

Monday 09th July 2018

10:00 – 15:00

Usk Room, Dwr Cymru Linea Offices, Fortran Road, St.Mellons, CF3 OLT

Attendees:

Peter Davies (Chair), Craig Anderson, Mari Arthur (Cynnal Cymru), Duncan McCombie (Yes Energy Solutions), Geraint Weber (Natural Resources Wales), Matthew Williams (FSB), Bethan Harvey (Cynnal Cymru: Secretariat), Richard Garner Williams, Lia Moutselo (CC Water), Lee Gonzalez (CC Water), Daniel Davies (Dŵr Cymru), Mike Davis (Dŵr Cymru), Anna Riddick (Dŵr Cymru), Charlotte Pointon (Dŵr Cymru), Ian Christie (Dŵr Cymru)

Apologies:

Rachel Lewis-Davies, Dimitrios Xenias

Welcome and Introductions

The chair welcomed all to the meeting with special reference to Professor Tom Crick as Dŵr Cymru's newest board member.

Upcoming meetings involved PD attending the NRW Board Meeting and MA attending the CCG Chair's meeting in PD's place. It was also noted that PD would attend the Welsh Government PR19 Forum.

Acceptability Research Results – Paper 1

Headline outcomes from the paper were that 80% of uninformed customers surveyed found it acceptable/very acceptable whereas that figure went up to 92% when participants were informed.

Affordability figures that are to be reported to Ofwat are 95% of all customers surveyed found the bill affordable but 30% say they would find it "a stretch".

These are strong levels of acceptability and affordability above the benchmarks set by CCW. It is difficult to compare with PR14 results due to different process but DCWW feel that the results reflect the fact that the plan has been built up from the engagement process.

CC Water raised two issues on the matter of the acceptability research:

1. That they need access to information from PR14 so that they can compare the results with the PR19 results. However it was accepted that the results are not directly comparable due to differing survey design.
2. The lack of a question on ODIs in the acceptability survey could have impacted the overall acceptability result and perhaps making it more favourable than it would be if such a question was included.

DCWW's position:

- We tested a question on ODIs in the pilot testing survey. Customers did not understand it. The answers to this question would not be meaningful.

- Including a question on ODIs therefore risks ‘contaminating’ the quality of the answers to the wider survey.
- The likely impact of ODIs on bills is most likely to be very small (less than £5 a year) so the actual impact on customers (and hence in principle of the acceptability of what we do) is minimal.

Action:

- It was agreed that the CCG would have sight of qualitative feedback on ODIs and that ODI specific research that had been previously discussed.
- A profile was required on the 30% of people that would find the bill a stretch - early feedback suggested that it would be those eligible for support.

Community Hub Work is a new process used to find community voices by taking surveys to them. This reduces the intensity of a 1-1 visit or having to complete an online survey. There were 6 hubs in communities across Wales, with demographic quotas being set.

Non-household customers were included in the research and their acceptability numbers were higher than that of general households. Businesses of 0-5 employees will often face the same difficulties as a household customer.

Action: AR to circulate break-down of the research into household/and non-household according to size/turnover/staff.

Demand Management – Ian Christie

Chair gave thanks to Ian Christie for his attendance during a busy time dealing with the effects of the heatwave. Demand management had been emphasised by CCG as a key priority for the CCG given the multiple benefits and opportunity for customer participation, so very important opportunity to clarify on plans.

IC presented his slides (circulated) setting out the different dimensions of demand management. The new strategy will represent a shift from the focus on reactive response to leakage within the supply system (which due to the high pressure and age of the infrastructure can lead to further problems), to a proactive focus on reducing customer-side leakage, where evidence indicates significant water loss. New technology allows for cost effective measurement of customer side loss which identifies small levels of losses not measured through metering.

The planned “Cartref” programme will address customer-side leakage in high loss areas and provide opportunity to work with customers in use reduction as well as identifying need for lead pipe replacements.

The CCG welcomed this strong focus on demand management and the plans for a different innovative approach the discussion highlighted:

- The need for significant customer engagement if the programme is to be successful as customers will need to allow access to the property.
- The importance of developing appropriate employee skills.

- The nature of the relationship with local plumbers (although it was clarified that this would be work not otherwise likely to be identified or repaired).
- The great opportunity for addressing leakage and consumption to deliver real reductions to per capita consumption.

Action: Prioritise as a focus for CCG scrutiny and support going forward; CCG to be kept updated on progress of the pilot.

Social Tariffs Strategy - Paper 2

Mike Davis presented the paper on the future of the social tariff strategy. The PR19 plan will include targets for social tariff support but the detailed delivery plan will be subject to further development and consultation. The CCG has provided a response to the draft strategy for customers in vulnerable circumstances which sets the overall strategy.

The context for the redesign of the delivery of the social tariff strategy:

- The evidence shows there could be up to 400,000 eligible under current criteria.
- Customer research indicates insufficient customer support to increase the level of the cross subsidy.
- The company will have limited scope to increase its contribution from its financial surplus in AMP7 (Ofwat has cut the cost of capital).
- The PR19 plan includes an increase from current levels of support 100,000 to 140,000 customers.
- The evidence from current distribution shows that take up does not necessarily meet those in most need.
- In summary total spend on support will increase, numbers supported will increase but there is a need to redesign the scheme to be better targeted rather than simply carry on and cap when the money runs out.

The CCG accepted the analysis of the situation and agreed that something must be done differently in order to respond.

The company are developing the timescale and will pursue a participative process with stakeholders and vulnerable customers.

CCG comments included:

- Lessons from Rhondda Fach pilot on need for better targeting of those most in need.
- Concern that an area-based model would have limitations as there are distributed issues, especially in rural locations.
- DCWW need to have a bigger part to play in a multi-agency approach but accept that things cannot be put on hold waiting for such an approach to develop.
- Importance of long-term trends such as an increase in rented properties, multiple occupants and homelessness.
- Focus on staff training to be provide responses tailored to customer circumstances – eg metering solution.

- Information on levels of default on HelpU.
- Need for greater interaction with customers and tracking to take account of changed financial circumstances.
- Need for sensitivity to perception that the company was reducing help for most financially vulnerable.
- Importance of directly involving customer base and those who find the bill a stretch on the re-design of the tariffs.

Action:

- Company response to the CCG paper on customers in vulnerable circumstances to be circulated this week.
- Engagement of CCG in design workshops planned for the autumn.

Vulnerable Customers Conference DM Update

DM shared themes from the recent conference that vulnerability is more than just financial, it can be transient, especially with higher numbers of people in the rental sector. Vulnerable customers account for 12% of the population but this is only considering the bill-payer and not others that may be vulnerable under the same roof.

Reference was made to the Stronger Together Conference and the sharing of data with other utilities (and possibly wider agencies) to ensure that vulnerable customers are assisted in all areas of their bill. This may present issues with multi-organisational data laws but organisations such as Data Cymru can explore how local authorities may be better prepared.

It was agreed that more needs to be done to link health and energy efficiency in order to encourage data sharing practices to benefit vulnerable customers and their utilities.

Categorisation and Quantification of Rewards and Penalties (ODI) – Paper 4

This paper set out how proposals on ODIs will be applied against the Measures of Success (MoS) within the Business Plan.

The CCG has previously discussed the principle of the ODIs and customer research which highlighted the difficulty customers have in engaging on the issue particularly in the context of the not for profit status, but customers are clear that there should be penalties for poor performance against their expectations of a quality service and that the incentives should reflect performance well beyond customer expectations and which would be recognised as such by customers.

The CCG had been supportive of the general approach presented in the March 2018 meeting with proposals for a Water Share scheme and a weighting more towards penalties than rewards towards the lower end of the proposed Ofwat range.

Ofwat methodology indicates that they expect companies to engage with customers on the design of their rewards and penalties. Ofwat's default position is that each MoS should have a financial reward or penalty unless an explanation is issued as to why. Reviews should be in-period and not end-of-period with changes to bills being made apparent as soon as practically possible.

The company's position was that it is difficult to engage with customers on the detailed design of the application of the ODIs due to the complexity of the concept. However, the company did take some useful information from the customer focus groups which has influenced the approach and design of the ODIs scheme.

The company set out in its presentation the reason why selected Measures of Success will not have ODIs attached.

For the Measures of Success that will have the ODIs (penalties or rewards) attached, the presentation set out proposals for them to be categorised into three levels reflecting customer priorities with higher levels of reward/penalty for the performance issues of most concern. The level of rewards/penalties for each category (high/medium/low) is linked to the willingness to pay for the related Measures of Success. One exception is the flagship 'Trust' measure, which has the highest reward/penalty level, linked to the Ofwat level of penalties/rewards for the customer service measure.

The probability of the range of potential impacts of ODIs on customer bills was modelled as a 10% probability that average household bill will be £15 lower due to penalties; 10% probability that the average household bill will be £10 higher (£5 with WaterShare) due to rewards. The 'central' case with 50% probability is that the average household bill will be £2.50 lower.

In respect to the discussion on the proposals for implementing the ODIs, while there were a range of comments, the CCG:

- Recognised the challenge of engaging customers in the process but CCW registered the point that they felt that ODIs should have been included in bill acceptability testing.
- Acknowledged that the proposals for allocation, size and distribution across measures of rewards and penalties were consistent with customer priorities and valuations.
- Reinforced previous agreement to the pitching of the ODIs at the lower end of the Ofwat range.
- Were reassured on the potential of low impact on variation in customer bills given evidence of customer concerns on keeping volatility in bills to a minimum.
- Commented on the correlations between the different ODIs for example failing on pollution incidents would lead to an increase in complaints.
- Stressed the importance of building the informed customer base and communicating the application of ODIs in practice going forward.

- Needed to ensure that performance targets were stretching so that over performance would justify incentives.
- Repeated previous concerns in respect to the principle of ODIs, particularly as applied to the not for profit status.

Performance Commitments against baselines

CCG have a responsibility to ensure that the performance commitments are stretching and based against a realistic assessment of 19/20 performance. The CCG had received historic performance and estimated 17/18 figures in the March meetings. The paper presented updated actual figures for 19/20.

Action – DCWW to provide a summary of where there had been significant variation in the figures previously presented.

PD has prepared and previously circulated a summary CCG commentary on the Performance Commitments. NRW stressed that they would want to ensure that environmental measures were be ambitious.

Action - CCG to review Performance commitment paper.

Financial Resilience

Mike Davis presented the paper on financial resilience as an important element of “resilience in the round” with a significant implications of costs to customers.

DCWW currently have the highest credit rating of any utility company in the UK.

It was noted that Moody's rating agency have downgraded the regulatory regime in the UK which underpins the rating of the whole sector. There are likely to be downgrading of ratings across the sector as a result of the changes in the Ofwat methodology.

The “pay as you go” ratio represents the balance of cost recovery from current and future generations, with current customers paying for current operational running costs (including maintenance). While improvements are funded through investments that will be paid by customers over time as the benefits for customers will last over a long time.

CCG Private Session

August 14th would be the final date for CCG to meet and agree the PR19 report, with the deadline of submission to Ofwat on September 3rd.

The drafting work-to-date had been circulated including:

- Proposed structure: introduction, executive summary, how CCG operates, operating context, customer engagement process, performance commitments and MoSs,

Ofwat themes, outcome delivery incentives, achieving a balanced plan x2, CCG next steps, appendices.

- Key points for Executive Summary (rough draft).
- Timeline 2015 – present day (appendix for report).
- Review of Performance commitments.
- Company response to the CCG strategic challenges set to the DCWW Board in May 2017.

The purpose of the report is to fulfil CCG key functions on the quality of engagement and the way it had been reflected in the business plan. It was not for the CCG to endorse or reject the DCWW business plan.

The report will need to cover all elements in the Ofwat 'Aide Memoire' and clearly signpost in the summary.

The CCG discussed issues in respect to the structure and narrative of the customer engagement process and interaction with the CCG which was highlighted in Dimitrios Xenias' report and will need to be reflected in the final report.

NEP (National Environment Plan) update – 4th version still in production, to be finished within the next week for NRW (Natural Resources Wales), it's about working in catchments, behaviour change with customers and working with nature to do things differently. NRW feel the company needs to demonstrate more ambition and leadership beyond the areas where they have direct control.

Next steps

Action – CCG to respond within next week to:

- Performance Measures commentary
- Strategic Challenge response from the company

PD to subsequently circulate draft sections of the report for comment – with final drafting meeting on August 14th.