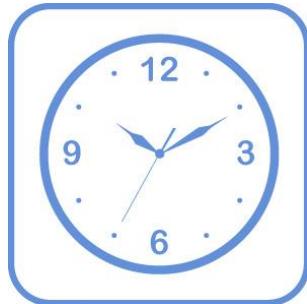


CCG Chair workshop
3 February 2016

Cathryn Ross, Chief Executive
David Black
Georgina Mills
Margareta Serfozo-Matharu



1. To welcome and introduce the new CCG Chairs
2. To seek feedback from CCG Chairs on our Water 2020 consultation proposals
3. To provide further information on key policy proposals (e.g. Water 2020, Ofwat affordability and vulnerability reports)
4. To provide CCG Chairs with the opportunity to share information, knowledge and practice
5. To share information on innovative approaches used in other sectors / countries



2.00	Welcome, introduction and agenda	David Black
2.10	An overview of our Water2020 proposals	Cathryn Ross
2.30	Our Water2020 customer engagement and outcomes proposals	Georgina Mills
3.00	CCG Chairs update	CCG Chairs
3.30	Break	
3.40	Ofwat's affordability and vulnerability reports	Margareta Serfozo Matharu / Richard Khaldi
4.00	WaterSmart	Peter Yolles
4.25	Round up and next steps	David Black
4.30	Close	



'Water2020: Regulatory framework for wholesale markets and PR19'

Cathryn Ross, Chief Executive

CCG chairs workshop
3 February 2016

Progressive developments in regulation

We plan to build on our 2014 price review approach, which kept bills down and drove service up through...

Customer engagement

Conversations with a quarter of a million people

Outcomes for customers

522 tailored performance commitments

Targeted intervention

Stepped in to reduce time lost to supply interruptions by a third

Encouraging innovation

Totex led to new approaches and helped deliver £3 billion savings

That won't be enough if we are to meet new challenges...



Stretched water resources and rising population

Forecast 20% population rise over 20 years, much of it in drier areas



Protecting environmental water quality

Four out of five water bodies do not meet appropriate environmental standards



Developing and maintaining resilience

Services and systems – such as financial and ecosystems – need to be able to anticipate trends and withstand and recover from shocks now and in the future



Tackling affordability

Bills will drop 5% in real terms by 2020, yet one in five customers do not feel their bill is affordable

Smarter water use

Potential benefits of £1 billion from encouraging water trading – better sharing of resources across company boundaries benefits customers and the environment

Releasing power from waste

Treated sewage produces sludge which can create energy and other things. A sludge market could unleash more sustainable energy generation and lower bills

When we set prices in 2019, we propose to keep what works well, while making changes to help the sector meet the long-term needs of customers, society, the environment and investors...

A better, more legitimate measure of inflation

Bills and company returns are linked to RPI inflation. A phased move to CPI will help maintain trust and confidence and reduce bill volatility

Better customer conversations and a long-term approach

Encouraging companies to move to a deeper understanding of what customers want, including over the short and long term

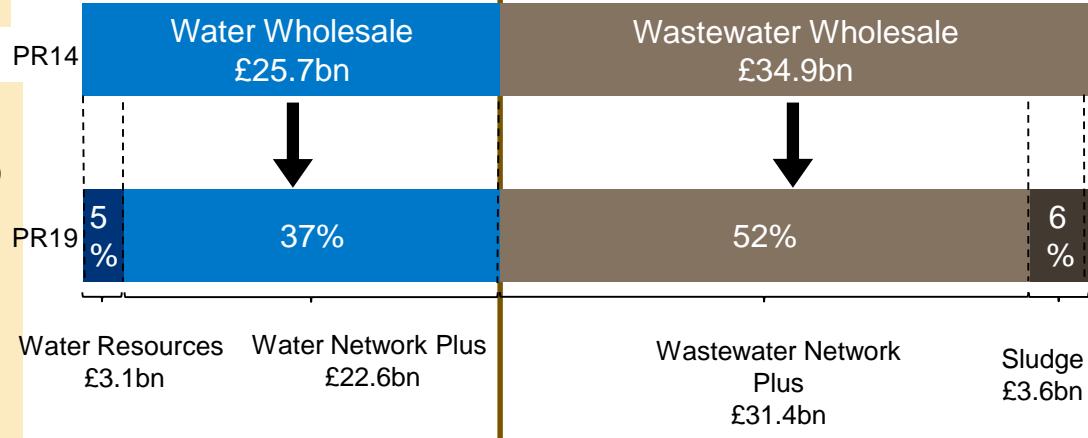
...but stability in this sector is vital so certain changes will require a managed transition. That is why we are continuing to protect investment made (the RCV) as at the end of March 2020

Photo © Getty Images

Remove regulatory barriers to third party providers and enable trading

Key enablers:

- Separate price control for sludge to reveal information and ensure level playing field with third party providers
- Mandatory information platform to enable better consideration of options with regular updates



100% of 2020 RCV is protected

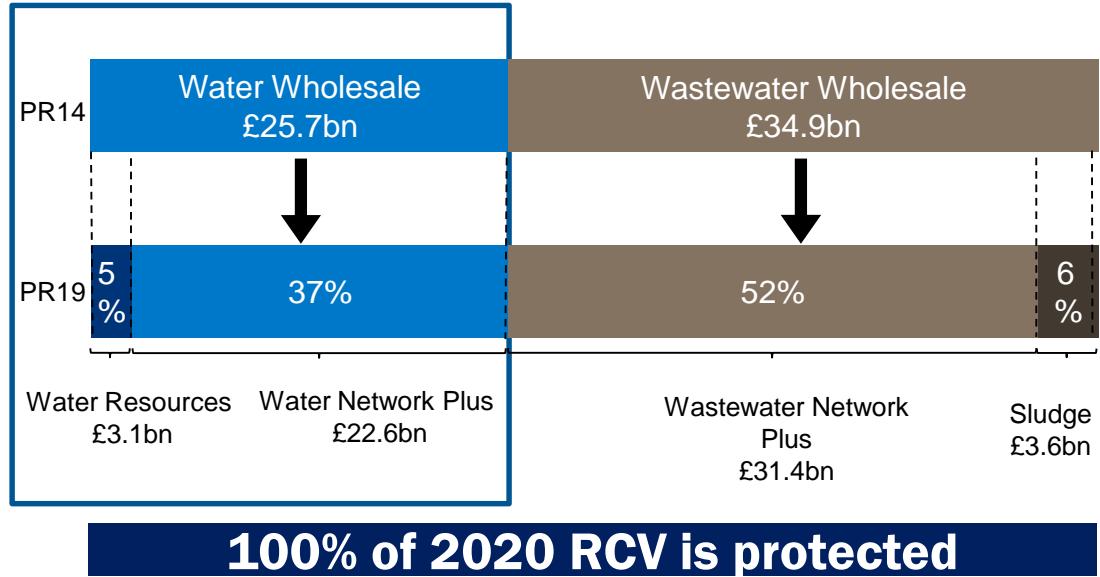
Customer benefits

- Enable better and more effective optimisation of resources and networks leading to lower costs for customers
- Greater participation from firms operating in wider waste markets potentially stimulating more innovation to the benefit of customers.

Removing regulatory barriers to trading of water resources

Key enablers for market:

- Separate price control for water resources to reveal information and ensure level playing field
- Mandatory information platform to enable better consideration of options with regular updates
- Access pricing to enable level playing field.

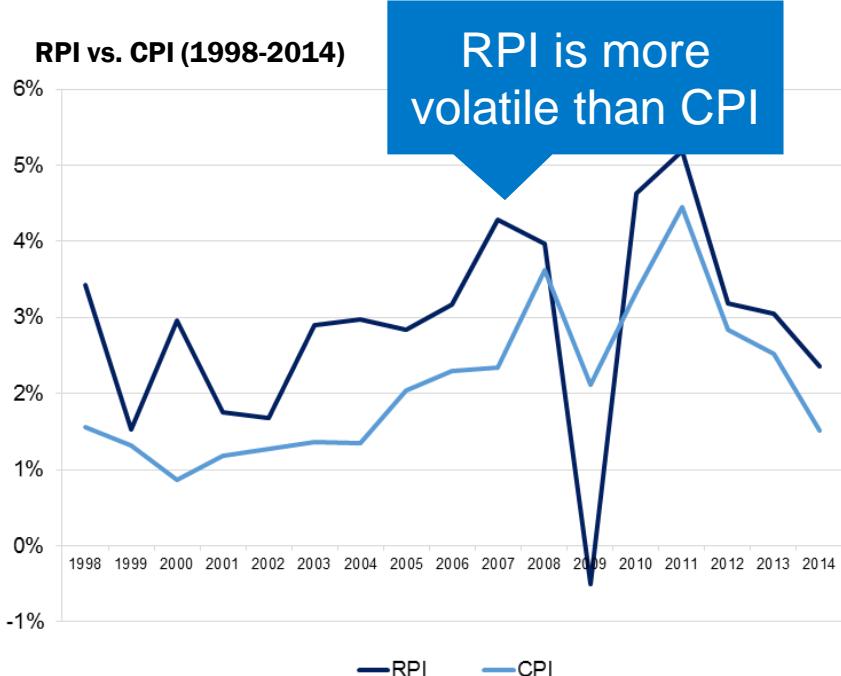


Customer benefits

- Trading is below its optimal level, and taking steps to mitigate identified barriers to this could result in benefits of up to £1bn to be shared between customers and companies.
- More trading and third party entry should stimulate innovation leading to new, lower cost and more sustainable options for water which can be supplied to customers.

Since March 2013 the ONS has no longer classified RPI as an official National Statistic, as it “failed to meet international standards”. The Johnson report for UK Statistics Authority in 2015 found serious issues with RPI, describing it as “statistically flawed” and recommended that “no taxes, benefits **or regulated prices** should be linked to the RPI.”

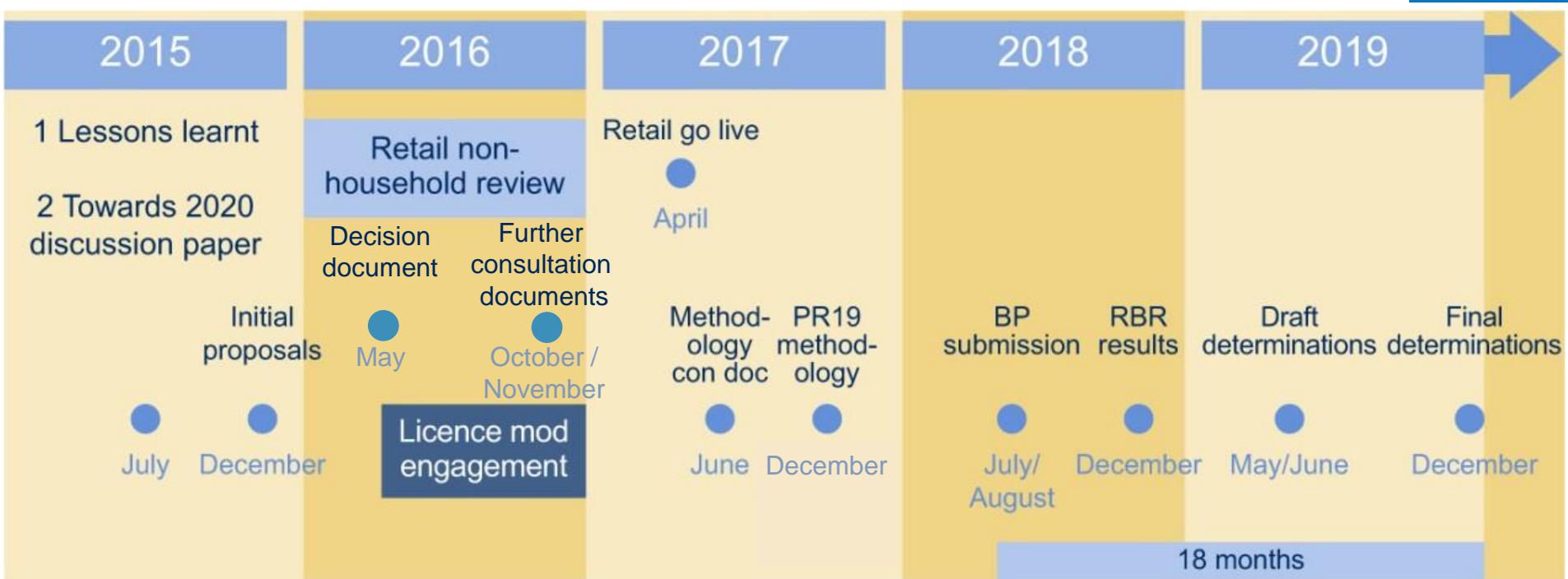
We propose to start the transition from RPI to CPI at PR19. We propose to make the impact of the change neutral for customers and investors.



Customer benefits

- Maintaining the credibility of our price controls with customers as CPI becomes more widely adopted across the economy
- CPI is less volatile than RPI meaning that the inflation component of customers' bills will be less volatile with the move to CPI.

Early view of our timetable to delivery of PR19



Our timetable provides clarity to the sector on the development and delivery of PR19.

We are currently planning a series of CCG chairs workshops with you up to the middle of 2017.

Customer engagement and outcomes: Water 2020 consultation proposals

CCG Chair workshop, 3 February 2016

Georgina Mills

Customer engagement



PR14 was successful in achieving a step change in the quality of customer engagement.

We have already confirmed we will retain the focus on customer engagement at PR19.

How do we build on the successes and lessons learned to incentivise, enable and encourage good quality customer engagement?

PR19: What does good customer engagement look like?

Companies drawing on a rich evidence base to develop a genuine understanding of their customers' needs, requirements and willingness to pay

For example, cross checking and sense checking evidence drawing on a range of techniques (such as stated and revealed preference techniques) and a range of sources (including information obtained through day-to-day interaction with customers, e.g. complaints)



Q. Do you agree with our principles for quality good customer engagement?
Do you agree that CCGs should address these issues in their reports?

Proposed role

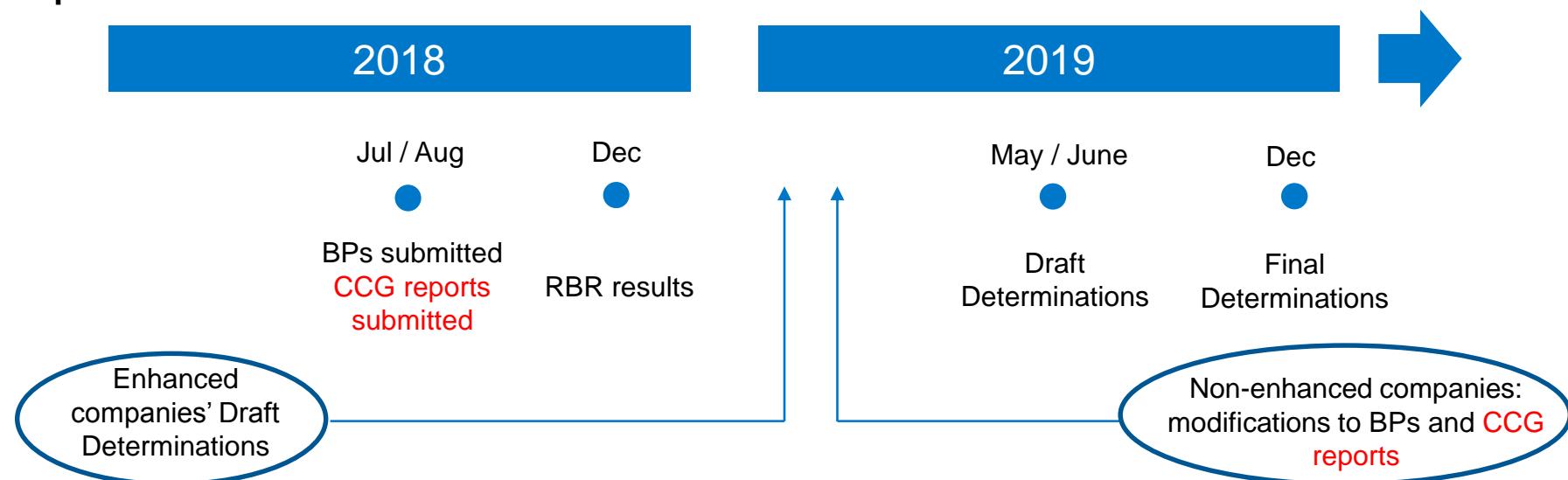
To challenge the company and provide assurance on

- The quality of a company's customer engagement; and
- The extent to which the results of this engagement are reflected in the company's plan

Proposed scope

- In scope: customer engagement (incl all issues on slide 4); outcomes; performance commitments; outcome delivery incentives (ODIs); affordability of bill impacts (including profiling over time).
- Out of scope: cost efficiency (including financing costs)

Proposed timetable



Facilitating more collaboration between CCG Chairs to share information, knowledge and good practice



Provide more clarity on scope of issues to be addressed by CCGs (including more guidance on what should be covered by the CCG reports) and timetable of deliverables

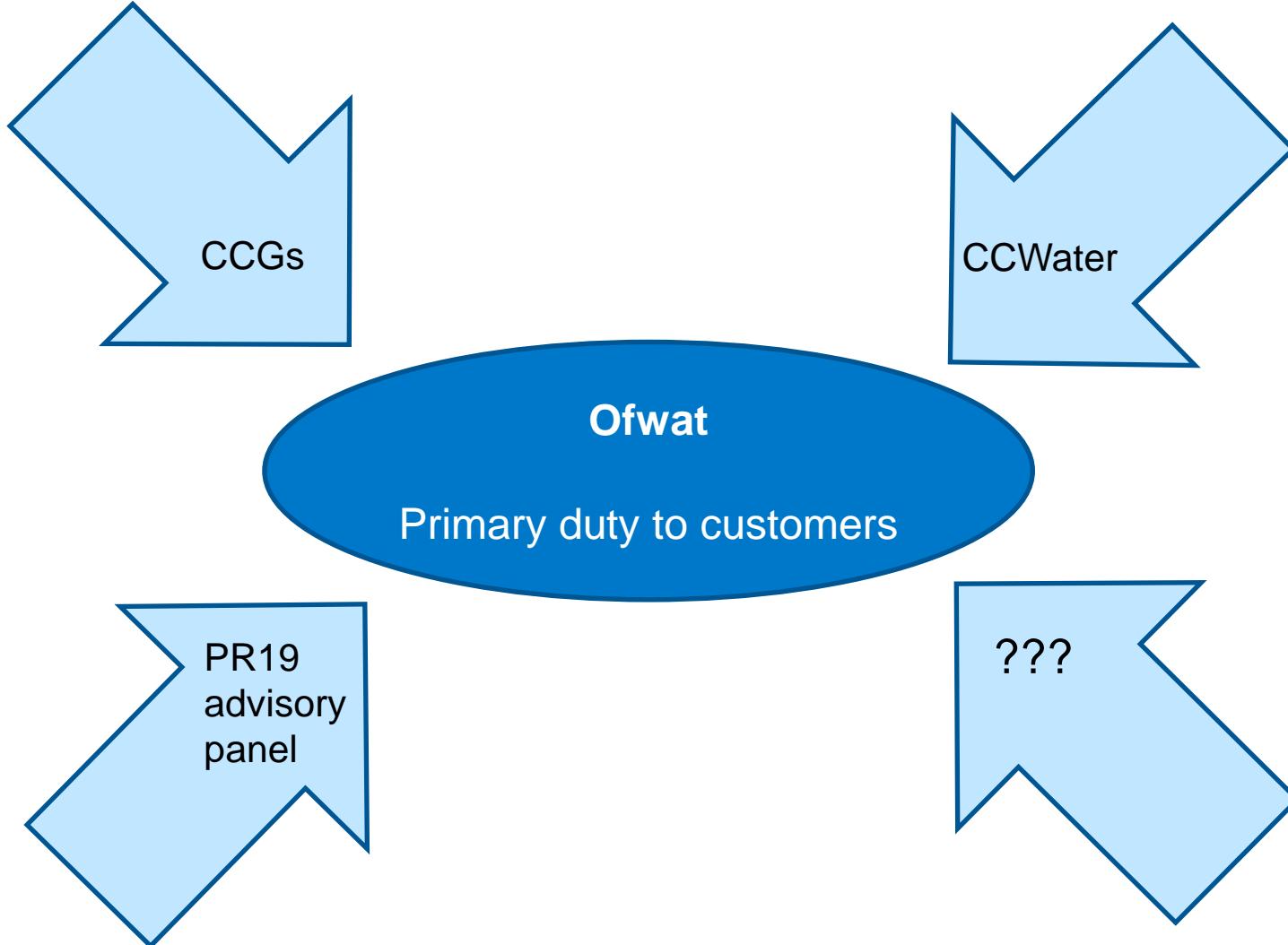


Greater focus on transparency of governance and funding processes for CCGs



Publishing information and expectations (e.g. cost of capital, common vs. bespoke outcomes, role of comparative information) earlier on in the price control process

Q. What are your views on the role, scope, timetable, membership for CCGs?



Q. What additional challenge (if any) would be helpful to ensure our process, methodology and delivery of PR19 effectively promotes the customer interest?

Outcomes

We have confirmed our intention to retain the focus on outcomes at PR19. The proposals included in the December 2015 consultation aim to sharpen the focus on the longer term:

- Encouraging or even mandating that certain measures – for example asset health – span more than a single regulatory control period.
- A licence modification for all companies to facilitate the payment of rewards and penalties in period so that companies continuously focus on delivering for customers.

Further work:

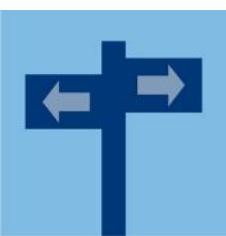
- Consulting on the balance between bespoke and common commitments in November 2016 including how resilience should be captured.
- Consulting on the role comparative information could play to support challenge by customers (and on behalf of customers) of companies' performance and business plans (November 2016).
- Reviewing our Service Incentive Mechanism (SIM), leakage incentives and Abstraction Incentive Mechanism (AIM) learning from experience of how they work during 2015-20.
- Consulting on the methodology for outcome delivery incentives (ODIs) in 2017.

Q: How should our approach be refined for PR19?

Affordability and vulnerability reports

Margareta Serfozo-Matharu, Principal, Strategy and Planning

3 February, 2016

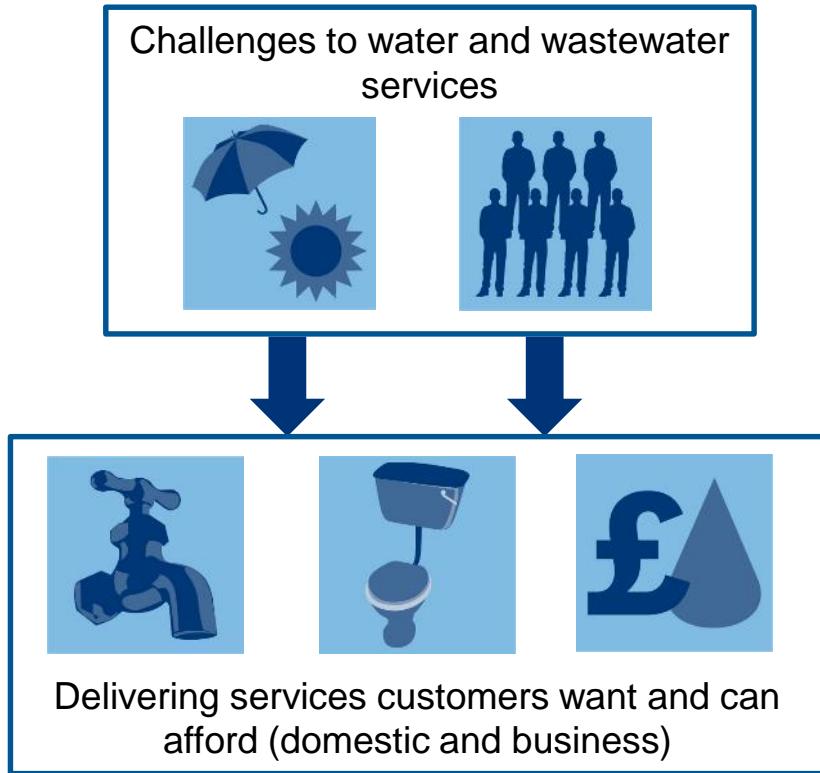


Scene-setting – 10 mins

1. Why does affordability and vulnerability matter for our strategy?
2. What are we doing about affordability and vulnerability?

Q&A – 10 mins

Our strategy: trust and confidence



Protecting customers' interests is central to Ofwat's duties and strategy. We highlighted affordability and customer vulnerability in forward programme 2015/16

Listening to customers, including customers in circumstances that make them vulnerable, SMEs, micro-businesses & charities.



Affordability and vulnerability is a UKRN priority

Other regulators are ahead of us

Water sector engagement and satisfaction

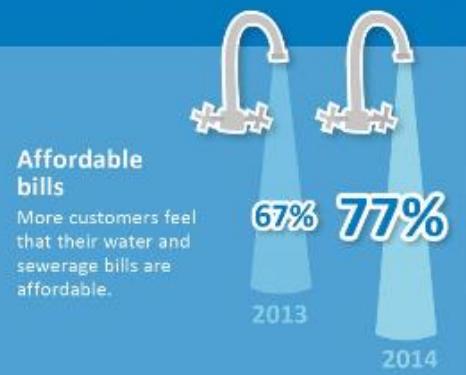
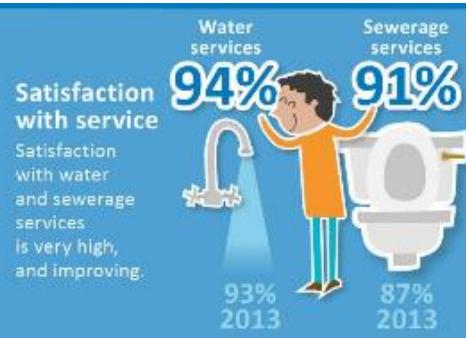


Figure 22: Awareness of WaterSure/Welsh Water Assist tariff by country and region

Awareness of WaterSure/Welsh Water Assist tariff by country and region

Q21. Are you aware of or are you currently on the Welsh Water Assist/WaterSure tariff? This was introduced to help people in low income groups who need to use a lot of water.

Total (5763)	9%	9%
England (5221)	9%	9%
Wales (542)	10%	9%

Figure 24: Awareness of water company's "Special Assistance" services by country and region

Awareness of water company's "Special Assistance" services by country and region

Q25. Are you aware of any additional services offered by your water company, such as large print or braille bills for people who need them, passwords to check that company callers are genuine, or liaison with customers on dialysis who need a constant supply of water?

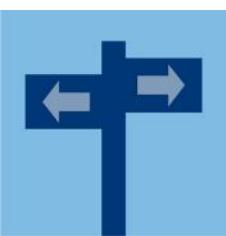
Total (5763)	49%	30%
England (5221)	49%	30%
Wales (542)	46%	31%

Types of customers significantly more likely to perceive their bills as affordable

Compared to...	No-one in the household has a long term illness/disability	A household member has a long term illness/disability
	79%	72%
Social group –higher managerial	80%	Unemployed/never worked/ student
Social groups – intermediate, routine and manual	77%	68%
Households not receiving benefits	81%	Household receiving benefits
No children at home	77%	Children under 18 at home
Owner occupier	80%	Housing association tenants
Private renters	76%	
Council tenants	71%	

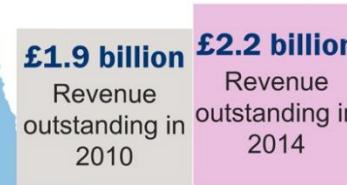
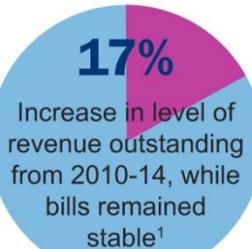
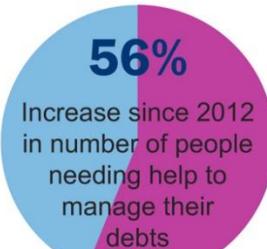
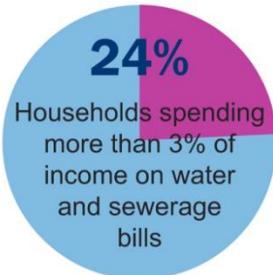
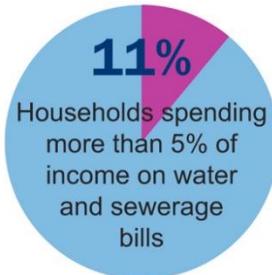
2014 SIM report: Households including someone with a registered disability were over twice as likely to be very dissatisfied with water company than other households.

Data from "Water Matters. Household customers' views on their water and sewerage services 2014" Report prepared for CCWater Aug 2015



- Customers must feel that **their service providers know what matters to them** – and they can be confident they are receiving affordable, high-quality and value-for-money services from them
- We required companies to submit relevant **qualitative and quantitative data** and we also used **DWP (FRS)** data for our analysis
- We published our Affordability and Debt report in December 2015 - intended **to help policy and decision-makers**, to inform the work they do to address water affordability issues and water debt for household
- The report also contains **recommendations and good practice that intend to address challenges identified by companies**
- Companies **need to understand and own the issues we identified** in this report and manage them well
- While our regulatory framework puts a focus on companies delivering customer priorities, we recognise that we still have an important **role in monitoring performance and prompting companies to do more** where possible, and **not build up debt which could be a cost other customers would have to pick up**.

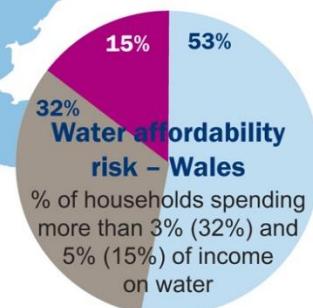
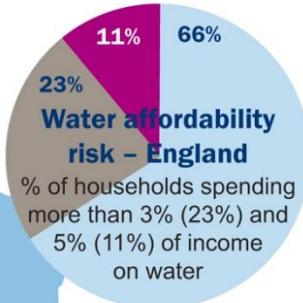
Affordability and Debt 2014 – 15: Key findings



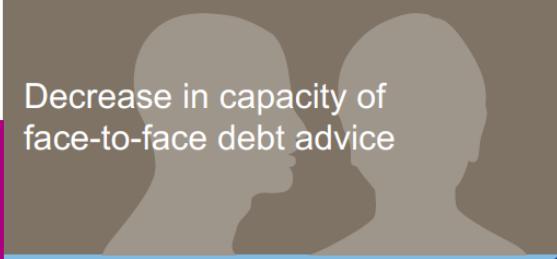
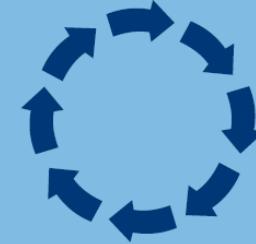
Water and sewerage bills vary according to company because the cost of providing services is not uniform



Low-income households, working-age adults living alone, lone parents and single pensioners are more likely to have problems paying their bills, and are more likely to be in debt



Future challenges

<p>Low awareness of eligibility criteria for affordability assistance schemes</p> 	<p>Decrease in capacity of face-to-face debt advice</p> 	<p>Welfare reform and changes to benefits system</p> 
<p>Difficulty of engaging with customers in vulnerable circumstances</p> 	<p>Need for further training for frontline staff and cultural change</p> 	<p>Cost and difficulty of recovering debt</p> 
<p>Difficulty of gathering and exchanging data to identify customer affordability issues</p> 		<p>Inconsistency between company social tariff schemes</p> 

Initial conversations around customer vulnerability in October 2013. Work put on hold during PR14.



Services for disabled, chronically sick or elderly consumers – guidance to companies

Revised November 2013



Dealing with household customers in debt - guidelines
Revised 1 September 2015



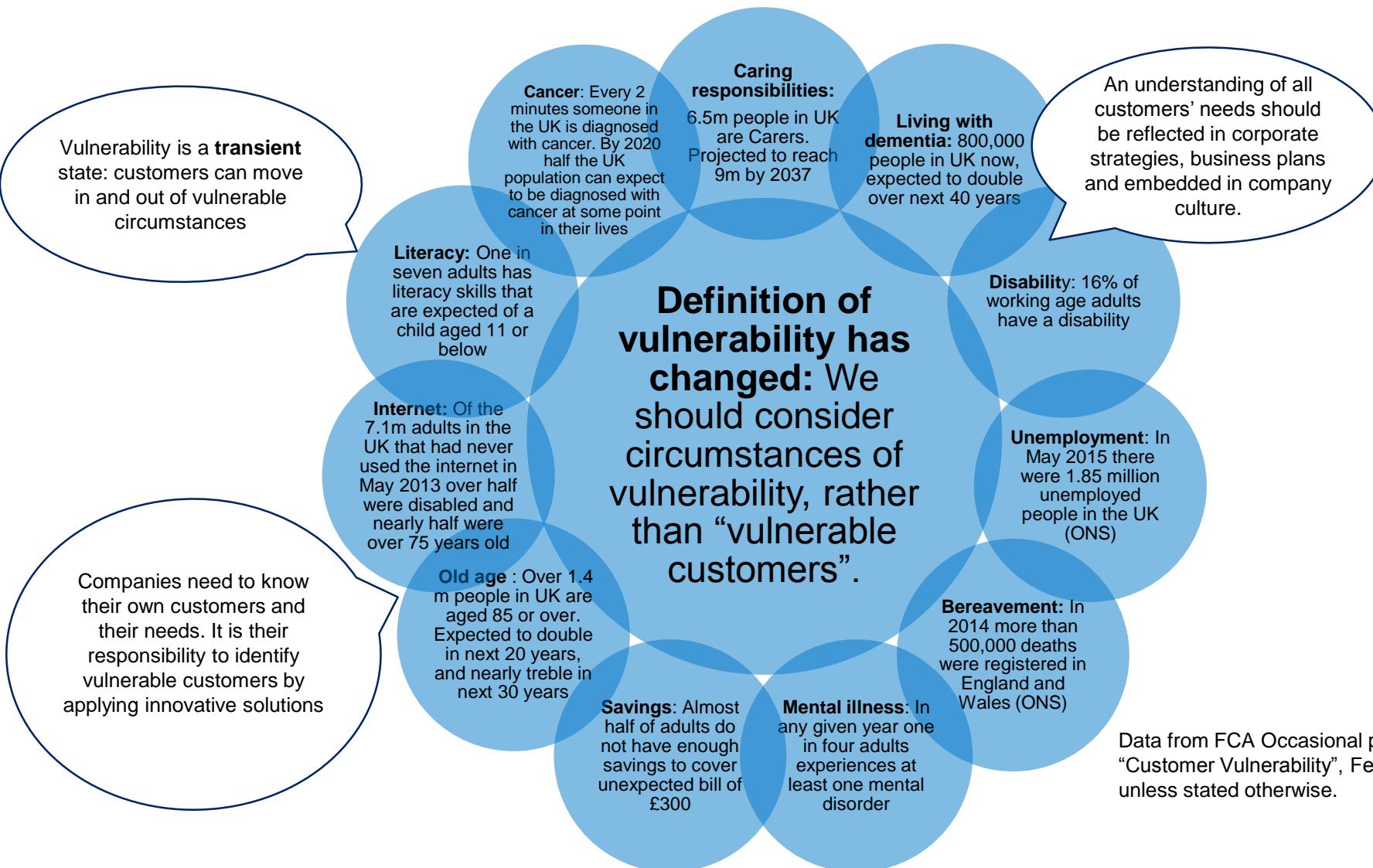
Vulnerability
focus report
February 2016

Focus report aims to:

- Define what vulnerability means for the water sector and companies
- Stimulate interest and debate – first step on a long journey
- Review current vulnerability research and best practice across regulated sectors
- Emphasise importance of companies proactively identifying and engaging with vulnerable customers throughout the 5 year period
- **Set expectations** on which water companies could be challenged in over how they treat vulnerable customers during PR19
- **Propose a framework** for companies to consider vulnerability- overview of the indicators and drivers of vulnerability
- **Practical help** and resources for companies in developing and implementing a vulnerability strategy

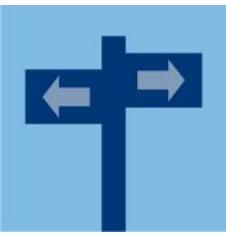
Vulnerability Focus Report: Some initial key findings

Customers in circumstances that make them vulnerable should not be treated as a separate group. Flexible, bespoke and inclusive service arrangements should be part of standard customer service for **ALL** customers .



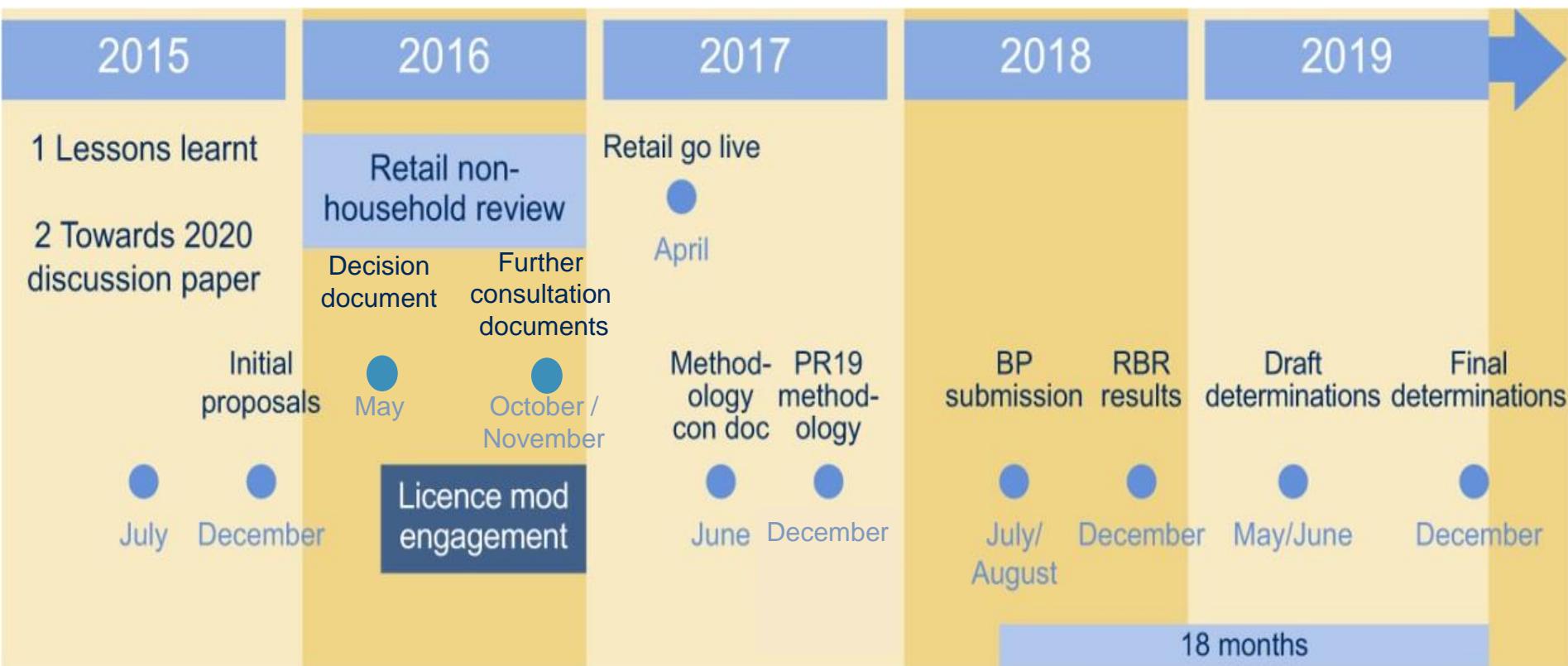
Companies need to know their own customers and their needs. It is their responsibility to identify vulnerable customers by applying innovative solutions

Data from FCA Occasional paper No.8, “Customer Vulnerability”, Feb 2015, unless stated otherwise.



Any questions?

Next Steps



Next meeting – April 2016