



Notes of the Customer Advisory Panel Meeting 13 March 2013

Present

Andrew Bainbridge, Major Energy Users Council

Sharon Darcy, Consumer Focus

Teresa Perchard, Citizens Advice

Bob Spears, Utility Consumers Consortium

David Caro, Federation of Small Businesses

Patrick Law, Barratt Developments Plc.

Sue Pretty, Asda

Steve Hobbs, Consumer Council for Water

Apologies

Derek Holliday, Country Land and Business Association

Susan Foster, Government Procurement Service

Ofwat

Keith Mason, Senior Director of Finance and Networks

Fernando Dominguez, Principal Economist

Chris Esslin-Peard, Director of Future Price Limits

Alison Cullen, Senior Consumer Policy Analyst (Secretariat)

Gail Harris, Stakeholder Relationships Co-ordinator

1. Introductions and Welcome

Keith Mason (KM) introduced himself as the new Chair of the Customer Advisory Panel, welcomed all present and thanked everyone for attending

Actions arising from meeting 8 October 2012

- Final notes of 3 July meeting: Alison Cullen (AC) confirmed that the final version of the notes were sent to the panel on 10 October and apologised again for this oversight.
- Panel feedback: Responses to the survey that Gail Harris (GH) conducted had been limited in number. Ofwat would therefore re-run the survey after the next meeting to gain a more in-depth response. GH explained that from the responses Ofwat had received, the panel saw the Customer Advisory Panel meetings as a useful platform on which customer challenge could be provided to Ofwat's methodology.

The panel said that the notes of the October meeting did not record the panel's request for longer time to discuss the issue that Ofwat brings for its consideration so that the members can build on each other's ideas. Some members were disappointed that this meeting was shorter. The panel felt that future meetings should be longer or more regular.

Action: Ofwat to ensure that the length of future meetings can provide adequate time for panel discussion (while ensuring that panel members' diaries can be accommodated).

2. Setting price controls – the methodology consultation: what it means for customers and how Ofwat has reflected CAP's views in the methodology

Ofwat gave a presentation to the panel on Ofwat's PR14 proposed methodology consultation [Setting price controls for 2015-20- framework and approach](#). The presentation focused on what the methodology means for customers and also how Ofwat had reflected the views of the CAP members in the proposed approach.

In discussion the following points were raised:

Overall messages

- Ofwat should ensure that it is able to provide evidence in response to Defra's Strategic Policy Statement direction that the methodology should promote sustainability.
- The outline provided by Ofwat to the panel in its presentation on what the methodology means for different stakeholders seemed to contain 'soft

aspirations' statements. The outline should also include a box for the English and Welsh Governments. Should it also include more macroeconomic targets at an aggregated position?

- Ofwat needs to ensure that suppliers understand how the approach affects them and how it leads to lower prices so that they can give an informed response.
- Resilience is an important issue for the next review. While the extent of droughts and floods should not be overstated, they need to be addressed and there might not be support for water companies spending more money.
- The proposed methodology does not show whether or how SMEs would be adequately protected aside from the potential for the ability to switch in the future.
- The proposed approach must ensure and demonstrate clearly that customers should share the gains from innovation, not just the water companies.
- The key messages of the methodology should include the issue of the sustainability of the structures of the water companies and companies and customers share pain and gain included in Ofwat's Chair's observation.

Incentives

- Incentive mechanisms should ensure that water companies only get rewards if there is a value to customers of the company doing the work well.
- The water companies need to be challenged on why costs are more expensive in one area than other. Ofwat should make sure it clearly understands what customers are unhappy about

Customer Challenge Groups' (CCGs) role

- Ofwat should avoid such complexity in its approach and framework that overlaps or gaps are created. The approach needs to be clear to CCGs.
- Ofwat and the CCGs need to observe caution over research used by water companies that might result in short termism.

- The flexibility that the proposed approach would give to water companies over the delivery of outcomes should be complemented with future accountability and customer challenge or representation.

Retail controls

- Ofwat could look at other areas for cost information such as companies overseas and particularly for the retail control, operations such as call centres in other industries. Information is out there - any efficient business should have a good grasp of its costs.
- The panel acknowledged Ofwat's response to their concern over any detriment to customers from the introduction of the average cost to serve and acknowledged that the proposed use of a glide path was reasonable.
- Some issues raised by the members, such as contract terms and comparable pricing structures, could best be discussed in another forum. The High Level Group has recently been formed to deliver Government's objectives for retail and upstream competition and its remit includes identifying issues and obstacles and how to promote engagement across the industry.

Action: Ofwat to provide CAP with details of the High Level Group.

3. Cost assessment – truth telling and the use of menus

Ofwat explained its proposed approach to cost assessment and incentivising water companies to prepare high quality business plans with the use of menus. Ofwat explained the delivery risks of the menu approach and asked the panel members to provide their views on

- whether the benefits to customers of the approach outweighed the delivery risks; and
- given the tight timetable, how might Ofwat best facilitate the engagement with customers.

The panel sought clarification on the process, baselines and how the process fits with the outcomes approach.

In discussion the following points were made:

- The accuracy of Ofwat's baseline is key.

- Ofwat should be able to learn lessons on any potential issues with baselines from the Bristol Water Competition Commission Case (where Bristol Water appealed against Ofwat's price determination in 2010).
- The term "menus" is misleading and Ofwat should re-think its terminology so that it can more easily explain the process to its stakeholders. This process is complex. Customers and their representatives must be able to understand the process.
- The process should encourage companies to come forward with their forecasts, with no room for second bids.
- Ofwat should look at Ofgem's Information Quality Incentives and how the fast tracking of the assessment of business plans has worked in practice.
- Ofwat must ensure that water companies submit their separate menu choices together and that they are not considered in isolation.
- The inclusion of rewards to customers in this incentive means that benefits to customers will improve.
- The CCGs have an important role in continuing the debate on the water companies' choices and in asking the right questions.
- The CCGs should have comparative information that they can use to challenge the companies. One idea could be a simple metric that shows where the companies' differences lie. CAP expects Ofwat to provide an extra layer of information to the CCGs.
- There is a wider public interest in understanding why different water companies have different positions on risk.

4. Next meeting

Ofwat will carry out a diary trawl for dates towards the end of April for a longer meeting. This will allow time for Ofwat to fully consider the panel's response to the methodology consultation before it moves to its final statement.

Some panel members asked if the next meeting could take place in Birmingham.

Ofwat suggested that agenda for the next meeting includes the following:

- Pick-up of the issues on the methodology arising from this meeting;
- Ofwat's proposed risk based review approach for the assessment of water companies' business plans;
- Ofwat's proposed approach on the cost of capital

Action: urgent diary trawl for date of next meeting and views on location.

The panel would also find it helpful to better understand how Ofwat sees the role of the CAP going forward, particularly in comparison to other customer involvement mechanisms, primarily the CCGs.

Action: For Ofwat to consider and then brief the panel on what the CAP's role will be going forward, and how it's in-put will be used alongside that of other customer involvement mechanisms, particularly the CCGs. Ofwat to consider whether to arrange a meeting between the CAP and the CCG chairs for both parties to better understand their respective roles and to ensure that the panel does not give advice in a vacuum.

**Ofwat
April 2013**