



Notes of the Customer Advisory Panel Meeting 9 May 14

Present:

Panel

David Caro
Sharon Darcy
Deryck Hall
Teresa Perchard
Bob Spears
Damian Testa

Chair: Keith Mason, Senior Director of Finance and Networks, Ofwat

Apologies: Patrick Law

Ofwat

Barbara Hughes, Director Consumer Policy
Giles Stevens, Portfolio Director
Alison Cullen, Portfolio Manager
Gail Harris, Stakeholder Relationships

Cynthia Alers, PR14 Communications Lead (observer)

1. Introductions and Welcome

Keith Mason (KM) welcomed all present and thanked everyone for attending the final Customer Advisory Panel meeting. At the meeting on 22 October 2013 the panel said that it was interested in seeing how the companies and CCGs responded to the new methodology in their business plans and agreed to KM's suggestion that the panel reconvene after Ofwat had announced the results of its risk based review of the companies' plans.

KM set out the announcements that Ofwat had made since October 2013:

- 27 January – Ofwat's risk and reward guidance published.
- 10 March - pre-qualification announcement.
- 4 April - risk based review announcement.
- 30 April - draft determinations for Affinity and South West Water.
- 6 May – announcement to proceed with early draft determinations for Northumbrian Water and Dŵr Cymru.

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KM introduced the agenda as below.

2. PR14 – the journey so far

Giles Stevens (GS) gave a presentation that included the key milestones in the 2014 price review so far and what had been achieved - a better deal for customers, now and in the future, a stronger focus on customers which marked a real culture shift in the industry, greater transparency and greater company ownership of business plans. South West's customers' bills will fall an average of 7% before inflation, while the company will spend approximately £1.7bn on maintaining and improving service to customers. Affinity's customers' bills will fall an average of 11% before inflation, with investment of approximately £1.2bn over the period.

GS took the panel through the risk based review test results for customer engagement and willingness to pay, and provided examples of the exceptional practices that Ofwat had seen in this area. The panel was then shown an overview of all tests results showing the various 'heat spots' where some companies scored less well. GS then explained the highlights of the plans submitted by South West Water and Affinity Water and why they were awarded enhanced status.

The presentation concluded by outlining the difference that customer engagement and the CCG process had made to this price review, positive media response to this and the good characteristics that Ofwat had seen in the CCG reports (that were submitted alongside the companies' business plans on 2 December).

Aside from points of clarification the following points were made in discussion:

- In answer to a question from the panel GS said that in respect of the companies who were not awarded enhanced status Ofwat had not seen a shift back to a regulator facing culture. Companies were very aware that they need to consult their customers and CCG on any material changes they proposed, which would impact on customers, before submitting them to Ofwat.
- In requiring companies to meet its risk and reward guidance Ofwat should take into account what customers think is the appropriate incentive for a company to have for the delivery of its outcomes. GS noted the research that the Consumer Council of Water (CCWater) had carried out. He stressed that Ofwat would only allow rewards and penalties where companies provided evidence that their customers were willing to support

them. Ofwat had made clear that rewards can never be about 'business as usual' or even just improving performance, and that it needed to see companies really stretching themselves.

- Ofwat should do more to set out, highlight and communicate to customers the areas where companies were stretching themselves.
- Ofwat should make clear when it has benefited from being able to make comparisons between companies' proposals. Ofwat has also been able to provide some signals to the industry in the two draft determinations already made.
- The panel asked how far we could achieve consistency across companies' outcomes and whether this made a level playing field difficult to achieve.
- Ofwat has been transparent but needs to improve on its sign posting and layering of information so that stakeholders can digest the significant amount of information that it has made available.
- A lessons learned exercise will be very important for this review, which contained many new initiatives. The panel noted CCWater's current research into how the CCG process had worked, and that this would feed into Ofwat's 'review of the review' after PR14 had finished.

GS thanked the panel for their helpful comments and agreed that Ofwat will consider further how best to communicate complex and large amounts of information to stakeholders in the draft and final determinations.

3. Customer engagement: the Customer Challenge Group and Customer Advisory panel perspective

At Ofwat's invitation Roger Darlington, Chair of the CCG for South East Water, talked to the panel about his experience of being a CCG chair and of the CCG process.

RD began by talking about three models for providing the institutional customer voice in sectors subject to economic regulation.

- It sits within the regulator, as with the Ofwat Customer Advisory Panel.
- It sits outside of the regulator, as with CCWater.
- It sits within the regulated company, as with the Customer Challenge Groups.

RD had been involved in examples of all three and his view was that each model has its strengths and weaknesses and the best approach is a combination with clear definitions of roles and proper resourcing. The CCG is an example of the third type and is quite innovative.

RD explained how the CCG for South East Water worked with its nine members. This contrasted with larger CCGs (30 plus members) used elsewhere. The CCG met approximately every two months and had one 'virtual' sub-group which looked at customer engagement. RD emphasised that the CCG was not there to directly represent consumers but to ensure South East Water carried out effective consumer engagement and translated that into a business plan that reflected the wishes of its customers.

The CCG had a significant amount of discussion on customer research, the PR14 methodology, materials, research trials, draft and final reports and the implications for South East Water's business plan. The CCG reviewed 11 pieces of research relevant to the business plan and was now involved with further research project on outcome delivery incentives.

The most pressured time was the review and challenge of the business plan where the CCG received a lot of material to digest and required a complicated choreography that did not work perfectly.

RD said that the CCG members had not expected to undertake such a large amount of work or deal with such complex issues such as incentives when they were recruited. He also felt that there was a big strain on the statutory regulators who were required to be on all CCGs. He felt that Ofwat provided more than enough information for CCGs but very often the documents were long, complex and not written in a way lay members could easily understand.

The CCG found South East Water generally very cooperative. The CCG found the regulatory team always responsive to requests for information and suggestions for change. The CCG had tough conversations at board.

The CCG recognised that its influence was limited in certain areas such as the cost of capital. CCG members feel that the willingness to pay research had less impact on the companies than the external cost of living debates initiated by Government and Ofwat.

RD felt that the process was as important as the product. For example, keeping a challenge log with hundreds of interactions was equally as valuable as uncovering showstoppers. He felt it important to write the CCG report himself rather than engage a report writer.

RD concluded by sharing his views on how the different levels of customer voice in the process worked together. He felt that the links between CCGs and CCWater worked well. All CCGs had CCWater members and all non CCWater

CCG chairs met fairly regularly. RD noted that the links between CCGs and CAP were very limited, although noted that CAP's meeting notes were published on Ofwat's website so was personally able to keep informed of their work and views.

Looking ahead at the three models he felt that Ofwat should consider a standing consumer voice beyond specific price reviews; outside the regulator, Government should clarify the future of CCWater; and finally that companies should consider including the consumer voice for the implementation of the business plan. He was aware that South East Water was considering the idea of customer panels. RD felt that there should be improved links between three levels.

The panel thanked RD for providing an interesting and valuable insight into the CCG process. RD answered questions from the panel and in discussion the following points were raised:

- Some CCGs would have benefited from starting their process earlier – as some companies had already started their engagement with customers.
- The culture had changed but companies still needed to communicate better with their customers on day to day issues e.g. leakage.
- On the issue of complex information, the panel felt that they could have helped the CCGs by discussing with Ofwat what information it was proposing to give to CCGs before it was given. The panel reminded Ofwat of its wish to meet CCG chairs earlier on in the process.
- While some chairs would have liked report templates and clearer guidance, others preferred the flexibility that the process offered.
- CCG chair workshops held by Ofwat very were useful – some of these were not scheduled well enough in advance but Ofwat became better at this as the process went along.
- CCG chairs had to adapt to changes in personnel in Ofwat.

The panel concluded that the following points should be considered at the proposed 'review of the review':

- Does Ofwat need to consider whether to mandate customer groups?
- Given likely future constraints on Ofwat resources, to what extent there should be an ongoing role for CCGs beyond the Price Review process, for instance in monitoring outcomes and in challenging on the examination of the Water Framework Directive.
- The process should be made simpler to avoid complexity and fatigue of those involved in the CCG process.

- In order for the delivery of performance commitments to be effectively monitored the 'golden thread' from customer priorities to outcomes needs to remain very clear to all.
- The issue of whether or not CCG chairs and members should be remunerated for their or their organisation's time should be carefully considered.
- Should CCG include more members with the relevant expertise, for example on customer research?
- Should the statutory regulators be required to be on customer groups? There was a need to look at the resource that this required for PR14.

KM thanked RD and the panel for their interesting insights. He said Ofwat would be doing a full 'review of the review' after PR14 had finished as it had at previous reviews. This would include the role of the CCGs and these points would be revisited then.

4. Ofwat strategy refresh and the customer

Ofwat had provided the panel with a hand-out of all slides at the beginning of the meeting but there was not enough time for Barbara Hughes to present on this section. KM advised the panel that we would welcome any comments the panel wished to make and that BH would be happy to take any calls. When asked by the panel about the customer voice work, which Ofwat was developing and which BH talked to the panel about in October, BH said this was being developed as part of the strategy refresh work.

5. AOB

There was no other business. KM thanked the panel members again for their commitment and input over the last 2 years. The notes of the meeting would be circulated shortly.

Action: Ofwat to circulate notes to panel.

**Ofwat
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