



**Business Customer Forum
27 March 2012, Admiralty Arch, London
Meeting Note**

Attendees:

Marian Spain, Ofwat (Chair)	Gareth Davies, CIA
Tom Kiedrowski, Ofwat	Sue Haywood, B&Q
Alison Cullen, Ofwat	Steve Hobbs, CCWater
Holly Yates, Defra	David Ingram, BP Chemicals
David Bellamy, FDF	Alex Jackman, FPB
Christina Blackwell, CCWater	Sue Pretty, Asda
Paul Bonello, Suffolk Council	Bob Spears, UCC
David Caro, FSB	Stephen Thurlbourne, NetworkRail
Ann Corrigan, Institute of Hospitality	Francis Wood, FSB
	David Pearson, Ofwat (notes)

1. Welcome and introductions, update on developments

Marian Spain, Senior Director of Policy and Communications, Ofwat, welcomed attendees and provided an update on developments in the water sector. This included mention of:

- the Water White Paper (published since the Forum last met and the subject of a separate session today);
- Customer Engagement (also the subject of a session today);
- Regulatory Compliance (which is about reducing the burden of regulation); and
- Future Price Limits (FPL), the framework for which we are currently finalising and which we hope to publish in the next two months.

Issues around drought and security of supply were also discussed, including the adequacy of plans in place to cope with increased water demand during the Olympics, and that in the first instance it is households, not businesses, that are affected by water restrictions. It was noted that water companies were missing an opportunity to engage business customers in voluntary reductions

to help with demand and reinforce messages to the public. In this context, Cabinet Office business continuity plans were mentioned (a guide is currently in preparation, with the aim of publication in the coming months).

2. Customer engagement

Alison Cullen, Senior Analyst, Consumer Policy Team, provided an update on our customer engagement work. In August 2011 we published our policy statement, which included ideas generated by the Business Customer Forum.

The aim of this policy is to put customers at the heart of decision making. It consists of three tiers of engagement.

1. Direct local engagement:

This deals with local priorities and issues that could have a significant impact on the service customers receive, or affect the local community (for example, local services levels, investment in sustainable drainage, variable tariffs).

It takes place directly with the local company and allows flexibility for water companies to choose the appropriate approach taking into account only Ofwat's high-level guidelines. The purpose of this form of engagement is to:

- inform company strategy and plans;
- identify opportunities for innovation; and
- test customer acceptability.

2. Company customer challenge groups:

These groups ensure business plans reflect a sound understanding, and reasonable balance, of customers' views and whether the phasing, scope, and scale of work required to deliver outcomes is socially, economically and environmentally sustainable.

The groups are established by companies with an independent chair. Membership includes organisations with a statutory remit – Environment Agency, Drinking Water Inspectorate, Natural England, Countryside Council for Wales and Consumer Council for Water (CCWater). It also includes local members, such as business customers and their representatives and other key stakeholders, including, local authorities and local community representatives. Ofwat is not a member but will provide information or advice.

The role of challenge groups is to:

- challenge the scale, scope and delivery of outcomes and obligations;
- challenge justification and support for the overall plan; and
- report to Ofwat on customer engagement and company plans.

The reports to Ofwat provided by the challenge groups cover the following.

- The company's engagement process:
 - its effectiveness; and
 - whether it is proportionate to the materiality of the business plan.
- The company's strategy and business plan, whether it:
 - delivers legal outcomes
 - provides an appropriate response to customers' views
 - strikes a reasonable balance between different customers and stakeholders
 - explores solutions/phasing to maximise acceptability
 - is acceptable overall.

Most companies have established their groups and are having their first meetings.

3. Ofwat customer advisory panel:

This panel informs and challenges Ofwat on a number of key sector-wide assumptions. It is Ofwat led. Membership includes individuals from consumer representative bodies (Consumer Focus, Citizens Advice, CCWater), businesses: large, small, multi-site and large users, public-sector, rural.

Its purpose is to influence and challenge Ofwat's decisions on key sector-wide assumptions. It is not intended to undermine local engagement but will inform the issues on which Ofwat consults, and may advise Ofwat on issues raised in responses to Ofwat's price-setting methodology consultation.

The first meeting of the panel was held in February 2012. This introductory meeting confirmed membership of the panel, discussed the work plan and terms of reference. Further meetings are planned for May, July and September 2012.

The panel's work will feed into the price-setting methodology paper in the autumn. Details of panel membership, terms of reference and meeting notes are available on our website.

Next steps for this customer engagement work are to:

- provide advice or input on request to support the company challenge groups;
- ask companies and challenge groups what they need from us (there will be workshops in May for companies and challenge groups chairs);
- attend customer challenge group meetings by invitation on occasion as observer or to provide briefing; and
- work with our customer advisory panel who will inform and challenge our assumptions and methodology to feed into autumn methodology paper.

The meeting then discussed the following questions.

- How could business customers be engaged?
- Role of challenge groups – local to area, local issues
- Nationally – multi-site companies engaging with all companies?
- How to take this forward?

A poll of those present at the meeting indicated very few had been contacted by their water companies to participate in customer engagement groups. This may reflect that it is still early in the process, but it was surprising that some of the main business associations do not appear to have been engaged. It was noted that some water companies are publicising the groups on their websites and publishing membership of the groups, but others are not. It was felt that there is no reason why water companies should not publish group membership lists. Some water companies have found it difficult to engage with the public sector and SMEs. The danger of these groups merely engaging in a box-ticking exercise was discussed, as well as the risk that they consist only of representatives who will not challenge water companies. It was confirmed that these groups are an on-going feature of business as usual, not just a price review group.

It was agreed that CCWater (who are members of all challenge groups and chair a number of them) will seek to ensure business customers are engaged with. Ofwat will ask WaterUK to consider how companies should engage at a national level.

3. Update on Water White Paper and market reform proposals

Holly Yates, Defra, reminded members that the Water White Paper, Water for Life, was launched on 8 December 2011. In it, the Government confirms that it will introduce deregulatory legislative changes to make existing competition

work more effectively, but will not introduce changes that risk unsettling investor confidence in the sector.

Key market reforms announced in the paper include:

- extending choice to all non-household customers (the threshold was lowered to 5MI in December);
- removal of costs principle from primary legislation;
- including sewerage services in the regime;
- introducing statutory market codes and transparent charging schemes;
- creating a more vibrant wholesale market, plus self-supply licences;
- developing a cross-border market with the Scottish Government; and
- removing barriers to greater trading of abstraction licences and bulk supplies.

The benefits to business customers of these measures include:

- more choice for all non-household customers;
- potential efficiencies for multi-site customers;
- better tailored services that suit business needs; and
- opportunities for water companies to develop value added services.

The next steps for this work include the:

- Government taking immediate steps to implement the Water White Paper;
- introduction of the Water Industry (Financial Assistance) Bill into Parliament to enable the reduction of South West Water customers' bills and to provide contingent financial assistance to support the construction of the Thames Tunnel; and
- publication of a wider draft Water Bill for pre-legislative scrutiny in the coming months.

Further information on the Water White Paper is at <http://www.defra.gov.uk/environment/quality/water/legislation/whitepaper/>.

Holly also reminded members about the Red Tape Challenge. This initiative was launched in April last year, and aims to gather innovative ideas on how the aims of our regulations can be fulfilled in the most successful and least burdensome ways. Of over 1,200 regulations considered so far, more than half will be scrapped or improved. The water and marine theme is currently open for comment via <http://www.redtapechallenge.cabinetoffice.gov.uk> or a

private submission can be sent to the Red Tape Team at redtapechallenge@cabinet-office.gsi.gov.uk.

Tom Kiedrowski, Director of Market Reform at Ofwat, then discussed how the Water White Paper and Ofwat's Future Price Limits (FPL) framework paper are in harmony to help deliver social, economic and environmental sustainability.

Ofwat's perspective on the Water White Paper is that it:

- sets out the challenges the sectors face and makes a compelling case for change;
- acknowledges the complementary role that Ofwat's future price limits proposals will play ;
- focuses on the needs of customers, including introduction of competition to drive innovation, efficiency and service, whilst also maintaining the stability necessary for investor confidence; and
- sets out the foundation for delivering long-term, sustainable water and sewerage sectors – economic, social and environmental.

Many of the proposals need legislation. We look forward to its timely introduction by Defra. In the meantime we will begin to plan what might be needed for the eventual introduction of choice and competition.

In Ofwat's view the benefits arising from the paper include providing the incentives to meet customer expectations and provide choice whilst balancing it with the need to maintain the stability for investors.

For customers (in Scotland and England) there will be:

- choice for businesses;
- more than £2 billion of savings/economic growth;
- improved customer service and innovation; and
- a major change programme for the sectors.

For investors there will be:

- on-going commitment to Regulatory Capital Value (RCV) and investment mode; and
- opportunities for investment as new business models emerge.

We need to continue to work closely with Defra, other regulators and market participants, not least business customers, and learn from experiences in other sectors as well as market opening in Scotland.

Issues to address include customer protection (for which we have a dedicated project within Ofwat), upstream reforms (which are on a longer timeframe than retail reforms) and market design (which includes many details and requires significant thought to implement successfully).

Some of the next steps for this work are:

- a high-level stakeholder meeting led by Defra;
- a series of meetings from autumn 2012 through 2013; and
- Consumer Protection engagement in autumn 2012.

The meeting then discussed issues arising from both presentations, including consideration of the following questions:

- What aspects of market reform are of particular interest to you as a business customer?
- Are we taking the right approach to ensuring these reforms are implemented successfully so that business customers benefit?
- What else could we be doing?
- How do you want to engage with us?

Discussion points included the following.

- It is good to see that the costs principle will be removed, and the work Ofwat has done on accounting separation is useful, but what will replace the costs principle and how will we avoid a repeat of previous attempts to improve competition that have failed? Ofwat confirmed that it has a project on Charging looking at this issue.
- In terms of consumer protection, lessons from energy suggest SMEs are in need of particular protection, but they have less protection than households in a competitive market. Default tariffs will give some protection, but we can see from energy that when those practising mis-selling were banned from selling to households, they simply moved over to SMEs. SMEs are least able to place any price pressure on companies – large customers have some customer power, and households are politically important, so they tend to be protected, whereas SMEs have less ability to protect themselves.

- Sites using less than 5MI will enjoy limited benefits until legislation is changed. Some customers don't have any sites above 5MI but suffer from high levels of leakage, so a tariff package offering leakage assistance would be useful, but water companies currently have little incentive to offer this.
- It is good that there will be standard contracts between retailers and wholesalers, but some would like to see standard terms for supply contracts to business customers (especially for SMEs). We should look at other sectors and drive forward innovation.
- There are also concerns around verbal contracts – many SMEs are busy and do not pay attention to terms agreed by phone, which may prove disadvantageous. Email or hard copies of any contract entered into verbally should be provided and there should be a (14 day) cooling off period to allow businesses to review the contract before it becomes binding. The activities of third party brokers should be scrutinised.
- It is important for customers to be able to switch easily. There are concerns around requirements for customers to make forward payments. For example, as a result of the downturn some businesses, such as ceramics, are regarded as high risk, and some are required to pre-pay for as much as a year's worth of supply.
- All suppliers have different charging schemes. Even in Scotland, there are issues around switching because of contract terms and conditions. Some are poor and not good enough to sign up to, resulting in some customers writing their own terms and conditions. There are also problems around wholesale data in Scotland, with different wholesale costs in evidence despite there being only one wholesaler.
- One customer with 200 sites in Scotland went to tender and found the results disappointing – some entrants did not even bid for the tender because the up-front payments would have put them out of business.
- There is lack of consistency around provision of data to customers by water companies in England. Within the Forum, one customer has received little data from a water company, whereas another customer has received benchmarking data on its sites use of water from the same water company.
- As metering is rolled out in water, it can give rise to back-billing problems. There are examples where customers are being back-billed

for 6 years – this should be limited to one year. There are also concerns about back-billing in relation to surface water drainage from car parks. The behaviour of some water companies is cause for concern, and CCWater has already been looking at individual issues, while Ofwat has been considering surface water drainage rebates and is been looking at back-billing issues as part of consumer protection work.

- There is a lot of scope for bill innovation. A single multi-utility bill might be valued by customers, although there is no point providing such a facility until all the individual utility bills are themselves correct.
- One comment several attendees echoed was, “We are tired of being dictated to by utilities”.

4. Non-household focus report

David Pearson, Senior Analyst, Markets and Economics Division, advised the meeting that we are preparing a focus report on non-household customers. Like our other focus reports, it is aimed at informing customers and other stakeholders about different areas of our work, or our latest thinking around a particular issue. It is designed to provoke discussion – and possible action – amongst our stakeholders, to help us all find the right long term, sustainable solutions.

The non-household report will cover the themes of water for growth, the opportunities that choice and competition can bring, what do non-household customers want, and conclusions and next steps on the introduction of choice.

The report will be published in the coming months and will invite informal feedback, including on the following issues.

- What do you as a non-household customer want from your water supplier? What would you choose, if you could?
- How does your experience as a water and sewerage customer compare with your experience of other utility companies?
- What are the risks to customers that we will need to manage when markets reforms are introduced?
- What we can learn from the introduction and operation of markets in other sectors?

5. SME research

David Pearson, Senior Analyst, Markets and Economics Division, also discussed our recent joint work with CCWater on SMEs. This work, conducted by a professional research organisation, consists of 40 in-person interviews and more than 2,000 phone interviews (200 in each WaSC area).

The research has been undertaken to fill a gap in our knowledge about the views of SME customers.

For Ofwat this will provide evidence to support market reform and consumer protection policies

For CCWater this will enable it to:

- provide greater legitimacy in representing customers;
- provide a stronger evidence base for making policy decisions; and
- gauge customer concerns and satisfaction with delivery of services.

The results of the research are currently being finalised and we hope to publish the report shortly.

6. Final questions and comments and future meeting topics

Marian Spain closed the day by thanking everyone for their attendance and inviting members to propose topics for future meetings either now or by email. We intend to cover a further update on customer engagement.

The next meeting is planned for either July 2012 or the autumn, which will coincide with the next developments in Consumer Protection.