



Customer Challenge Group (CCG) chairs meeting

Jon Ashley, Chair

Ofwat's Birmingham office
11 January 2017

Time	Agenda item	Presenter
11.15	Discover Water Dashboard – phase 3	Rob Wesley (Water UK)
11.45	Break	
12.00	Water 2020 update (Cathryn joining from London)	Jon Ashley
13.00	Actions, next meeting, AOB and close	Jon Ashley
13.30	Lunch	
14.00	Valuation techniques - training	Claire Johnstone & Steve Arnold (Environment Agency)
16.00	Close	

Water UK



Discover Water Dashboard – Phase 3

Rob Wesley, Head of Policy

Break



Water 2020 programme update

Jon Ashley

Associate Director, Outcomes and customer engagement

Outcome – Water 2020 licence modification consultation

All 17 companies have accepted our proposed licence modifications – we will now move forward to implement these into each company's licence

These changes implement the policy decisions we made in our May 2016 document, following consultation, on:

- Moving away from RPI to CPI or CPIH
- Introducing markets for water resources and bioresources
- Introducing information remedies to support the new markets
- Allowing in-period adjustments to revenue for ODIs where a company's engagement with its customers supports this approach.

Overall Service Delivery 2015-16

We published the 'Water and wastewater companies' overall service delivery 2015-16 report'

The report provides information to interested stakeholders on the relative performance of the monopoly companies that we regulate. It includes some comparative information on how the companies have performed on certain metrics.

PR16 Final Determination

We published our final determinations for PR16 for business retail default tariffs

PR16 limits what companies can charge business customers on existing tariffs when the retail market opens for competition on 1 April 2017. This is a two year control and applies from 1 April 2017 to 31 March 2019.

2015-16 in-period ODI Final Determinations

We published our final determinations for 2015-16 outcome delivery incentives (ODIs)

Following consultation we made no changes to our draft determinations

- **Severn Trent Water** outperformed its commitments on category 3 pollution incidents by 32%, internal sewer flooding by 21%, external sewer flooding by 7% and leakage by 2% – equivalent to an extra reduction in leakage of 10 million litres per day. This results in a performance reward worth £18.8m.
- **Anglian Water** has performed better than its commitment on leakage by 1.5% – equivalent to saving an extra 3 million litres of water per day. This results in a performance reward of £0.5m.
- **South West Water** will incur a £1.7m penalty for missing commitments, mostly in connection with wastewater pollution incidents

Our early thinking on Affordability for PR19

Incentivising companies to develop plans that their customers can afford and are willing to pay for now and in the long term

Incentivising companies to give the best support and assistance to customers whose bills are a particularly significant proportion of income



And stepping in to protect customers when we need to

Affordability report (December 2015) – companies to own, address and put affordability related issues at the top of their agendas

- Work smarter with trusted organisations
- Use billing systems for information and to secure opportunities to access data
- Training - leadership and culture
- Understand the various welfare reforms, and their impact on customers
- Balance recovering debt, in the interest of all customers, and dealing sensitively with customers who are in financial difficulty
- Keep under review how they promote their social tariff schemes

Customer engagement policy statement (May 2016)

- Evidence from customers should clearly influence a number of aspects of a company's plan including PCs, ODIs as well as the affordability and profiling over time of bills. We expect CCG reports to cover these issues.
- It is essential that companies understand and respond to the distinct needs and requirements of different customers, to think creatively and to learn from each other

Vulnerability report (February 2016)

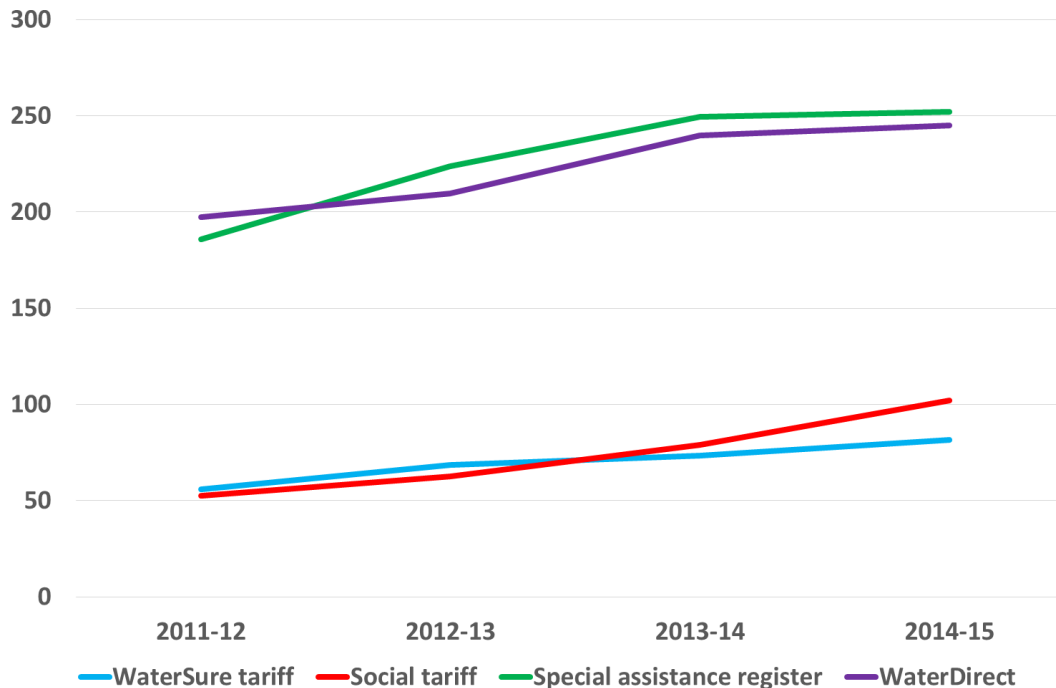
We will consider the particular needs of customers in circumstances that make them vulnerable and make it clear how we have taken this into account in our review of company plans.

We expect to see:

- Enhanced customer engagement and excellent customer service
- Effective use of data - companies to understand their customers and identify those in situations of vulnerability
- Partnership working with other utilities and third party organisations

PR14 headline: 1 million more people will receive assistance through schemes to help them pay their bill by 2020

Average number of customers on measures targeting affordability or vulnerability ('000s)



Note: Some firms have missing data for some schemes: Missing data on WSH for Watersure, missing data on DVW, SRN, SVT, ANH and YKY for Social tariffs, and missing some data for BRL, SES and WSX for WaterDirect

Source: London Economics' analysis of water companies' data submissions for Ofwat's Affordability and Debt report (December 2015)

Recent CCWater findings:

- Overall almost 800,000 customers are receiving help through WaterSure, social tariffs, Water Direct and Special Assistance Registers.
- All 17 companies now offer social tariffs, although two still have to implement them in parts of their areas in 2017
- Currently 130,000 customer on social tariffs but potential for at least 400,000 to be eligible
- Companies operating tariffs differently - eligibility, discount offered and funding
- The industry needs to continue working towards targeted communication with customers who would benefit most from the schemes.



Hard to reach
Data restrictions could 'hide' those in need

Average earnings still below 2008 level

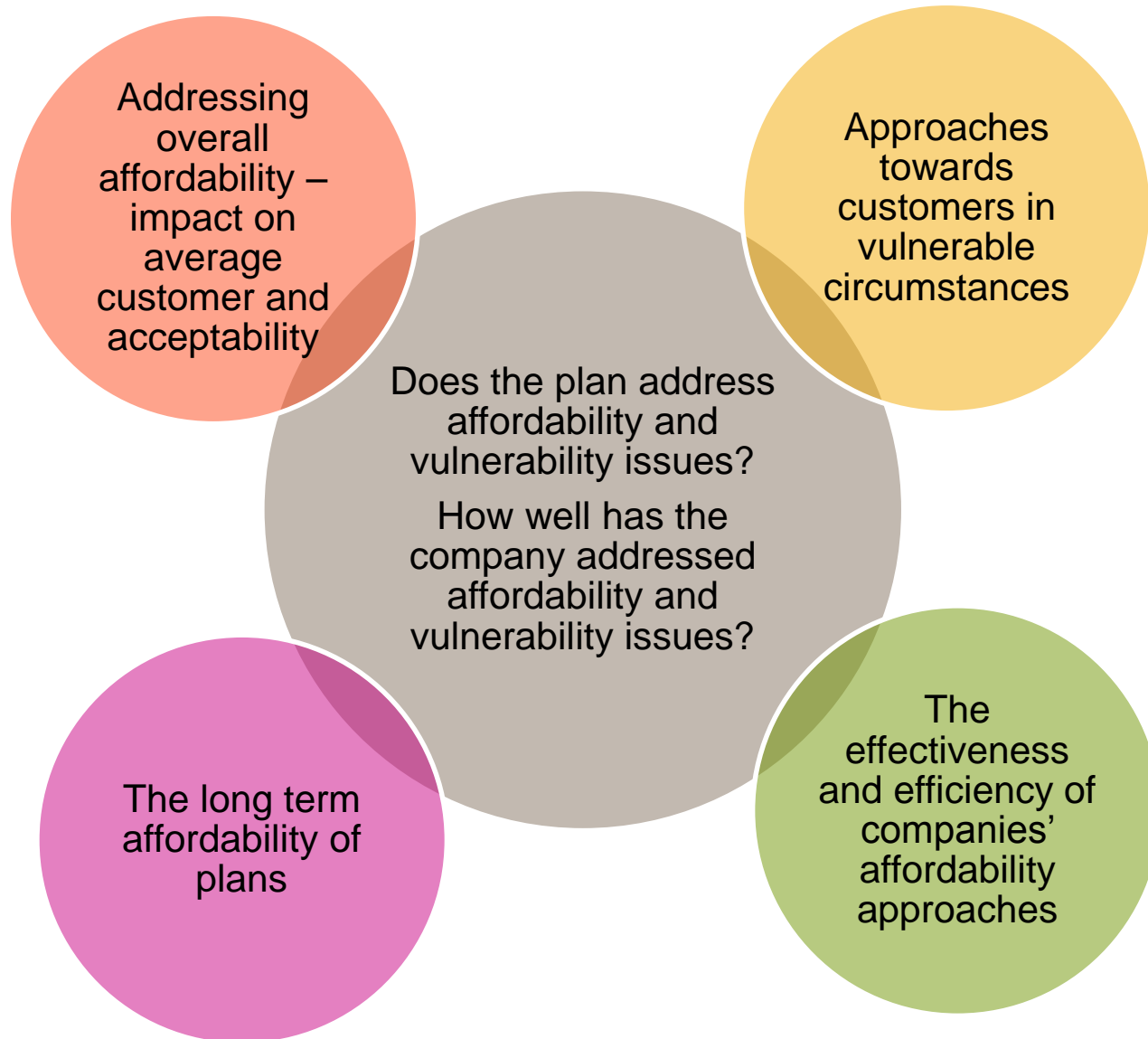
Less face-to-face debt advice
Access of people to credit

Low awareness of eligibility criteria
Inconsistent social tariff schemes

Pressures on individuals

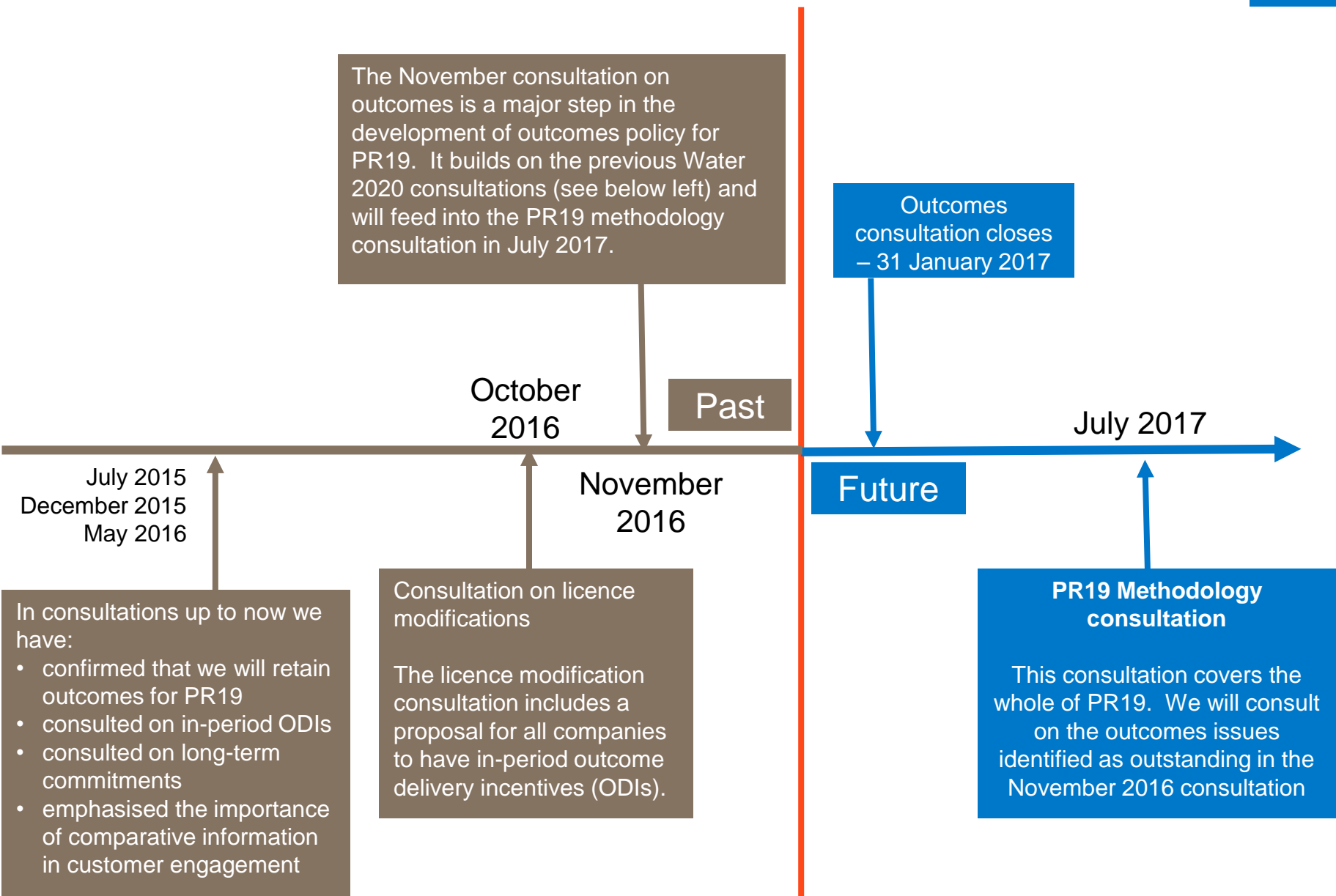
Welfare reform
Growth in private renting

Our 2015 affordability and 2016 vulnerability reports challenged companies to address affordability and vulnerability issues



Recap of the Outcomes Consultation

A reminder: the timeline for the work on outcomes



A reminder: the areas of our consultation proposals we discussed with you

1. Making performance commitments more stretching:

- Making comparative information more easily available to customers and CCGs so that they are empowered to challenge companies' proposed performance commitments.
- Consulting on a set of common PCs which all companies must have and whether these should have standard definitions.
- Considering more stretching targets for common PCs: using the frontier company; using a dynamic approach etc.
- Reviewing the guidance on setting bespoke performance commitments.
- Discussing options for a new common performance commitment on customer experience which will stretch companies to improve their customer service.

2. Making ODIs more powerful

- Discussing the benefits of in-period ODIs and how they might be applied at PR19.
- Discussing approaches for linking a higher proportion of company revenue to service delivery.
- Considering alternative approaches to setting ODI rewards and penalties for PR19 drawing on a wider set of information on customer preferences.
- Considering some of the issues raised by more powerful ODIs such as the need for stretching targets, clear definitions and good quality engagement on the ODIs.

3. Better reflecting resilience in outcomes

- Reiterating the importance our May 2016 customer engagement policy statement attaches to resilience.
- Concluding on our approach to long-term performance commitments.
- Consulting on resilience planning principles for PR19.
- Consulting on options on resilience measures.
- Consulting on asset health expectations for PR19 and whether we should move towards some standardisation of companies' approaches to asset health.

4. Making performance commitments more transparent

- Consulting on some principles for making performance commitments easier to understand
- Consulting on reporting requirements for all sub-measures that underlie performance commitments
- Proposing circumstances when scheme-specific performance commitments (i.e. performance commitments that measure progress against a specific investment scheme) might and might not be appropriate.

How we incorporated your views into our consultation

Points made by CCG chairs at 22 November 2016 workshop

How we responded

1. Explain up front the relationship between outcomes, performance commitments and ODIs.	On pages 4 and 5 of the main consultation document we have explained the relationship between outcomes, performance commitments and ODIs. We have included the diagram that we presented to CCG chairs at the meeting on 12 October 2016 and the workshop on 22 November 2016.
2. Be clearer why stretching performance commitments are good for customers and why they do not just translate into higher bills.	For points 2 and 3 we explain, on pages 6-8 of the main consultation document, how ODI rewards can lead to lower bills for customers. We explain that in the absence of rewards investors would be faced with only downside risk and would require a higher cost of capital which would feed into higher bills. By rebalancing the financial incentives in the price review towards improving service performance (ODIs) we can encourage better service performance with bills lower than would otherwise be the case.
3. Be clearer about the case for rewards and how they can benefit customers.	
4. Strengthen the section on the reputational impact of ODIs.	We have included a section in the main consultation document on enhancing the reputational impact of ODIs (pages 24-25) and expanded it following your comments. We have included some of your suggestions at the workshop on 22 November: making more use of league tables and using a reputational 'prize' for good performance commitments at PR19.
5. Include some examples of resilience metrics so people know what issues you are talking about.	In Appendix 3 on resilience we have included some examples of resilience metrics suggested by our stakeholders (page 16). We have made clear that we are not proposing particular resilience metrics at this stage as we want to await the outcome of various groups working on resilience metrics (details on page 16).
6. Be clearer that asset health is a means to an end rather than a customer-facing outcome.	In Appendix 3 on resilience we recognise that asset health is an input measure helping to deliver the services that customers care about (page 19). We explain that there is a case for asset health outcomes and performance commitments because they give customers confidence that assets are being maintained appropriately for the benefit of current and future generations.

Actions, next meeting, AOB and close

Jon Ashley

Date	Meeting	Action	Owner	Status	Actioned by
12th October 2016	CCG Chairs meeting	Arrange further workshop on outcomes in November	Ofwat	Complete	Gurpreet sent email 27.10.16
		Share the ICS evidence with CCG Chairs	Ofwat	Complete	Gurpreet sent email 27.10.16
		Send extracts to CCGs on their role in relation to retailers from relevant W2020 documents.	Ofwat	Complete	Gurpreet sent email 27.10.16
		Send meeting dates out into diaries of CCG Chairs	Ofwat	Complete	Gurpreet sent 21.10.16 / 05.01.17
		Ofwat to give a view on whether we agree with the DWI's proposed approach to engagement with CCGs.	Ofwat	Complete	Gurpreet sent email 27.10.16

**Are there any comments on the note of
the 12 October 2016 meeting**

**Next Meeting – 12 April 2017
Ofwat London Office**

Main agenda item will be the upcoming Methodology
Consultation

Are there any other agenda items Chairs would like to
include for the meeting?

Any other business?



Additional slides

