In essence, they wanted to push me further to uncover if we had any difficulties in the process.

I commented that, at times, we felt some of the important detail came to us very late in the process – but also noted that it was hard for us to fully understand how much this was because of the company of other factors. (I gave the very later determination of investment requirements in the WINEP as an example).