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Chapter 1
Introduction from Chair of the Customer Challenge Group

I am pleased to introduce the report of the independent Dŵr Cymru Welsh Water Customer Challenge Group on the Company’s PR19 business plan.

Our key role as a Customer Challenge Group (CCG) is to ensure that customers are involved in the business planning and their views clearly drive decision making, fulfilling the Ofwat vision of “putting current and future customers at the heart of the way water companies run their business”.

The CCG is not intended to represent customers directly; it is an independent group, bringing together a range of expertise and networks that can work independently to challenge that the Company to produce a business plan that meets the needs of all customers. It has a particular responsibility to ensure these plans reflect the needs of vulnerable customers, who find it most difficult for their voice to be heard, the range of non-household customers, as well as future generations of customers who do not yet have a voice, but whose needs will be met by decisions the Company takes today.

Dŵr Cymru Welsh Water is rightly proud of its distinctive not-for-profit model. There is evidence indicating that customer trust increases with awareness of the not-for-profit status of the Company. This means there is the basis for a different relationship with customers than that of the other water companies in England and Wales, but one which is also based on high expectations of service and performance.

Over the last two years the Customer Challenge Group has worked to ensure that the Company appropriately reflects customer interests in the business plan proposals that form the submission to Ofwat’s 2019 Price Review. This has involved overseeing detailed customer research, drawing from the range of customer day-to-day interactions with the Company and ensuring that we learn from best practice from other companies and sectors.

The report highlights that this has not always been a straightforward process given the scale of the activity and we have been clear that in some cases we were not able to comment on the detail. I want to pay tribute to the voluntary contribution of the skilled and knowledgeable members of the CCG over that period. This report gives an indication of the scale of the demands on the CCG in covering the complexities of the PR19 process and responding to an ambitious programme of customer engagement initiated by the Company.

I also want to acknowledge the positive working relationship with the range of Dŵr Cymru staff who have engaged with the CCG, and in particular acknowledge the close working relationship with the Dŵr Cymru Board. I had opportunity to present to the Board on five occasions and, in addition, non-executive Board members attended three separate CCG sessions. The Chairman and the Board have taken the contribution of the CCG very seriously in their consideration of the business plan and it has been encouraging to hear the Board

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reflect on the changes that they had seen take place through the process, influenced by the customer research and the independent role of the CCG.

As Chair I have wanted to develop an innovative and iterative role for the CCG in its relations with the Company, keeping a sense of challenge as the focus, while enabling greater coproduction with customers and stakeholders. There has been a lot of learning through the process as we have had to adapt to the increasing demands of the role. The appointment of Cynnal Cymru as an independent secretariat was an important step in improving the process, while commissioning CCG member Dr Dimitrios Xenias to undertake a detailed review of the customer research provided us with valuable assurance and recommendations for improvements.

As Chair I wanted to establish a more dynamic method of recording the work of the group, which could cope with the extent of input required and constraints with members’ time. We adopted an online tool, Trello, in October 2017 with the aim of providing an innovative platform to support the independence and coproduction approach. This has enabled all materials to be visible, for all CCG members to directly comment and contribute to the process without censorship and at any time.

The CCG has also benefited from the expert contributions from the Consumer Council for Water (CCWater), Natural Resources Wales (NRW) and the Environment Agency (EA). The CCG’s discussions were also informed by CCWater’s bilateral meetings with the Company, which often helped to progress response to ongoing detailed questions. The environmental regulators have set out their views in respect of the National Environment Programme and the environmental ambition for the business plan in their respective annexes to our report.

It is not the role of the CCG to endorse the Company business plan, but I believe this report provides Ofwat with an independent view of the approach Dŵr Cymru have taken to understanding customer views and using them to drive business planning. This though is not the end point but the starting point for the CCG, in working to ensure the Company meets and exceeds the expectations of customers in delivering a sustainable and locally responsive plan.

Peter Davies
Dŵr Cymru Welsh Water Customer Challenge Group Chair
Chapter 2
Executive Summary

1. There has been a step-change in the Company’s customer involvement activities compared to PR14, with 30 pieces of research engaging over 40,000 customers with 9,000 participating in formal research that has contributed to the formation of the business plan. The CCG recognises this step-change in customer engagement from PR14 and that this body of research, along with other sources of customer evidence, has provided the basis for building the business plan. The PR19 Business Plan has been influenced by the views of customers throughout its development – as opposed to have been developed by the Company and then amended by consultation.

2. The Company set out with the aim to build the plan from bottom up with an understanding of customer priorities shaping the design of the draft plan, which was then the basis of acceptability testing with customers. The final acceptability research indicates high levels of support from customers with 80% uninformed and 92% informed accepting of the plans. The acceptability research also shows 81% of customers felt it was good value for money.

3. The CCG recognises the importance of the work that the Company has done in attempting to take a long term view through the ‘Welsh Water 2050’ plan. This plan was developed by the Company with expert input and extensive customer engagement through consultation, resulting in changes to the strategic responses in the final plan. The 2050 plan provides the context for the PR19 plan and the CCG believes it is important that the Company demonstrates how the plan will deliver Welsh Water 2050 without placing undue burdens on future generations.

4. The Customer Challenge Group’s six strategic challenges presented to the Board in May 2017 set out the evidence the CCG would expect to see in ensuring an effective process for customer engagement in the development of the business plan. These challenges reflected the Ofwat best practice guidance and the specific context of business operations in Wales. The Company has responded to these challenges in the development of the business plan as summarised in Appendix 01 ‘Company Responses to Strategic Challenges’. The CCG wants to ensure the Company applies this framework in delivering the PR19 business plan to build a more informed and involved customer base.

5. The responses to the strategic challenges demonstrate that the Company has applied a range of research approaches and innovative techniques, as well as drawing on in-house data. The CCG commissioned Dr Dimitrios Xenias, a CCG member, to undertake an independent ‘Customer Research Assurance Report’ (Appendix 02). This report indicated that the Company had broadened the research scope, expanded the range of methods applied and the breadth of available data. The
report highlighted areas for improvement but concluded that “the Company has been successful in securing an understanding of the views of its customer base from the phase 1 research and triangulation process”\(^2\). The CCG supports this finding and agrees that the Company has been successful in securing an understanding of the views of the customer base.

6. The CCG did raise challenges over elements of the process in this phase of building the business plan, which were highlighted in the ‘Research Assurance Report’. These concerns are outlined in more detail in the report, with Company responses in Appendix 3, but can be summarised as the:
   a) challenges for the CCG in responding to the scale and timelines of the research programme reducing opportunities for co-design.
   b) complexities with the initial triangulation process, which while comprehensive, was complicated.
   c) nature of the Willingness to Pay methodology despite the improvements from the PR14 process.
   d) need for a clearer narrative to provide an overview of the process to demonstrate how the individual elements of the research stages contributed to the big picture.
   e) lack of clarity in the process by which the evidence base was being assimilated and applied to the decision making.
These last two points related to the desire of the CCG to see a clear ‘golden thread’ in the narrative between the evidence base, the measures of success and the Welsh Water 2050 objectives. This was a strong and consistent challenge from the CCG throughout the ongoing process of building the business plan from the customer evidence base. The final PR19 submission from the Company includes documentation which demonstrates how customer evidence was applied to decision making in the formation of the business plan.

7. The customer evidence base was used to establish the Measures of Success for the business plan using a triangulation process which drew on a range of evidence to establish a view of customer priorities. The second phase involved the application of the triangulation process to the evidence base to establish the targets or performance commitments against each measure. The CCG did provide challenge to this process but agrees that the measures as a whole do provide an effective performance framework that reflects customer priorities. Specific key points on which the CCG engaged with the Company in this process are set out below:
   (a) The Company set out 45 measures of success, (subsequently amended following Ofwat feedback to 47) which was initially challenged by the CCG as being too many measures. It was further reviewed by the CCG and agreed that all measures were relevant to provide for a comprehensive business plan.

\(^2\) Appendix 02 Research Assurance Report (page 4)
(b) The application of the Willingness to Pay methodology to the establishment of the performance commitment, with the concerns being acknowledged by the company which applied a wider range of sources of data to the process of target setting.

(c) While the CCG accepts that these measures provide an effective performance framework, it has stressed that some of the high-level measures may not be sufficient on their own, as they provide a quantitative figure which may not reflect the qualitative impact that is desired. For example, affordability and vulnerability related metrics will need to be supplemented by regular monitoring on the quality of assistance provided according to customer views; the Company has agreed to report on this qualitative element of this measure in a separate report.

(d) The CCG challenged the ambition of the performance commitments, particularly on priority measures of success for customers. The CCG stressed the need for a clear line-of-sight between the Welsh Water 2050 plan and the progress represented through the performance commitments in the PR19 plan. The CCG questioned whether enough of a start was being made in the key areas of water supply interruptions, per capita reduction levels, leakage, customer acceptability of water quality, pollution incidents, kms of rivers improved and lead pipe replacement. The CCG review of the Performance Commitments is summarised in Chapter 6: Measures of Success.

8 The CCG accepts that while it encourages the Company to be ambitious across a range of measures this must be balanced against the evidence which shows the high level of financial vulnerability within the customer base in Wales. This needs to be fully recognised within the business plan, and its delivery, both in terms of affordability and other support for those who find it difficult to pay. The CCG supports passing through the reduction in cost of capital to reduce customer bills. In the acceptability testing 95% of customers considered the plan to be affordable, although 30% thought that it would be ‘a stretch’. This though is dependent on the Company keeping operating costs down, supporting vulnerable customers while clearly communicating with customers to keep them informed and engaged in the work it needs to undertake for customers.

9 The customer research indicates that while affordability is an issue, bill reduction is not an overriding concern for most customers who support investment for the long term. The CCG notes that the Company intends to drive efficiency savings to deliver an increase in its investment plans for the next AMP. The options testing phase of the Acceptability Research did indicate that a small majority of customers were in favour of a smaller bill reduction to allow for extra investment. The CCG felt that this was not a strong enough mandate for the Company to proceed with the additional options in the business plan and the associated additional cost on the customer bill. The CCG welcomed the compromise of including the top priority extra investments in the plan while keeping the proposed level of bill reduction.
10 The issue of support for customers in vulnerable circumstances has been a key focus as set out in the CCG challenge to the Company’s draft strategy. The Company’s commitment to increase engagement with Priority Service customers, from 2% to 8% in-line with the current energy sector benchmark, is welcome, but the CCG notes that Ofgem are seeking the energy sector to offer a far higher level of engagement in servicing various degrees of vulnerability. The CCG stressed the need for the Company to consider a holistic cross-sector, community-focused approach to enable customer participation and has put particular significance on the Water Resilient Community pilot in Rhondda Fach. The CCG supports the adoption of the Water Resilient Communities project as a mainstream approach within the business plan. We encourage the Company to go beyond the minimum number of five communities in five years, to ensure the wider application of learning across the business operations and to extend the collaboration with other companies.

11 The CCG welcomes the Company’s commitment to continue to increase the number of customers supported through assistance schemes, given the number of low income customers in Wales. However, it has asked for consistency in reporting against the target of 148,000, distinguishing between the targets for the HelpU social tariff and the WaterSure Wales assistance. The CCG welcomes the continued ambition but notes that the most recent customer research did not demonstrate enough support to justify an increase in social tariffs cross-subsidy on bills beyond current levels. This result, along with the high potential numbers of eligible customers, the Company’s view on the likely reductions in profits to return to customers and evidence of the need for better targeting, indicates that a new approach in the Company’s assistance package going forward is required. The Company committed to working with the CCG to further develop the new affordability and vulnerability strategies in the autumn of 2018.

12 Ofwat were clear in their methodology that they expect companies to engage with customers on the design of their rewards and penalties. The Company did not include reference to ODIs in its final quantitative acceptability testing of the business plan. This was an issue raised through the CCG by the Consumer Council for Water, who felt that there was opportunity for the Company to find an effective way of engaging customers on the impact of ODIs in the quantitative research. The Company undertook qualitative research on the application of ODIs of the acceptability testing, which influenced the design of the proposed ODI model. This research indicated only limited support for ODIs but also highlighted the difficulty of engaging customers on the detailed design of the ODI scheme, not least in that customers are confused as to its application in the not-for-profit model.

13 The Company should ensure that there is a transparent approach to the application of the ODIs to ensure customers understand how the rewards and penalties are being applied. While recognising that the final quantitative acceptability testing research did not include a discussion on the potential impact of ODIs on bills, a key concern for
CCWater, the CCG supported the approach the Company is proposing for ODIs, as consistent with customer views from the qualitative research that took place on ODIs which are: a greater focus on penalties; prioritisation across the measures which are important to customers; the application at the lower end of the range to minimise volatility and retain customer confidence; the plans for returning any net reward to benefit customers through a Water Share scheme.

14 The CCG is pleased that the Company responded to its challenges to focus on Non-Household customers in Wales. In particular we note that the Company has incorporated a Non-Household Customer Experience Measure (B-Mex) which will replicate the Household customer C-Mex in Wales. In the context of no option for those customers to swap suppliers we think this is an important measure to include in the Company’s performance measure suite.

15 Customers and stakeholders have high expectations of the Company’s contribution to environmental improvements. The scale of ambition for environmental improvement and the degree to which that can be achieved in the PR19 business plan has been the focus for negotiations with Natural Resources Wales (NRW) and the Environment Agency (EA) in agreeing the National Environment Programme. Neither the CCG nor the Independent Environment Advisory Panel\(^3\) were engaged in this process as it related to statutory obligations. The NRW and EA annexes set out their views on the Company’s proposals for the delivery of the National Environment Programme and the wider environmental ambitions for the business plan. The CCG supports the importance placed on "avoiding storing up problems for future generations", but believes that proposals for phasing the NEP can potentially lead to better value for money outcomes for customers and supports Welsh Government’s encouragement for the Company to seek out opportunities through alternative ways of working to identify different approaches to deliver environmental improvements in order to deliver value for money for customers, today and in the future.

16 The CCG has been supportive of the importance of initiatives such as ‘RainScape’ and investment in catchment management schemes, which provide opportunity for customer participation. Customers support nature-based approaches and there is strong commitment across stakeholders to develop catchment management schemes. This is an area where the CCG expects strong leadership and ambition from the Company in embedding this approach as core to the business operation. The commitment to the application of the principles of the sustainable management of natural resources as required through the Environment (Wales) Act provides the opportunity to demonstrate innovative models of working with customers and stakeholders alike. This is reflected in the Company’s agreement to deliver on the

principles set out in the ‘Blueprint for the 2019 Price Review in Wales’\(^4\) issued by the NGO umbrella organisation, Wales Environment Link, who are represented on the CCG.

17 It is important to recognise that the Dŵr Cymru not-for-profit business model provides the foundation for a much stronger and trusting relationship with customers who ‘have their say’ in how the return of value is distributed. The CCG will want to ensure that the Company uses this relationship to deliver leading practice in customer participation and coproduction in the delivery of the business plan.

18 The CCG has worked closely with Welsh Government through its PR19 Forum to ensure that the business plan reflects the legislative framework and the priorities set out in the devolved Government’s ‘Water Strategy’\(^5\) and the ‘PR19 Strategic Priorities and Objectives Statement’\(^6\). The Welsh Water 2050 plan has been based on the frameworks of the Well-being of Future Generations\(^7\) and Environment (Wales)\(^8\) Acts and the CCG would expect progress against the business plan to be reported against this framework demonstrating its contribution to the achievement of the national well-being goals.

**In summary**

This report demonstrates the scale of engagement the CCG has had with the Company throughout the process of developing the plan. The plan has been influenced by customers and the contribution of the CCG throughout its development.

It is the CCG’s view that the Company has been successful in securing an understanding of the representative views of its customer base, and that this evidence has been used to develop the performance commitments and customer bills in the business plan. The final acceptability testing demonstrates strong support for the plan that meets customers’ expectations, representing improved value for money.

The CCG’s push for ambition in the plan recognised the necessary balance between addressing the affordability needs of the customer base in Wales and the need to make progress against the ambitions of Welsh Water 2050, in line with customers’ expectations. The plan sets out to deliver a reduction in bills and increased investment levels with stretching efficiency targets to keep costs low. The CCG will continue to challenge the Company to be ambitious through innovation and the participation of customers in delivering solutions.

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\(^4\) [http://www.waleslink.org/sites/default/files/blueprint_for_the_2019_price_review_in_wales.pdf](http://www.waleslink.org/sites/default/files/blueprint_for_the_2019_price_review_in_wales.pdf)
\(^7\) [https://gov.wales/topics/people-and-communities/people/future-generations-act/?lang=en](https://gov.wales/topics/people-and-communities/people/future-generations-act/?lang=en)
Chapter 3
Dŵr Cymru Welsh Water Customer Challenge Group

Helping to ensure that current and future customers are at the heart of the way Dŵr Cymru Welsh Water operates.

The Customer Challenge Group (CCG) provides independent challenge, scrutiny and advice on the:

- quality of the Company’s customer engagement and involvement.
- extent to which the results of this engagement drive the Company’s decision making, business planning and operations.
- the return of value to customers from the not-for-profit model

The membership and role of the group was reviewed following the PR14 process, with the recruitment and appointment of a new Chair through the independent process used by the Company to appoint Glas Cymru members. Peter Davies took up role as the independent Chair in February 2016, leading a refresh of the terms of reference and membership. The terms of reference and membership of the CCG are set out in Appendix 04.

Over the past 32 months, the CCG has met 17 times and engaged from the outset of the PR19 process, with the proposals for customer research plans being discussed in the first meeting under the new Chair in March 2016. CCG engagement is summarised in the timeline set out in Appendix 05 with the details being reflected in relevant sections in this report.

The membership has drawn on the expertise and networks of key agencies:

- Consumer Council for Water
- Natural Resources Wales
- Environment Agency
- specialist research expertise at Cardiff University.

Cross-sector representation from Warm Wales and YES Energy.
Key stakeholders from NFU-Cymru and the Federation of Small Businesses.

Voluntary groups representing vulnerable customers and the environment:

- MoneyLine UK
- Citizens Advice Bureau
- Age Cymru
- Wales Environment Link
- Cynnal Cymru.

The group has also benefited from the work of the Dŵr Cymru’s Independent Environment Advisory Group9 (IEAP) with its chair Professor Steve Ormerod being a member of the CCG.

In addition, the CCG has also been able to draw on a range of other expertise through the contribution of representatives from the Wales Council for Voluntary Action, Legal & General, Participation Cymru, CBI and the Bevan Foundation.

Members of the CCG have contributed their time, knowledge and significant experience, on a voluntary basis.

The secretariat for the CCG was provided by Dŵr Cymru from March 2016 to September 2017, at which point Cynnal Cymru, the sustainable development charity for Wales, were appointed to provide an independent secretariat reporting to the Chair. This move was designed to strengthen the independence and capacity of the CCG to be respond to Company requests, work proactively on priority areas, and provide robust and timely follow up. The independent secretariat has also facilitated the production of this CCG report.

In the latter stages of the process the CCG adopted the Trello online platform (Appendix 06) to deliver these elements, coordinated through Cynnal Cymru. The minutes and reports from the CCG are also made publicly available on the Cynnal Cymru website.

The CCG has been attended by all three executive Dŵr Cymru Directors, the Managing Directors of the three main business units, and the CEO also attended four meetings. Three Dŵr Cymru Non-executive Board members have also attended CCG meetings. The CCG Chair has presented at five Dŵr Cymru Board meetings as well as contributing keynote presentations to two Dŵr Cymru Leadership conferences and the Innovation conference (see Appendix 05 for the full timeline).

There has been regular and open correspondence with the Company summarising key points from the CCG meetings, along with reports and updates for the Board, and CCG reports on specific issues. These are referred to in the CCG timeline, along with the Company responses. The CCG Chair was keen to establish a constructive and iterative process, but it should be noted that CCWater felt that the Challenge Log would have been useful in the process, particularly as the Trello platform was introduced in the latter stages.

The key documents from the CCG include:

- CCG Report to the Board May 2017 (Appendix 07), summarising the key issues raised by the CCG over the previous 12 months and introduced the key strategic challenges
- CCG Report to the Board September 2017 (Appendix 08)
- CCG Research Assurance Report of the customer engagement process March 2018 (Appendix 02)
- CCG response to Draft Vulnerable Customer Strategy April 2018 (Appendix 17)

The Company set out to engage the CCG from the outset of the PR19 customer engagement process in a transparent and open manner. The late engagement of the CCG in the PR14 process was identified as a weakness, although the early engagement with the reformed CCG also had challenges in the readiness of the group to engage effectively. Similarly, the increased scale and scope of the customer research, initiated by the Company in PR19, along with tight turnaround times, provided challenges in respect of the nature of the detailed comments of the customer research process required by voluntary group members.
As a result, CCG member Dr Dimitrios Xenias from Cardiff University was commissioned by the CCG Chair to review Phase 1 of the research process on behalf of the CCG to provide the necessary assurance for Ofwat and an additional level of expert rigor for the CCG. This Research Assurance Report (Appendix 02) informs the review of customer engagement in Chapter 5 of the report and recognises the step change in the PR19 work. The report also reinforces some of the challenges faced by the CCG over this period of its operation.

“It could be argued the process started with outdated assumptions and expectations, using a PR14 baseline as opposed to the much heavier requirements resulting from the ambitious step change implemented for PR19.”

CCG Research Assurance Report

It was also felt important for the CCG to ensure that the big picture of best practice in customer engagement was kept in mind as the detail of the research programme unfolded, through setting out a strategic challenge framework.

The Customer Challenge Group paper to the Dŵr Cymru Board in May 2017 set out six strategic challenges where it wanted to ensure there was evidence for an effective process of customer engagement. These challenges were then further developed by the CCG to form the basis of the strategic challenge framework for the PR19 business planning process and subsequently presented to the Dŵr Cymru Leadership conference in September 2017. The framework reflects the best practice approach set out in the Ofwat commissioned ‘Tapped In’ report, with the aim of enabling a shift from passive consumers to active participants in shaping the future of the Company.

The Challenges have provided a framework for the CCG to review the role of customer engagement in the price review process.

“As part of the Customer Challenge Group’s role in ensuring that the Company effectively engages with customers and that this involvement is reflected in its PR19 business plan, the CCG paper to the May 2017 Dŵr Cymru Board set out six strategic challenges. These themes were based on CCG discussions, informed by work commissioned by Ofwat on best practice in customer engagement and submitted at an early point in the PR19 process to provide a guide as to the evidence we would be looking to see in the business planning process. ...could the Company provide a summary response, indicating supporting evidence, of how you have responded to these challenges both in the process of planning for PR19 and in ensuring that they are embedded in business operations going forward?”

CCG Chair letter to Dŵr Cymru April 2018

The Company reported against this Challenge Framework to the CCG in June 2018 (Appendix 01).
Customer Challenge Group Framework for PR19

1. The Company draws on all interactions with customers to inform decision making, giving particular attention to groups who find it more difficult to have their voices heard.

   The CCG will expect to see how the Company:
   - has drawn on all the points of customer contact (including non-household customers) in understanding customer priorities.
   - makes it easy for customers to contact and engage with the Company in a way that meets the customer’s needs.
   - gives specific attention to those customers who have difficulties/are hard to reach.
   - plans for continual improvement in developing its capacity to understand the needs and priorities of customers.
   - provides feedback to inform customers as to how their views have influenced decision making and outcomes.

2. An understanding of customer priorities based on the evidence of customer engagement is embedded as a business imperative across all elements of the business.

   The CCG will expect to see how the Company:
   - set its targets and measures of success against evidence of customer priorities.
   - ensures that all parts of the business understand customer priorities.
   - prioritises business improvement in the key performance areas identified by customers.
   - sets customer service targets against benchmarks across the service sector.

3. There is a clear focus on affordability of bills, with specific support for those who find it difficult to pay. Customers in vulnerable circumstances are supported through their direct involvement and collaborations with other companies, the public and third sectors.

   The CCG will expect to see how the Company:
   - plans to improve the efficiency of its operations to minimise costs to customers.
   - is transparent in how customer money is spent & its comparative performance with other water companies.
   - uses the evidence of customer’s willingness to pay and invests resources to support the significant number of customers in water poverty.
   - increases the reach to those customers who find it difficult to pay through working with voluntary groups.
   - supports an integrated approach to ensuring vulnerable customers receive essential services.
   - reduces able to pay debt levels as part of the compact with customers support for those not able to pay.
4. Engagement with customers demonstrates a progression from listening and understanding customer needs to active participation of customers

The CCG will expect to see how the Company:
- builds an ongoing dialogue with customers as two way communication.
- uses two way communication to improve customer understanding on priority issues.
- provides a range of opportunities for active customer involvement in partnerships with the Company.
- ensures that young people are actively engaged.
- supports customers who may have difficulty in communicating with the Company.

5. The Company demonstrates that it drives innovation through working with customers and stakeholders on collaborative projects that offer multiple benefits

The CCG will expect to see how the Company:
- aligns investment in innovation with customer priorities.
- enables customers to contribute ideas to improve service.
- involves customers and partners in design and implementation of new services.
- builds behaviour change programmes that can reduce costs and improve services for especially through use of water and reducing blockages.
- participates in partnerships designed to deliver innovations for wider public benefit.

6. The principles of the Well-being of Future Generations and Environment (Wales) Acts are applied by the Company, demonstrating the ways of working and contribution to our national well-being goals.

The CCG will expect to see how the Company:
- involves customers in considering the needs to future generations.
- uses the ways of working and structures established under the Well-being of Future Generations Act to improve local well-being.
- measures and reports to customers its contribution to the national well-being goals.
- responds to the requirements of the Environment (Wales) Act.
- works with land managers and stakeholders to develop nature based solutions to improve service and reduce long term costs.
- demonstrates leading practice in corporate citizenship through all its operations.
Chapter 4
Operating Context for Dŵr Cymru Welsh Water

This section of the report focuses on the implications of the Dŵr Cymru business model and the distinctive operating environment in Wales; social, economic, environmental, cultural and legislative.

While the vast majority of Dŵr Cymru customers are based in Wales, the Company has worked to ensure that the 65,000 customers served by the Company in England have been fully engaged in all research, including ‘Have your Say’ consultation activities.

Legislative context

Under current legislation, the Welsh Government has jurisdiction over the activities of water companies whose areas are wholly or mainly in Wales. The Wales Act 201710 will facilitate this jurisdiction to be aligned with national boundaries rather than catchment boundaries. This makes it even more important that the Company recognise and respond to the different legislative frameworks in Wales and England.

The CCG has worked closely with the Company to ensure that it reflects the priorities set out in the devolved Government’s ‘Water Strategy’11 and the ‘PR19 Strategic Priorities and Objectives Statement’12. The CCG Chair has met with the Cabinet Secretary and Environment Ministers, with officials from the water branch of the Welsh Government also attending CCG meetings.

The Welsh Government set out six priorities for Ofwat in the PR19 statement:

- affordability
- innovation
- long-term
- markets and competition
- resilience
- strong customer focus
- sustainable management of natural resources

The Welsh Government decision not to adopt the open market for business retail services is particularly important for the work of the CCG, as the price controls will be applied to water and wastewater services provided to the non-household sector.

The PR19 business plan also needs to take into account the new legislative framework introduced in 2016 in the form of the Well-being of Future Generations and Environment Acts. The Well-being of Future Generations Act, although not directly applicable to the Company, has set a legal framework for the operations of the devolved public sector. It sets out the national well-being goals, and ways of working which put citizen engagement and long-term thinking at the heart of public policy. The supporting structures of Public Service Boards are required to put in place local plans to improve well-being, while the new role of

the Future Generations Commissioner is in place to enable the effective delivery of the legislation. It is early days in the operations of the new framework but it provides an important context and operating platform for the Company’s engagement with public bodies and the communities they serve. The CCG would expect the PR19 business plan to reflect the way in which the Company was going to contribute to the national well-being goals and apply the ways of working in its operations.

Similarly, The Environment (Wales) Act places a duty on water and sewerage companies, to aim to improve and not reduce biodiversity, and in so doing seek to further the resilience of ecosystems. The Act also sets requirements for the sustainable management and stewardship of natural resources and the role of Natural Resource Wales, including the production of area statements. Again it is early days in the implementation of the legislation but it will have significant implications not least on the associated expectations of the Company in the sustainable management of a national water resource essential to customers in Wales and England.

The CCG has also worked closely with Welsh Government’s PR19 Forum which has brought together key stakeholders to review progress with the Company’s business planning.

“We expect Ofwat to challenge companies to deliver for customers on the basis of comparison across companies in Wales and England, and across sectors where appropriate, while making appropriate allowances for differences in the operating and legal environments of companies in Wales, and taking into account variations in the priorities of customers and other stakeholders”.

Welsh Government

The Business Model

The CCG understands Dŵr Cymru’s distinctive business model being owned by a not-for-profit company limited by guarantee, meaning that any financial surpluses are reinvested for the benefit of its customers.

This model means that there is potential for a different relationship with customers, as research evidence shows higher levels of trust once customers are aware of the not for profit model. Over the period of the business planning the Company has increased awareness across the customer base of their not-for-profit status from 31% to 64%. This is reflected in the findings of the Consumer Council for Water ‘Water Matters’ Report where levels of trust in Welsh Water were higher than all other water and sewerage companies in England and Wales.

The research has indicated high levels of cynicism by customers in respect to the operations of corporates but positive responses to the not-for-profit model, although there are still challenges in communicating what this model means to customers.

Ofwat believes that the “combination of reputational, procedural and financial incentives used to be appropriate to all current ownership structures and models, including that of Dŵr

Nevertheless, it is also important to recognise that this business model provides the basis for a much stronger relationship with the customer base, as exemplified in the ‘Have Your Say’ engagement with customers on the return of value through the customer dividend. The CCG will want to ensure that the Company uses this relationship to deliver leading practice in customer participation and coproduction in the delivery of the business plan.

The CCG recognises that customers are increasingly aware of the distinctive business model operated by Dŵr Cymru, with research showing improvements in awareness leads to related increases in customer trust. Customers though also want to ensure that the Company is performing at comparative or better levels than other water companies operating in England and Wales.

**Economic, Social, Environmental, and Cultural Context**

The CCG is clear on the differences in the operating context for Dŵr Cymru which underpin variations in the cost base and measures of success when benchmarked across the water sector, in particular the length of the coastline, nature of the topography, exposure to high levels of flood risk, natural levels of mineral content, dispersed rural populations, heritage of an aging infrastructure.

The nature of customer research means that it can be difficult to reflect this operating context exactly but it puts emphasis on the importance of transparency and increased customer awareness in performance reporting. In addition, Wales traditionally receives high levels of rainfall, so customers thereby have a perception that water is easily and freely available at all times.

The CCG will be particularly focused on increased customer awareness and engagement in performance reporting going forward.

While customers may not be very aware of the impact of the operating context on costs and bill levels there is clear evidence of their understanding of the importance of the Company’s contribution to the wider economic, social, environmental and cultural well-being; particularly the importance of clean beaches and good river quality to Wales.

The CCG would want to highlight the economic operating context to stress the low levels of income across the customer base and the high levels of financial insecurity. Research has emphasised that the customer-base has the lowest levels of income and highest levels of deprivation compared with other water companies. The bill research indicated that over 40% of customers found paying their water a bill ‘a stretch’. This issue is considered in more detail in later chapters but underpins why affordability and support for customers in vulnerable circumstances is a key focus for the CCG in the business plan. This element is more critical following the long period of austerity.

There is also an important cultural and associated language context to the operations in Wales, which the CCG views as being an important consideration. Water is a key natural

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resource for Wales and as such there is a long political and social history associated with the exploitation of this natural resource. As a leading Welsh Company providing an essential utility there is a responsibility on the Company to ensure that the Welsh language is core to its strategy both in serving customers and supported across business operations.

**The National Environment Programme**

The CCG would like to note that it did not have the opportunity to engage with process of agreeing the National Environment Programme (NEP) in Wales. Members of the CCG asked for this discussion to be incorporated on our work, however discussions on the NEP took place in bilateral discussion between the Company and NRW as it related to statutory requirements. The negotiations on the NEP also took place late in the process and CCG members, in particular CCWater (**Appendix 20**), raised concerns on:

- the potential implications of the outcomes on current and future customer bills, including the acceptability research which had been completed in advance of the NEP. It should be noted, however, that the final NEP did not impact on the overall bill level tested in the acceptability research.
- the need to understand the evidence on the approach that would represent best value to customers in addressing the NEP requirements.
- ensuring that phasing the NEP did not jeopardise the Company's ability to meet its statutory obligations.

The CCG supports the importance placed on "avoiding storing up problems for future generations", but believes that proposals for phasing the NEP can potentially lead to better value for money outcomes for customers and supports Welsh Government’s encouragement for the Company to seek out opportunities through alternative ways of working to identify different approaches to deliver environmental improvements in order to deliver value for money for customers, today and in the future.

The Natural Resources Wales and the Environment Agency annexes can be found in **Appendix 10** and **Appendix 11** respectively.
Chapter 5

Customer Engagement

The CCG’s approach

The CCG has a key role in providing independent assurance to Ofwat on the quality of the Company’s customer engagement in the development of the PR19 business plan. This section of the report includes the CCG assessment of the overall quality of customer engagement, references the involvement of the CCG in providing independent challenge to the approach to customer engagement adopted by the Company and acknowledges a step change in engagement since the work undertaken in PR14.

The timeline of CCG involvement in the customer engagement programme for PR19 is set out in Appendix 05, indicating early discussions in March 2016 on the nature of the engagement and the research which needed to be commissioned. There was a clear commitment from the Company both to involve the CCG at the outset of the research, and to build the business plan from ongoing consultation with customers; with each key stages informing the next.

“We have striven to be “customer led” throughout the formulation of our Business Plan, following a three-phase approach: firstly, identifying customers’ priorities to inform our Measures of Success as well as their views on the long-term challenges outlined in WW2050 in the development of which we had also, as you well know, interacted extensively both with our customers and the CCG; secondly, to inform our cost benefit analysis and target setting for the MOSs, as well as consideration of additional improvements at a higher bill level (options testing); and finally, the overall acceptability of the plan.”

Letter from Dŵr Cymru Chair to CCG June 2018

The Company issued a tender for the engagement of research agencies prior to engagement with the CCG. However, the tender itself did not include any detail in respect of the research framework and the May 2016 CCG meeting considered the high-level customer engagement plan, the timeline, approach and methodologies to be used for the first stage of the research programme. This session included a workshop in May 2016 to inform the topics for research and engagement, groups to target, methods of research and CCG work plan.

There was also a commitment to engage with the more deprived communities directly and to work with these communities to identify the best way of engaging with them. This has formed a key feature in the ongoing work with the development of a new approach to water resilient communities, with a pilot in the Rhondda Fach area of the south Wales valleys.

The July 2016 CCG welcomed the fact that the recommendations from their previous meeting had informed the research briefs and that the Company were committed to signing up to the ‘National Principles for Public Engagement in Wales’. This meeting was an opportunity to engage with the appointed research agencies and the planned elements of the first stage research to be undertaken were set out. This included lessons learnt from PR14 and
adaptation for PR19; definitions and approach for ‘vulnerable’ and ‘hard-to-reach’ customers; Willingness to Pay; overarching priorities; performance measures; and resilience.

The CCG timeline (Appendix 05) identifies the engagement chronology between the Company and the CCG on the customer research process, clarifying when presentations on research plans and findings from the research agencies were shared with the CCG.

The CCG found it challenging to engage effectively with the detail of the research over this period as highlighted in the CCG Research Assurance Report (Appendix 02):

> “However, given the breadth and volume of research and tight deadlines, the CCG found it both difficult to comment on the detail of the research and to set each piece of work in the context of the big picture of what each was intended to contribute.”

The report highlighted the process started with assumptions and expectations using a PR14 baseline as opposed to the much heavier requirements resulting from the ambitious step change implemented for PR19.

The CCG commentary and feedback on the research proposals and subsequent initial findings (for the period up to March 2017) was discussed with the Dŵr Cymru Board in May 2017 (Appendix 07). This provided feedback on the progress of developing the customer evidence base. An extract from the report and the Company response is set out below. This report also informed the Board of the CCG intention to undertake an independent analysis of the effectiveness of the commissioned customer research. A further update report was discussed with the Board in September 2017 (Appendix 08). Both reports are contained in the Appendices along with the response from the Chief Executive (Appendix 09).
### CCG Commentary on progress of customer research and initial findings

The following points were included in a report to the Dŵr Cymru Board in May 2017 and were drawn from key issues raised by the CCG in the period September 2016 to March 2017 raised. The summary includes the subsequent Company response to each point.

#### Commentary on Progress of Customer Research and initial findings

The importance of the context of trends in customer service expectation particularly in respect of responsiveness, proactive engagement, increased use of automated services and opportunity to be in control. The role of transparency in building trust as “corporate cynicism” prevails coupled with a lack of appreciation of value of water, low awareness of special support and little understanding as to how water bills are assessed.

#### Dŵr Cymru Response

We note there is a theme in customer service expectations research and in other research that customers’ expectations are increasing especially linked to proactive and responsive communication.

We do also note the theme that customers would be more supportive and trusting if they had more information and education about how their bills are calculated and where/how the money from bills is invested.

Awareness levels of our Priority services register and Social Tariffs are low across the engagement activities completed. We have commissioned a specific piece of research to look into vulnerable, struggling and hard to reach customers to understand how we could improve in communicating these services and any additional offering they feel we should offer to help shape of Vulnerable customer strategy.

#### Commentary on Progress of Customer Research and initial findings

The CCG welcomed the specific research focused on those worse served or at risk customers. The research highlighted high levels of “acceptance and resignation” which may lead to under representation of the actual problems faced by this group of customers.

#### Dŵr Cymru Response

While overall the number of worst served customers is low their issues out weight the normal experience of our customers.

This is being looked at in Water2050 plan to ensure that this group of customers are identified, and solutions recognised to resolve their service issues.

#### Commentary on Progress of Customer Research and initial findings

The research indicated the high level of appreciation and recognition for the DŴR CYMRU staff on the ground working to provide solutions for customers and the value of enabling local decision making. Conversely there seemed to be a need for greater visibility from the senior management in engagement with customers suffering repeated problems.
Dŵr Cymru Response
This is noted and will be fed back to the teams working with customer on repeated services issues.

Commentary on Progress of Customer Research and initial findings
The outreach to vulnerable customers in at risk areas is particularly important, where priority support should be focused on those customers with additional needs. Identifying, communicating and providing specific support services where needed.

Dŵr Cymru Response
We have commissioned a specific piece of research to look into vulnerable, struggling and hard to reach customers to understand how we could improve in communicating these services and any additional offering they feel we should offer to help shape of Vulnerable customer strategy. This research was targeted to area’s we know have high deprivation and therefore where a high number of customers should be using these specific services.

Commentary on Progress of Customer Research and initial findings
The environmental customer research identified an increased consciousness environmental impact compared to the PR14 research. Customers viewed river quality as the main issue for Welsh Water’s leadership responsibility, also giving clear support for prioritising renewable energy. There as high awareness of the blue flag system with high association with quality of bathing water & value to tourism industry – although the blue flag status is dependent upon many factors beyond water quality.

Dŵr Cymru Response
We continue to develop our plans under the NEP to ensure we continue to make improvements to River water quality.

We’ve also completed a programme to develop costal models. This will enable us to enhance our understanding of the factors affecting water quality at bathing water and shellfish sites along the entire Welsh coastline.

We’re now generating 20% of our own energy needs through wind, hydro, solar and advance anaerobic digestion with the aim to increase this to 30% by 2019.

In July 2017, we announced a new energy contract with DONG Energy will ensure that energy Welsh Water uses from the grid will also be guaranteed green energy. All this makes a big difference to reducing our carbon footprint, but also benefits our customers by reducing our overall operating costs so that we can keep bills low.

Commentary on Progress of Customer Research and initial findings
Understandably there was low awareness around the term “catchment management” but a positive response once explained. It is important that support for land managers in changing behaviour is not positioned as “subsidising industries that cause pollution”.

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Dŵr Cymru Response
Noted. In our environment research catchment management was introduced as ‘preventing pollution from getting into raw water sources in the first place (and therefore reducing the costs of the water treatment process)’

We also introduced the example of the Weed Wiper trial where the campaign works with farmers and land managers to promote better advice on handling, applying and disposing of grassland sprays.

Commentary on Progress of Customer Research and initial findings
The CCG emphasised the importance of programmes of education to build understanding of value of good water management from land managers to individual customers and the need to triangulate customer research with informed stakeholder views and evidence based on sound science.

Dŵr Cymru Response
Our Triangulation framework includes a broad range of data/information sources. A wide breadth of data/information sources is used to enable decision to be based on a broad base of both customer views and robust evidence from data and stakeholders. This includes:

- quantitative/ qualitative research (including stated preference surveys).
- Broader industry data & research: Includes PR14 customer research and wider industry research/evidence.

Data from continuous engagement: Incudes customer engagement data (Trust Tracker), Customer interactions data (Rant and Rave / Complaints / Social Media analysis), External data (e.g. Ofwat SIM), Customer journeys / Pain point analysis, Customer sentiment dashboard, etc.

Commentary on Progress of Customer Research and initial findings
The fact that we have a lot of rain in Wales leads to customer perceptions that can impact on their views of investment needed for resilience, so importance of framing in terms of climate change, population growth, and water transfer needs. It was encouraging that the research indicated a greater awareness of these issues than in PR14. It is important that clear links are made to specific areas of focus such as the growth of the City Regions around Cardiff and Swansea Bay in respect of resilience of supply in areas of significant population growth and increased demand from industry.

Dŵr Cymru Response
Where possible research and information given to customers is locally linked but also given in the context of Wales as a whole.

When discussing complex long term issues such as resilience the research is designed to intermittently educate the customer’s as part of the discussion to give them more
information about such context which will enable them to make informed decisions. We do also want to measure this against the view of uninformed and therefore we use this process of drip-feeding information to understand views as they learn more.

**Commentary on Progress of Customer Research and initial findings**
The perception of a plentiful supply of water in Wales also impacts upon behaviours around water efficiency and demand management. Important that this is addressed through collaboration with resource efficiency initiatives, specifically the link to domestic hot water efficiency.

**Dŵr Cymru Response**
This is correct in the uninformed customers how, as seen in the WRMP Qual research, referencing population growth/increased development increases relevance for Wales and changes perception to something which they see as relevant to them and something which could potentially affect them in the longer term with water restrictions etc.

Our WRMP Qual research found majority of customer to be conscious about their water use whether that be due to the use of a meter or being environmentally conscious. Customer would like for us to do more to help promote being water efficient.

**Commentary on Progress of Customer Research and initial findings**
Customers have a high expectation that the Company will plan to meet the needs of future generations taking into account these trends and unpredictable nature of impacts of climate change. It will be important to link with the engagement processes focused around long term wellbeing associated with the Wellbeing of Future Generations Act.

**Dŵr Cymru Response**
Our Water2050 plans are being updated to reflect the views of customer from the process of engagement activities so far. This plan looks to link these long term strategic responses with those of the Future Generations Act.

**Commentary on Progress of Customer Research and initial findings**
The importance of ensuring that the feedback from customer dialogue around complaints is fed back into the business improvement and planning process. This is an area where the CCG would like to receive more detail of the root cause analysis process.

**Dŵr Cymru Response**
Complaints and other customer feedback/performance is widely reported to employees in the Company through our Team brief every month.

We also hold specific scrutiny sessions to look at complaints and contacts in all business areas and with members of our exec team.
CCG Research Assurance Report

Given the ambition, scale and intensity of the customer research undertaken by the Company over the period (March 2016 – March 2018), the CCG Chair felt that an independent overview of the research would help the CCG with referencing and understanding chronology and context of the research. The Chair drew on the specific research expertise of CCG member, Dr Dimitrios Xenias, Cardiff University, to undertake this report.

The research report was commissioned in April 2017 with the aim of providing the CCG with assurance that the Company had established an effective evidence base from a range of customer data sources to allow the development of a business plan that is based on customer priorities.

“Whilst we are confident that the research is sound in approach, methodology and findings, further independent analysis of what key messages we have taken from the research and how it is influencing our decision-making and planning is welcome.”

Dŵr Cymru CEO letter to CCG

The CCG endorsed the key findings of the report and submitted it to the Company with a covering letter from the Chair in April 2018.

“The PR19 process to date presents a significant improvement compared to the PR14 experience but there are also opportunities for further improvement. It is clear that Dŵr Cymru has put much effort and resource into customer engagement since early 2016. The Company has also broadened their research scope compared to PR14. This expanded the breadth of available data and methods, and provided welcome addition of qualitative information. It is also very important to recognise that the Company took initiatives for early engagement with researchers, customers, and the CCG.”

CCG Research Assurance report (page 4)

A full copy of the report along with the Company responses to the recommendations can be found in (Appendix 02).

The following points from the report should be highlighted:

- The research framework was ambitious and individual research briefs covered a broad remit, and employing a wide range of methods and techniques. This was certainly an improvement from PR14 and the Company demonstrated that they had broadened their scope, methods, and use of research companies. The report also commended the Company for the early engagement with CCG.
- The report found that the Company had delivered against Ofwat’s expectations on customer engagement but stressed that the intensive research exercise undertaken for PR19 should not be seen as a one off exercise related to requirements of the specific PR19 methodology. The use of mobile equipment that record customer feedback at the point of interaction e.g. by repair crews on the property and the online customer panel were highlighted as important initiatives that needed to be monitored by the CCG going forward.
- The report references the continued concerns over the nature of Willingness to Pay (WtP) methodology despite the changes from the PR14 process. It was felt
important that the Company drew on the wide range of evidence gathered and not depend on this one metric for key decisions in the business plan. A point that was applied by the company which used WtP as one of a range of sources in establishing performance commitments.

- The scale and nature of the individual research briefs led to a difficulty in establishing a sense of cohesion and continuity. The work grew to such an extent that in January 2017 Dŵr Cymru appointed PwC to advise and assist with research volume management and managing evidence in the triangulation process. The Company also worked with PwC to refine and strengthen the research framework, presenting the three Phase framework to the CCG in March 2017. This provided a stronger framework for the research but the Assurance Report highlighted that “ideally such planning takes place, and is articulated, at the outset of the research process”.

- The PR19 process has engaged a large number of customers to differing degrees of depth it is very important that there is some form of feedback loop to customers in respect of the impact of their involvement and opportunity for continued engagement.

- The Dŵr Cymru website needs to be improved; if the customer is at the heart of the process, it should also be made easy for them to participate and comment via the website.

- Given the volume and complexity of designing and implementing a successful research programme, Dŵr Cymru might benefit from greater in-house research expertise.

- The CCG was engaged in the early stages of design and development of the customer research but the report documents the challenges for the CCG in responding to the scale of the research programme reducing opportunities for co-design. This process can be improved in the future and needs to be part of the post PR19 review of the working of the CCG.

“We appreciate that due to the scale of the programme this year there was a great deal of content. We recognise that there was a limit to the amount that CCG members were able to provide detailed feedback on research materials and design, owing to a combination of limited capacity of CCG volunteer members and the Dŵr Cymru team, tight timescales for the research process, and the need to keep CCG meetings to a manageable duration. We will look for ways to make the process more efficient in the future.”

Dŵr Cymru Response to Research Assurance Report
**Willingness to Pay**

The Research Assurance Report included a significant section on the Willingness to Pay research process, recognising that the Willingness to Pay (WtP) methodology was prioritised early on in the PR19 process, coinciding with the reformation of the CCG and at a time where many of its members felt that the CCG was not in a position to meaningfully contribute to the research design process. The report also highlighted the fact that the study of stated preferences in Willingness to Pay (WtP) research is complex, technical, and reliant on interpretation and that the Company put considerable effort into improving and simplifying the WtP methodology in PR19 compared to PR14. Given these factors it was particularly important that the WtP process was subject of independent peer review.

The July 2016 CCG meeting considered proposals for the WtP research. The CCG accepted the importance of a simpler more accessible approach, recommended a parallel exercise based on the PR14 model for comparative purposes, and encouraged the Company to apply innovative approaches and not to simply repeat the PR14 process.

The resulting WtP design approach put forward was new to Dŵr Cymru, and to the water sector more widely, and so an extensive programme of testing was designed and implemented to refine the design and provide assurance that the instrument was working effectively. The findings from each stage were presented in the Pilot report for the study to the CCG in February 2017 along with a peer review undertaken by Professor Ken Willis who endorsed the validity of the approach.

The CCG reviewed the two survey approaches in February 2017 and agreed that the PR19 style survey had the advantage of being simpler for respondents, could accommodate more attributes and demonstrated a higher conversion rate from recruitment to completion. The CCG approved the revised process understanding that there would be further refinements following the initial implementation stage.

The CCG Research Assurance Report highlighted general concerns over the WtP process and its application in the business planning process notably that “it is important that the Company evidences a range of sources in making decisions as opposed to relying on the results of the WtP process. There is a real danger in over reliance of WtP to provide the ‘single right answer’” (page 18). A point that was accepted by the Company in its response to the recommendations.

The Research Assurance Report also highlighted some unexpected anomalies in the WtP findings. CCWater also added a challenge to the CCG process on the differences in valuation that resulted since PR14 and whether this was due to changes in the methodology or reflected changes in customer views. This was subsequently the subject of further supplementary research. A report of the findings was produced and peer reviewed by Professor Ken Willis who endorsed the accuracy of the research findings.
Following the peer review and the changes made to the survey through engagement with the CCG and stakeholders, the CCG Chair gave approval on April 4th 2017 to move from pilot to the main stage Willingness to Pay survey.

The Consumer Council for Water produced its own report on ‘Improving Willingness to Pay Research in the Water Sector’ in July 2017 after the company had finalised its approach. Dŵr Cymru provided a retrospective response to this report which is included in Appendix 12. A key concern of CCWater remains that the Company used WtP valuations to define the ranges of its ODI /PC targets instead of seeking to define this in its subsequent ODI research.

The application of the WtP values in cost benefit analysis (CBA), alongside other data/customer inputs, were discussed with the CCG in the March 2018 meeting which reviewed the setting of performance commitments (see Chapter 6).

“We agree that Willingness to Pay does not produce 100% accurate valuations of customer preferences. However, it is one of multiple sources of information we have used to set performance targets. Our approach was presented to the CCG on 21 March.”

Dŵr Cymru response to Research Assurance Report

Triangulation of Customer Evidence

The PR19 methodology stresses the importance of drawing on multiple sources of evidence in establishing business plan priorities. The Company’s triangulation approach was developed before CCWater’s Triangulation recommendations project was complete and therefore was not informed by this report.

The Company undertook an exercise to draw on different sources of evidence in Phase 1 and Phase 2 of the research.

The Phase 1 triangulation covered 94 areas of service that customers may potentially find of value and 28 categories of service. The information was drawn from primary research, historic research, comparative data and internal Company data. This data was then analysed against triangulation principles informed by PwC to produce customer priorities which were presented in three columns; these were used to form the basis of the customer-based measures of success.

Triangulation principles

1. More weight should be placed on data/information which is consistent with other sources – e.g. where there is an established regulatory or industry consensus/view, less weight should be placed on ‘outliers’ (unless there is strong evidence of local nuances).

2. Most weight should be placed on data/information that is fit for purpose (collected using a methodology which has been designed appropriately for eliciting customer priorities/preferences) – e.g. where the methodology has enabled customers to explicitly identify their priorities as opposed to where we have needed to infer customer priorities.

3. More weight should be placed on data/information which is more robust and reliable (statistically significant, consistent/repeatable/stable, and intuitive / coherent). Data/information which is less reliable will still be considered, though only for context or as corroborating evidence.

4. More weight should be placed on more recent data/information, except where there is reason to suggest recent evidence is less reliable (or where a longer-time series is required).

When considering comparative information, more weight should be placed on data/information from closer comparators (companies with similar demographics, issues/challenges, etc.)

Source: Dŵr Cymru Welsh Water (2017a) p.5.

These principles were established in advance of the CCWater guidance on triangulation but Research Assurance report indicated “This set of principles is not dissimilar to the triangulation guidance issued by CCWater in their July 2017 event in London”

The June 2017 meeting of the CCG welcomed the Phase 1 triangulation report “recognising the significant amount of work required to draw together the information” and the fact it provided the basis for a “much stronger and wider evidence base for customer priorities”. The process was comprehensive, but complex in its application of such a large range of data sources.

The process did provide a good indication of what the Company should consider as key priorities for customers. It cannot be regarded as a perfect reflection of customer views, but a consolidation against sound principles from a wide range of sources that provided an effective starting point for setting out the measures that customers most care about within the suite of Measures of Success.

16 CCG Research Assurance Report – Appendix 02 (page 14)
17 CCG Meeting June 2017 minutes
The research that informed the Welsh Water 2050 strategy was also subject to a triangulation process, drawing from the ‘Have Your Say’ consultation, stakeholder workshops and other engagement activities, as well as commissioned qualitative research.

The CCG accepted that the triangulation process provided a broad sense of the customer priorities drawn from the different data sources. We expressed some concern over the weighting given to the large scale, but top-level ‘Have Your Say’ programme and asked for more explanation as to the allocation of top weighting to this source. This was subsequently followed up by CCWater and amendments made to the weightings which led to minor adjustments in priority ranking.

The CCG received a paper from the Company in November 2017, which set out the proposals for the Phase 2 triangulation process. At the CCG meeting in March 2018, the Company explained to the CCG the process of applying this triangulation to the target setting, clarifying how the cost-benefit analysis process drew on the Willingness to Pay, performance commitment research, historical performance data, benchmarking across the sector and other evidence from customer research sources; responding to the challenge set out in the Research Assurance Report. This generated the ‘performance target range’ which was then subject to judgements as to what represents a stretching target.

This session was designed to address what the CCG in PR14 referred to a ‘black box’ process in how customer evidence was applied to target setting in the business plan.

**Welsh Water 2050 – Looking to the Long Term**

A feature of customer engagement over the period has been the Company’s focus on involving customers on longer term issues, considering the needs and requirements of future customers through the Welsh Water 2050 process.

The Welsh Water 2050 plans were developed by the Company following the Board’s decision in 2016 to set the vision for Welsh Water in 2050: ‘...to become a truly world class, resilient and sustainable water service for the benefit of future generations’.

The Company published a detailed ‘Welsh Water 2050 Consultation Document’ in the spring of 2017, following an extensive review of international best practice in resilience planning, aided by independent consultants Arup and by Cardiff University.

The CCG considered drafts of the consultation document in February and April 2017, before participating in the 2050 consultation launch in May. The CCG stressed that the:

- Welsh Water 2050 engagement work sets the long term context for the PR19 plan, so there needs to be a clear line of sight between the PR19 plan’s performance measures and the 2050 strategic responses.
- Well-being of Future Generations Act should provide the context for the plan which should be framed against the national well-being goals.
- Importance of considering disruptive challenges that are likely to transform systems should be applied, and not just consider business as usual models. It is
almost impossible to predict nature of change and importance to ensure flexibility of responses to disruptions cause by new technologies.

- potential scale of climate change impacts require a response in the resilience framework.
- Company needed to place a greater specific focus on affordability and impact of increasing vulnerability across customer base response to water efficiency needed to be stronger.

“There was a general view that vulnerability was not prominent enough as an issue in the Welsh Water 2050 document, supporting the CCWater response that “affordability and ever-changing vulnerability of the population Dŵr Cymru services is one of the key challenges the Company is facing in the future.”

CCG report to September 2017 Board

- involvement of farmers and land owners in long term change will be critical given their role as land managers and the potential for new approaches post Brexit, including payment for ecosystem services. The Catchment Management response needs to be based on a participation model.
- links between the customer preference research should be clarified with its contribution to the final Welsh Water 2050 report.

“We would reinforce our earlier comments to ensure that the omissions listed are addressed in the revised Welsh Water plan. It was also stressed that the “citizen” element is expanded to clarify how the Company will meet customer expectations of its role as a corporate citizen in areas such as procurement and employment practices, as well as how it intends to work with citizens to address key issues such as demand management.” CCG Chair letter to Dŵr Cymru Nov 2017

The consultation on the draft Welsh Water 2050 plan included over 20,000 customer responses, including qualitative workshops, input from the Youth Board (Appendix 13) and stakeholder groups, including the Independent Environmental Advisory Panel (IEAP).

The final Welsh Water 2050 strategy was launched in the Senedd with the Minister for the Environment and the Chair of the CCG in May 2018, not only providing a focal point for the strategy but also an opportunity to engage policy makers in the future of water debate.

The final Welsh Water 2050 document reflected input from the CCG members and IEAP with specific changes including four new strategic responses that were included in the final plan:

- 12. Supporting customers in vulnerable circumstances
- 13. Working with customers and communities
- 14. Supporting ecosystems and biodiversity
- 18. Playing our part in the supply chain, the local economy and the circular economy

As the long-term foundation for our PR19 Business Plan, Welsh Water 2050 was amended specifically as a result of our customer and stakeholder engagement as well as very valuable input from the CCG. As a result, three additional Strategic Responses were added to our final document covering affordability, customers in vulnerable circumstances, and working with communities.

_Dŵr Cymru Chair letter to CCG June 2018_

### Innovation in Customer Engagement

The PR19 methodology stresses the importance of innovation in customer engagement going beyond the formulaic customer research processes to establish a much more involved customer base. The CCG strategic challenges reflected this objective and were framed in the context of the Ofwat commissioned ‘Tapped In’ report asking the Company to demonstrate:

1. a progression from listening and understanding to active participation
2. how it involves customers who find it difficult to get their voice heard
3. how it works with customers to develop solutions

The Company responses to the strategic challenges ([Appendix 01](#)) includes evidence of the innovative approaches applied including:

- the Have your Say consultation which reached 12,000 customers and used ‘sliders’ to allow customers to distribute the £30 million return of value.
- Welsh Water 2050 introduced the Chatbot as an industry first with 3,000 completions and a vlog series that had 300,000 views.
- the Have Your Say panel launched 11 July 2017 to give customers a platform to share their views, take part in research and receive information on how their feedback is being used within the business, creating a continuous feedback loop.
- the Rhondda Fach Resilient Communities pilot “working with customers to co-create and co-deliver more resilient services”.
- investment in RainScape schemes has highly involved those in the community.
- the WaterSource scheme, involves several partnerships all aimed at improving the quality of water at its source.
- working in the community hubs in communities which are hard to reach, to engage customers who visit community centres or equivalent centres who may not respond to survey recruitment calls.
- the Let’s Stop the Block campaign designed to raise awareness of what not to put down the toilet to reduce blockages with the Youth Board being involved in designing campaign to target young people.

The CCG was pleased to see industry recognition for the engagement work as a whole, and Chatbot specifically, as the campaign won Marketing Initiative of the Year Award 2017 and was shortlisted for ICS Customer Commitment and Insight Awards 2018. This independent recognition is endorsement of the innovative methods employed to engage customers.

The Company has demonstrated a commitment to innovation in customer engagement – a point reinforced by the Dŵr Cymru Chair in his letter to the CCG in June 2018:
“I have, since I joined the Board, seen a Company that has sought to put customers at the heart of our business planning and strategic decision-making. We are committed to building on this strong foundation throughout the next AMP period and innovative projects such as the Rhondda Fach Water Resilient Community pilot are an indication of how we are seeking to lead the way in this area.”

The challenge from the CCG going forward based on the experience to date is for the Company to ensure that:

- each individual piece of evidence clearly contributes to the big picture as opposed to sitting on its own.
- there is a clear line of sight through to the learning and actions.
- tensions between mixed messages from different sources are clearly identified.
- the Company can properly assimilate the scale and range of research findings and evidence from other data sources in shaping the business plan.
- the necessary changes are made to the processes to support the change in culture of the Company during the coming years.

Chatbot Case Study

Chatbot is an industry first; developed to enable the Company to engage with a wider range of customers. Statistics below reveal how it has served to connect with a younger audience, probably because social media was used as the engagement tool. The chart shows a breakdown by age and event, and that a younger demographic completed the survey through Chatbot (87% were 44 and under).
Engaging the Seldom Heard

The Company has included specific strategies to engage those customers who may find it more difficult to participate in the research process. Chapter 7 (Supporting Vulnerable Customers) provides an analysis of the Company’s work in this area. The research programme included home research on a one-to-one basis to ensure customers who were unable to leave home were included, as well as paired interviews with a close friend or relative who could support the customer in the interview.

The CCG has supported the Company in facilitating cross-sector learning on this issue such as through the contribution of expertise from Cynnal Cymru, Legal & General, Wales Council for Voluntary Action and Participation Cymru and in sharing practice across the energy sector with the joint conference with Wales & West Utilities and Western Power Distribution which was chaired by the CCG Chair.

The CCG has encouraged the Company to take a community focused approach and has been encouraged by the lead the Company has undertaken in the developing the Water Resilient Community Pilot in Rhondda Fach which includes some of the most deprived communities in Wales. This project is covered in detail in Chapter 7 (Supporting Vulnerable Customers) and demonstrates the benefits working through community hubs to engage customers.

Community Hub Case Study

The Community hub engagement exercise followed the work on-the-ground as part of the Rhondda Fach Resilient Community pilot and included a number of face-to-face surveys completed on a tablet and assisted by the independent researchers. Gaining feedback from individuals who otherwise would not have been engaged or in a position to contribute their views.

In addition there were also focus groups with pre-identified customers in vulnerable circumstances, as well as one-to-one interviews conducted in customers’ homes; again with vulnerable customers.

- Vulnerable customer focus group participants: 64
- Vulnerable customer one-to-one interviews: 48
- Assisted community Hub surveys 180

This work was of particular interest to the CCG give Wales’ high number of deprived areas. The CCG was pleased to see some of the individuals and groups involved with the initial engagement activities have strengthened their relationship with the Company, some have been part of the new bill design work, others have registered for social tariffs or the priority service register, and others have been involved with additional campaigns in the area.

The CCG encourage this kind of relationship building with the harder to reach in society, the seldom heard voices, and look forward to monitoring the depth of these relationships as well as the roll-out of this activity to other areas.
The Voice of Future Generations

The Well-being of Future Generations (Wales) Act provides an important context for the operations of the Company across the vast majority of its operations. Although it does not apply directly to the Company it provides the legal operating framework for all public bodies in Wales. The CCG strategic challenges include asking the Company to demonstrate how it applies the ways of working and contributes to the national well-being goals as set out in the Act.

The CCG has recognised the Welsh Water 2050 strategy as an excellent example of applying the principles of the Act to the development of a long term plan. The customer engagement on the plan also encouraged all customers to take the long term view in shaping priorities for the Company for 2050. Future customers were specifically included in eight pieces of research:

- Resilience (DJS)- Oct 16,
- Customer priorities (Blue Marble)- Oct 16,
- Customer service expectations (Blue Marble)- March 17,
- Environment research (DJS)- Sept 17,
- Acceptability testing (Blue Marble)- Phase 1 options testing (May 2018),
- Acceptability testing (Blue Marble)- Phase 2 final acceptability (July 2018),
- Social Tariffs (Accent)- May 2018,
- Youth Board (July & Oct 2017).

The research on acceptability testing included future customers while other customer engagement methods, for example Chatbot, also secured involvement younger age ranges. In 2017 the Company created a Youth Board which involved 15 young people from schools across south Wales, aged 16-18, to advise the Company on how to tackle significant issues facing the Company in the future. The CCG Chair participated in the final panel session of the Youth Board.

The CCG would expect to see the continued focus on youth engagement models, such as a further development of the Youth Board, the Schools Innovation Challenge and projects undertaken as part of the Welsh Baccalaureate. The Company has an extensive and well regarded educational programme, however the CCG has not received evidence as to how this has contributed to future business planning and impact on behaviour change campaigns.

It is very positive that the PR19 business plan includes performance commitments to increase the scale of the education programme and the CCG will be looking for evidence as to how this programme is contributing to business objectives as well as improving educational outcomes.
Non-Household Customers
The CCG has monitored non-household customer engagement through the PR19 process. Approximately 1,200 Non-Household Customers (NHH) customers have contributed to the commissioned research programme through focus groups, online surveys, telephone surveys and one-to-one interviews, across the range of research projects. The Company has also been able to draw information from its regular tracker surveys and third-party surveys. The CCG Chair also chaired a business breakfast and a meeting with developers.

The fact that the non-domestic retail market is not open to competition in Wales puts particular emphasis on the engagement with customers who do not have the option of choice of service provider.

The CCG requested a summary of NHH customer research responses and received a paper for consideration at its May 2018 meeting. The paper highlighted the positive performance of the Company in the twice yearly NHH tracker survey, CCWater Testing the Water survey, and Developer Levels of Services.

In the summary of responses SMEs said:

- Few had longer term plans, instead managing threats and risks as they appeared. Local short term mind-set.
- Experience of Dŵr Cymru services is generally positive but in general are struggling to pay bills.
- Concerned about economic climate, import/export costs.
- Expectations increasing due to comparison with other sectors who have tracking services.
- Need support to cut costs.
- Need to proactively raise awareness of other services available.

While the larger Account Managed companies:

- are planning longer term, focusing on growth
- are more aware than HH of Dŵr Cymru and the work they do
- have heightened environmental awareness
- require higher level of communications, support to cut costs and Improved billing systems as well as Smart metering to monitor usage
- want Dŵr Cymru to plan for the longer term and prepare infrastructure for growth and climate risks
- expect Dŵr Cymru to be using technology to match other utilities
- also expect Dŵr Cymru to be investing in renewable energy.
The Company summarised the implications for PR19 as being

- Business Customers
  - Personalise our service based on the differing Non-Household (NHH) customer segments. This will contribute to achieving the MoS target of 90% NHH customer satisfaction.
  - Significantly improve the digital offering and self-serve opportunities to NHH customers (current offering is very limited)
  - Expand the account management capability and overall regular engagement with NHH community (to enhance reputation, understand customers changing expectations and take customers on our journey)
  - Deliver electronic billing for all NHH customers that want this facility
  - Appropriately expand the range of added value services available e.g. leakage detection & repair, sub-metering
  - Identify differentiators to become industry leading in this sector

Developing an effective customer plan to support the implementation of the Wales Act 2017

- Developer Services
  - Developer customer satisfaction levels (D-MEX)
  - Improve the support for new developments upwards from 98% and reduce the frequency of using planning conditions to ‘time-delay’ development due to capacity constraints with our assets
  - Develop complete self-serve capability for Developer Services customers
  - Enhance account management capability
  - Secure the retention of skilled resource
    - Developing an effective customer plan to support the implementation of the Wales Act 2017
    - Continue to identify differentiators to maintain industry leading credentials

The CCG will be monitoring progress against these measures and actions in the delivery of the business plan.

The CCG is pleased that the Company responded to its challenges to focus on Non-Household customers in Wales. In particular we note that the Company has incorporated a Non-Household Customer Experience Measure (B-Mex) which will replicate the Household customer C-Mex in Wales. In the context of no option for those customer to swap suppliers we think this is an important measure to include in the Company’s performance measure suite.
Customer Engagement Summary

- There has been a step-change in customer involvement activities compared to PR14, driven by Dŵr Cymru need to fully and extensively understand the needs and expectations of their full customer base, but also the opinions of consumers and citizens. This has involved 30 pieces of research engaging over 40,000 customers with 9,000 participating in formal research. The comparison with PR14 customer engagement is set out in Appendix 14 and while only some areas of PR19 engagement can be directly compared to PR14, the comparative scale and range of new initiatives provide evidence of the ‘step change’.

- In addition to the commissioned research, the Company also drew on a range of customer views from its operational data and third party sources. The Company engaged with the CCG on the strategic framework for this research at an early stage; however, the CCG found it difficult to follow the thread of the interrelationships between the different phases, individual pieces of research and the sources of evidence through the exercise. This has been clearer as the process evolved but the CCG would have benefitted from the Company demonstrating links, chronology and evidence in a simpler way.

- There was a clear commitment from the Company to involve the CCG at the outset of the research and to clarify the timeline to give an indication of the continued engagement through the process. The CCG acknowledges the Company’s intent but the demands of tight timescales along with the number of research projects did make effective and consistent co-design difficult to achieve over this phase of work.

- The CCG also acknowledges the commitment of the Company to building the business plan from the bottom up, with an understanding of customer priorities shaping the design of the draft plan. However, the interaction between the different sources of evidence and the decision-making process was not always clear to the CCG and was the subject of requests for clarification to establish clear lines-of-sight between the evidence and the decision making in a more transparent manner.

- The Welsh Water 2050 strategy represented an important step in engaging customers on the long-term issues, drawing on the framework of the Well-being of Future Generations Act and providing a foundation for the PR19 plan. The CCG continues to highlight the importance of continuing to work to build an informed customer base and to report progress against the 2050 objectives.

- Customer engagement is most effectively achieved at key points of connection with customers. The CCG has been very supportive of the development of supporting a place-based approach, linked to major capital investment programmes as a prime opportunity to have a more in-depth and greater engagement with a community. The Rhondda Fach pilot has developed an innovative model for a more localised engagement approach, providing multiple benefits and also generating lessons for wider application through the Company’s operations.

In summary the Company has applied a range of research approaches and innovative techniques as well as drawing on in-house data to successfully secure an understanding of the views of its customer base.
Chapter 6

Measures of Success

This section summarises the extent to which the results of the customer engagement have driven the Company’s decision making in respect to the measures of success and performance commitments, which form the basis for the PR19 business plan. It focuses on Phase 2 of the Company’s engagement framework reflecting the Company’s aim to be customer-led throughout the formulation of the business plan.

It also reviews the Performance Commitments related to each measure to ensure they are stretching and reflect customer priorities.

The proposals for customer research on performance measures and overarching customer priorities was presented to the CCG in July 2016. The working list of measures of success, related to each of the Company’s customer promises, was subsequently presented at the CCG meeting on the 27th March 2107. The discussion focused on whether customer insight had been used appropriately in selecting the measures and whether there were any gaps in the set of measures being progressed. This meeting also received the details of the proposed customer research on performance targets.

The June 2017 CCG meeting reviewed the results of the triangulation process which reconciled the Phase 1 research findings with the operational and customer data from within the business and other external sources. This information provided the basis for reassessment of the draft measures against the triangulated data and highlighted areas for further clarification.

“As previously indicated the CCG welcomes the general approach taken to the establishment of the measures of success, reflecting Ofwat requirements, customer priorities and key business resilience measures. We are concerned about the number of measures, the potential for overlap, the need to be able to communicate each measure effectively and the degree to which the high level measures are underpinned by measures of impact.

We will also be challenging you to demonstrate how your will be pushing the Company towards exceptional performance on measures such as on water supply interruptions, per capita consumption, mains bursts, sewer collapses, sewer flooding and customer acceptability of drinking water quality.”

CCG Chair letter to Dŵr Cymru 12th February 2018

The further Phase 2 research and triangulation process contributed to the draft measures of success and performance commitments which were worked through with the CCG in March 2018. This session drew together conclusions on customer valuations and trade-offs regarding performance improvements, in the form of a set of cost-benefit analyses that underpinned the target setting exercise.
Measures of Success – Challenges
The Company set out 45 measures of success, which the CCG initially considered as too many and asked the Board to review and submit a case for reduction. This was re-presented to the CCG with options for reduction of the number of measures. On further consideration the CCG agreed that it was better to keep the proposed number of measures, to avoid lowering priority given to key areas of performance.

Regarding the suite of MOSs, we note the CCGs concern about the number of measures. While it is a high number, it is not out of line with what we have had in the past, nor with the rest of the industry. This is the minimum number that we believe is necessary to cover Ofwat’s requirements, our customers’ priorities, and the indicators the Company needs to track long-term resilience of the business. We have removed one measure where the CCG thought there was unnecessary overlap (on sewer flooding). We have also added an affordability measure in response to CCG feedback. Letter to CCG from Daniel Davies (Regulatory Strategy Manager) March 8th 2018

The Measures of Success have obviously been a key focus for the CCG. We did initially question whether 45 were too many measures, but have subsequently reviewed, and agreed that they do provide a comprehensive set, so would not recommend a reduction. Our main concern relates to how some of the measures can be a blunt tool and not give an effective picture of the impact that the Company is trying to achieve. This will be an area that will be a key focus for the work of the CCG going forward.

CCG Chair letter to Dŵr Cymru Chair 23rd May 2018

The CCG also challenged:

• the need to see a clear line-of-sight between the customer research, the measures of success and the long-term plan, demonstrating how the plan has been built on the customer evidence base. The letter from the Dŵr Cymru Chair to the CCG in June 2018 included a response to this challenge. The draft ‘Delivering Outcomes for Customers’ which formed part of the Company’s PR19 submission was received by the CCG on the 7th August 2018. This document responded in detail to the CCG request for clarity on the ‘golden thread’ between customer views, Welsh Water 2050 and the Measures of Success targets.

“Our Measures of Success were informed by the triangulation results of the first phase of our customer involvement programme. In addition, following the customer feedback on Welsh Water 2050 and the consequent additional Strategic Response of “working with communities” we included two additional measures of success on education and recreational activities (additional funding for recreation was also included as a result of our 2016 Have your Say consultation on how we should return value to customers). Despite Welsh Language Services not being included in the results of the Triangulation exercise, our Customer Service research noted the importance of the provision of Welsh Language services to our customers and it was consequently added to our final list of measures of success.” Letter from Dŵr Cymru Chair 18th June 2018
• the importance of clarity in the relationship between the customer promises, measures of success and Welsh Water 2050 strategy. The CCG has also consistently challenged on the line-of-sight between the PR19 Measures of Success and the performance objectives in the 2050 plan, to ensure we are making significant enough progress in the PR19 plan. We wanted the PR19 plan to clearly set out how the measures contribute to making a start on the 2050 objectives, demonstrating a clear long-term trajectory to achieving the 2050 outcomes. These longer term targets and the steps to their achievement were agreed by the Dŵr Cymru Board and subsequently circulated to the CCG on 16th August 2018.

• the fact that some of the high level measures may not provide an effective measure on their own, in providing a quantitative figure which may not reflect the qualitative impact that is being desired. This would be a key focus for the CCG in monitoring the impact.

“We accept this. As discussed, a quantitative measure will rarely be adequate to capture the full impact intended. Note that Ofwat guidance is not to use combined/basket measures at PR19.” Dŵr Cymru response

• there are several measures which the Company referenced as not being relevant for customer contribution, while this may be strictly true in respect to some of the internal business measures, the CCG would stress that these measures are essential in maintaining and continue building customer trust with the business.

“We agree that these are important measures that do indirectly impact customer service. At the same time, it is hard to ask customers what the appropriate target should be as these are to do with how we run our business and do not impact customers directly.” Dŵr Cymru response

• customers have a high expectation of the role of the Company and trust is easily undermined by poor corporate practice. This extends to measures not included e.g. the application of the real Living Wage, support for employees community involvement, the approach to ethical procurement etc., which form part of a customer’s expectation of Company behaviour. The CCG will be focused on performance against these ‘citizenship’ measures in the Company’s reporting to customers.

The CCG would recommend that the measures are assessed against the National Well-being Indicators that underpin the Goals in the Well-being of Future Generations (Wales) Act and the requirements of the Environment (Wales) Act. The Welsh Water 2050 strategy is set in the context of these Goals and it will be important to measure the contribution of the Company over the period of the business plan.

“We will map the measures against the Wellbeing Goals as you suggest. The requirements of the Environment (Wales) Act are specific and not well-suited to MOSs as a way of tracking progress. However, we will be reporting on how we have met our obligations under the Act and contributed to it during AM P7.” Dŵr Cymru response
The issue of transparency is central to the customer compact. This applies to how the measures of success and targets are constructed and communicated in ways that allow customers to consider both actual and relative progress. This particularly applies to how the customer bill is calculated and the way in which income is allocated. The customer research does indicate a low level of awareness and understanding on this issue, but a high level of value being put on transparency.

“We agree that transparency of targets and performance is vital. We have engaged with the CCG on our Annual Performance Report and how it can be made more transparent to customers, and will continue to do so.”

Dŵr Cymru response

The CCG subsequently further reviewed the Measures of Success and targets in the July 2018 meeting with the Company providing an update on actual performance figures for 2017/18 to ensure that targets are set against accurate baselines. The update also included changes to targets in sewer flooding due to new definition, increase in kilometres of river improved as agreed with Natural Resources Wales, the new measure on population subject to sewer flooding in a storm, waste water asset resilience, and confirmation of a doubling of the lead pipe replacement target.

Specific changes highlighted were the Company’s approach to measuring complaints, changes in the average household bill and financial resilience.

The Company also informed the CCG that following feedback from Ofwat that there would be changes to the Resilience measures moving from three to five asset resilience measures, resulting in a total now of 47 Measures of Success.

The Performance Commitment Targets

The CCG believes that the suite of measures provides a comprehensive framework that reflects the views of customers. The CCG focused on pushing the Company towards exceptional performance on customer priority measures. These were discussed with the Dŵr Cymru Board in July 2018. Specific areas of priority raised were:

Water Supply interruptions: The CCG agrees that using an upper quartile benchmark that takes into account customers served by each company (rather than looking simply at an ‘unweighted’ upper quartile) makes sense given the wide variation in the size and nature of water companies, and how this variation impacts on this measure. The impact of increasingly severe weather events makes it important to prioritise addressing water supply interruptions of twelve hours or more.

CCWater provided its view (Appendix 20) on the trends in the company’s performance in order to inform the CCG’s challenge:

- Dŵr Cymru performance on water supply interruptions has been below industry average for at least three years.
- In 2016/17 the Company managed reduction of over 40% but still remained below industry average.
In 2017/18 the Company’s performance worsened significantly as a result of Storm Emma. However, even not taking into account Storm Emma’s impact on water supply interruptions, the Company’s performance would have worsened, just failing its target for 2017/18.

Whilst we understand the challenges in addressing this issue, CCWater are concerned that the pace of improvement for customers is not fast enough.

We recognise the affordability challenges explained by the Company. But as a starting point we would like to see the Company commit to eliminate water supply interruptions of 12 hour and more, and we were not able to establish that this was taken into account in the targets set for AMP7.

Customer Acceptability of Water Quality: Dŵr Cymru lag rest of industry on this measure and DWI want to see significant improvement. The CCG listened to the Company’s explanation that industry leaders on this measure do not face the same operational environment which affects its performance. However, this needs to be a priority measure, with support for a focus on longer term solutions through catchment management and a long-term strategic plan for further long term improvements.

CCWater does not measure customer contacts on water quality but has had a long-term understanding of this being an ongoing performance issue in Wales. The challenging targets at PR14 seemed to be successful at mobilising the Company to implement some improvements in its performance by looking at ways it can improve its practices, and working to avoid external causes of complaints. CCWater’s understanding of the DWI’s expectations on this is that the target should be more challenging to improve the Company’s performance in this AMP7, demonstrating higher ambition. The measure chosen by the Company is not comparable to what is measured by the Discover Water Dashboard therefore not allowing direct comparisons with the rest of the industry for CCWater.

Leakage: is a vital issue for customers that can enable behaviour change and is a high priority for stakeholders. It generates a strong emotional response from customers in respect to wastage and can be a major factor in undermining customer trust. The Company has set leakage targets on the basis of the ‘economic levels of leakage’, but the emotional reaction could have significant operational impacts through undermining trust, particularly given the increased likelihood of increased water stress through climate change. The IEAP has stressed the need to move leakage measures from largely a cost driven balance to a value proposition based around natural capital accounting.

The focus on reducing customer-side leakage is supported by the CCG and has the potential of offering multiple benefits in terms of customer engagement. However, there is uncertainty on its capacity to deliver the expected scale of reduction. There should be clarity and prominence to the role of customer metering in reducing leakage.

The Dŵr Cymru leakage performance in 2017/18 is slightly below upper quartile on a per km basis but some 22% below upper quartile when measures on a per property basis (in 2016/17 CCWater’s industry performance report highlighted the industry average being 121 megalitres/property/day and Dŵr Cymru being one of the five companies being above that level on leakage at 123).
The targeted AMP7 leakage reduction would leave the company better than the forecast upper quartile by 24/25 on a per km basis, but it would continue to lag the upper quartile on a per property basis (due to the high proportion of mains per customer).

“Ofwat should encourage and incentivise the sustainable and efficient use of water resources”.

Welsh Government’s 2017 Strategic Priority Statement

**Per capita reduction**: The CCG feel there could be more focus on demand reduction as a way of improving resilience, improving environmental outcomes and tackling affordability for both domestic and Non-Household customers. CCWater provided its expert view on trends in the Company’s performance in order to inform the CCG’s challenge:

- In 2016/17 CCWater’s industry performance report highlighted Dŵr Cymru was one of the companies whose average consumption of water per person was above average, and it showed an upward trend. However, there are some concerns about the comparability of this measure on a consistent basis.
- The 2024/25 target is 138, against a 2015/16 outturn performance of 143, therefore raising concerns on whether the Company was ambitious enough in its targets.

The CCG challenged the Company plans on leakage and per capita reduction, this led to the Company presentation of the proposal for the ‘Cartref’ scheme at the July 2018 meeting.

**Pollution incidents**: This is viewed to be a priority measure of success by CCG with a high risk factor in undermining trust and a customer expectation in respect to the Company’s

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**Cartref**

At the July 2018 meeting, the CCG received a presentation from Ian Christie, Water Services Director, setting out the Company plans for ‘Cartref’ as a customer focused approach that can address both leakage and contribute to per capita reduction. 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. The planned ‘Cartref’ programme will address customer-side leakage in high-loss areas and provide opportunity to work with customers on usage reduction as well as identifying the need for lead pipe replacements.

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

- The need for significant customer engagement and education 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.
- The need to work with NHH customers to reduce consumption.
- The great opportunity for addressing leakage and consumption to deliver real reductions to per capita consumption.
- The importance of stretching long term targets and milestones linked to the Water Resource Management Plan.
contribution to the quality of rivers and beaches as key national assets. The increase of severe weather events will put further pressure on performance. In CCWater’s 2017/18 comparative analysis based on the commentary issued by NRW, the Company’s rating on environmental performance has dropped due to non-compliance with permitting conditions set for discharges. The NRW annex (Appendix 10) indicates their recommendation that the Company should be more ambitious in improving its performance commitment below 90 incidents, while EA informed the CCG they would expect the target to be between UQ and Frontier.

**Environment Km of rivers improved:** The Wales Environment Link (WEL) representative questioned whether using kms of river improved as the sole measure of environmental improvement in the commitments was sufficiently defined. The Company explained that the measure and target are linked to delivery of the Company’s statutory environmental obligations as set out in the NEP/WINEP. Customers also demonstrated significant support with ‘cleaner rivers and beaches’ being a top priority in the ‘Have Your Say’ consultation.

The targeted improvements of 418kms of rivers over the course of the AMP7 periods and a further 148km during AMP 8 have been agreed with NRW and EA under NEP/WINEP and as such have the status of formal legal obligations, which met with the WEL representative’s approval.

**Catchments Improved (improvements in raw water quality):** Delivering nature-based solutions has been established as a key national priority in the Welsh Government’s Natural Resource Policy. This policy identifies that healthy, resilient and diverse ecosystems can provide solutions for the benefit of society to the big challenges we face. There is growing evidence which shows a high return for investment in our natural resources, with rates of return comparable to more traditional infrastructure investment projects. The Brecon Beacons Mega Catchment project was highlighted by the Independent Environmental Advisory Panel (IEAP) as a great opportunity to test bed catchment and landscape management to help support a new approach to land management post Brexit. The CCG believe there are clear opportunities to demonstrate ambition in this area and to reflect and properly resource nature-based catchment approaches developed collaboratively within the business planning proposal for PR19. The IEAP has also stressed the need for Ofwat to incentivise the move from short-term asset related investments to longer-term catchment based investments where benefits would take multiple AMPs to deliver.

**Lead Pipe Replacement:** There is clear evidence of the impact of lead especially on the well-being of future generations. The CCG has highlighted the importance of this work supporting the role of the Wales Water Health Partnership and the Company’s 2050 target of a lead-free Wales. Whilst there is no specific action in the Water Strategy for Wales on accelerated lead removal, a lead-free Wales commitment has been supported by the Welsh Government and is viewed as an important target by DWI. The CCG welcomes the increased target for lead pipe replacement, with a doubling from the original figures of 3,500 replacement pipes, as a result from the findings of the options testing with customers. However, there is a significant challenge in the scale of the task which will need to be met through both collaboration and innovation as yet there is no clear pathway to achieving the 2050 target.
In summary, the CCG believes that the suite of measures provides a comprehensive framework that reflects the views of customers. The CCG accepts that while it encourages the Company to be ambitious across a range of measures this has to be balanced against the evidence which shows the high level of financial vulnerability within the customer base in Wales.

The full CCG commentary on the measures of success as discussed with the Company between March and May 2018 is captured in Appendix 15.
Wales Environment Link, who are represented on the CCG, launched its Blueprint for PR19 in September 2017 setting out a manifesto with 18 asks under 5 themes of Protecting and restoring catchments; Stopping pollution in our rivers; A step change for biodiversity; Keeping rivers flowing and wetlands wet ; and Using water wisely and pricing water fairly.

The Company in a letter from Tony Harrington Director of Environment responded by agreeing the alignment of the 14 of the manifesto asks with the priorities in the PR19 business plan, as these were broadly supported by the Customer research undertaken by Dŵr Cymru for PR19. Due to resourcing issues within Wales Environment Link, the 4 areas which were not accepted and so remain subject to further discussions, relate to the role of natural capital accounting; moving to a position where demand reduction options are favoured by default over supply options; and proposals to financially incentivise customers to reduce consumption as part our water resource management planning.

The CCG is encouraged that the Company has subsequently agreed a set of environmental principles, unique to Wales with Wales Environment Link, who members are represented on both the IEAP and the CCG, to deliver the principles set out in the PR19 Wales Blueprint. These are to be launched in the autumn.

The environmental principles agreed for AMP7 in Wales are as follows:

1. **Continue to work in partnership and collaborate on areas of common interest pertinent to the fulfilment of the Company’s functions**, e.g. by recognising the value of and actively pursuing policy change with Governments in support of catchment based approaches to protecting water supply.

2. **Recognise the roles of both sectors as environmental stewards**, e.g. work together to ensure everyone appreciates the fundamental links between water and the environment more generally. This should include supporting better links between land use and water policy in Government; the relevant goals detailed in the Well-being of Future Generations Act, and delivering Dŵr Cymru’s strengthened biodiversity duty under the Environment (Wales) Act 2016.

3. **Work to support the principles detailed in the Water Framework Directive**, e.g. supporting the Polluter Pays and other WFD Principles in policy discussions with Government, helping to ensure that all relevant parties do their part to improve the aquatic environment.

4. **Work together and with our regulators to co-create and deliver resilient solutions to meet the environmental obligations in Dŵr CYMRUs Business Plan** e.g. with respect to Dŵr CYMRU catchment proposals; invasive species control; implementation of sustainable urban drainage systems; research; and land use change.

5. **Commit to making environmental data available in a timely and transparent way**, e.g. to enable eNGOs and our regulators to better understand the environment and thus promote improved, fair and equitable environmental policy making in Government.

6. **Recognise the importance of improving services to customers at an affordable price whilst improving and enhancing the environment**, e.g. work together to improve the resilience of Dŵr Cymru Welsh Waters’ services and so improve the resilience of the natural environment in an affordable way.
Chapter 7
Customers in Vulnerable Circumstances

The Company’s Proposals for Working to Support Customers in Vulnerable Circumstances

Support for customers in vulnerable circumstances has been a key focus for the CCG in its work with the Company. The CCG has defined the term vulnerable as financial and non-financial, and through discussions we have also reiterated the learning from the customer research, where there was evidence of long-term and transient vulnerability, both situations where additional support is required.

The CCG held an initial workshop on the theme on September 19th 2016. The CCG wanted Dŵr Cymru to consider how their approach could align with CCG member organisations, how their approach would identify and support customers in vulnerable circumstances (and/or defined as hard to reach), and how their design, delivery and uptake of appropriate services and support would ameliorate their situation.

The workshop included a contribution from Legal & General as an opportunity to learn from another sector in helping to build a segmentation of the drivers of vulnerability, which was subsequently adopted by the Company:

- Crisis e.g. Death/Divorce/Redundancy/Major Health Life Conditions
- Capability e.g. Physical or Mental Health Conditions/Learning/Language
- Connectivity e.g. Messaging difficulties/Hard to Reach/Digitally Excluded
- Circumstances e.g. Flood Prone/Remoteness/Lack of Public Support Services

As part of the follow up to the workshop the CCG was instrumental in initiating and facilitating a joint conference organised through CCG member Warm Wales, in December 2016 with Dŵr Cymru, Western Power Distribution and Wales & West Utilities, which was chaired by the CCG Chair. The aim of the event was to promote and enable greater collaboration and sharing of learning across the monopoly utility sector with public and voluntary sectors, supporting customers in vulnerable circumstances to make a sustained difference. The conference led to a commitment to wider data sharing and collaboration between the utility companies.

The CCG has encouraged the Company to take a collaborative approach to tackling poverty rather than a narrow focus on water poverty.

“The bill research highlighted again the high level of financial vulnerably within the customer base in Wales, which needs to be fully recognised within the business plan. The CCG stressed the need for the Company to consider household poverty as opposed to the narrow water poverty focus, recognising the Company has a leadership role to play in developing cross sector solutions. The CCG recognises the limits to the Company role but would encourage partnership approaches in liaison with Welsh Government and other trusted intermediaries in tackling resource efficiency and reducing household expenditure e.g. in areas such as the costs of heating water.”

Letter to Dŵr Cymru from CCG Nov 2017
The customer evidence indicates that the majority of customers are unaware of the additional services and support for vulnerable (transient or longer term) customers. Of those who were on the list of customers eligible for additional services, most did not feel they had been given a service ‘above and beyond’ what they would have expected from a basic service.

**Rhondda Fach Pilot (Water Resilient Communities)**

“The CCG was keen to understand whether there were hotspots of overlapping issues that would be addressed and in particular the opportunity to engage such communities in the solutions to the issues.”

CCG October 2016

The CCG has worked with the Company to develop the ‘deep dive’ approach, working in depth in a community to develop a pilot for a place-based approach to supporting community resilience which could be part of the business as usual approach in AMP7. The Rhondda Fach Water Resilient Community pilot project was established in autumn 2017 linked to the Company’s zonal infrastructure investment.

“The Resilient Communities project will allow us to work with and involve customers in a way that we haven’t done before, by “working with customers to co-create and co-deliver more resilient services” (Resilience in the Round, Ofwat19) as well as focusing on a targeted area that faces numerous challenges both from a Welsh Water asset point of view, and from a community point of view. The project will look at direct involvement and collaboration with the community for long-term benefit.

The project has been initiated with involvement from our Customer Challenge Group (CCG) Chair, Peter Davies and addresses some of the CCG strategic challenges.”

Dŵr Cymru 2017

The initial findings of the research for the pilot demonstrated the need for cross-sector collaboration and an in-depth, community-based approach as 34,500 households in the area represent some of those in the most vulnerable circumstances.

The initial research indicated that 187 customers were on the Priority Services Register and 693 registered for social tariff. Figures that suggest considerable scope for improvement, given the level of deprivation in the area.

The CCG has been encouraged by the clear commitment of the Chief Executive and Board to respond to the challenge highlighted by the initial research and to develop a transformative model.

“I’m very excited about our approach to the Rhondda Fach Water Resilient Communities project and how that will work in line with the principles of the ‘Tapped In’ report. We have already held a number of positive meetings with local groups and organisations and are building our action plan to support the objectives outlined in the local wellbeing action plan designed by the Public Service Board. I’m keen that you and the CCG continue to play an active role in this project to ensure that we maximise the impact and customer

involvement from the local community. This is a key project for our Business Plan and – if the pilot is successful - our ambition is that we can roll out a number of similar projects over the course of the next AMP”.

Letter to CCG from Dŵr Cymru CEO 9th February 2017

A report on the Rhondda Fach pilot, prepared by CCG member Cynnal Cymru for the CCG, can be found in Appendix 16. It includes the following key recommendations:

1. Given lessons learned from the pilot, and the creation of a blueprint for a new way of working, Dŵr Cymru should continue, adapt and improve on this pilot project to bring similar benefits to other communities. Ultimately embedding this way of working as corporate culture.

2. The success of reaching the seldom heard voices in the Rhondda Fach; and the innovative ways this has happened; should be shared with wider stakeholders for wider and longer lasting benefit.

3. Early commissioning of the socio-economic, place-based research should be used for each geographic area to inform on-the-ground activity (as each community will have its own areas of focus). This research has been valuable in informing activity and making recommendations at the outset, giving the project early focus.

4. We would recommend a similar wide stakeholder grouping and an initial ‘scoping’ meeting. This should be followed by subsequent meetings and workshops with appropriate and identified individuals (that may differ from the representatives that sit on the stakeholder group) to focus activity into separate work-streams.

5. As this was the first project of its kind it was expected that the internal culture would be slow to change. However, with the Company’s innovation, commitment and a dedicated team, there is early evidence of individuals and teams throughout the Company embedding this new way of working and supporting the vision of a customer-centric, coproduction approach. This momentum needs to be continued and built on.

6. The use of Trello came at quite an early stage but it has been adopted differently by different groups. Early tutorials and ongoing support could be included in subsequent projects with an idea of expected levels of use.

7. Building Trust, it takes time and commitment to build trust with local community groups and individuals. Allocating dedicated time to focus on this and having people spend time on the ground should be built in to future projects (as it has with this).

8. We learnt from some of the early stakeholder meetings and workshops that there was some early scepticism and mistrust around what Dŵr Cymru were trying to do (as many of the groups had seen lots of projects come and go in the area). A key part of the process was telling people about the project and allowing them the time to ask questions and understand how there is a genuine benefit to their own community and organisations, before asking them to share their ideas or get involved further.

“This meeting showcased true collaboration and we learned so much from each other. Each member of staff shared with your team how we work well in that area, and your team took on board all the information we provided with great enthusiasm and we now
have a firm plan for future working. I was really impressed by both Trivallis and Dŵr Cymru, where both organisations demonstrated passion for our communities and the understanding of the complex issues some of the people in this area have. This meeting demonstrated real partnership working, putting plans in place from the start aiming to try and be one step ahead in delivering a successful programme together.”

Local Housing Association representative comment to the Company in February 2018

The CCG recognises the importance of the approach being developed in the pilot and supports its wider application within the business plan at scale. The approach applies the principles of the ‘Tapped In’ report to customer participation, working in one of the most deprived communities to deliver multiple and place-based benefits in collaboration with others.

The CCG will also be looking to ensure that the lessons from the in-depth water resilient community project, as well as working through community hubs to gather on-the-ground information, are applied to the wider operations of the Company.

Response to the Company's Draft Strategy for Customers in Vulnerable Circumstance

The CCG received the draft Vulnerable Customer strategy at the March 2018 meeting and subsequently undertook a consultation with members to produce a response that was submitted to the Company in April. This response can be found in Appendix 17.

The CCG felt that the draft strategy represented a good start on building on the track record to date and made the below suggestions as areas for improvement.

A response from the Company to the CCG commentary on the draft vulnerability strategy was received on July 8th is included in Appendix 18. The response indicates that the Company will be taking forward actions related to the key recommendations in finalising the strategy and in the implementation plan.

Key points accepted by the Company included:

- The strategy should put more emphasis on understanding the different challenges that customers face, accurate customer identification of degrees of vulnerability is fundamental to better targeting of resources and would then place the Company at the forefront of best national practice.
- Support for the greater use and promotion of the Priority Services Register (PSR) with the aim of increasing its numbers, but there needs to be a clear focus on quality of data and an avoidance of an over reliance on the register as an indicator. It will be important to assess the value of the assistance provided through the PSR.
- Collaboration with other sectors, particularly those leading practice in the energy sector, including a focus on the cost of heating water as a significant factor for customers with scope for greater collaborative action and innovation.
- Support for the plans to share data with key partners, train staff and make its services more accessible, but there is scope to go further, with a range of practical actions suggested which are designed to improve access for customers.
- A more strategic focus in developing delivery partnership with third sector partners in particular Citizens Advice Cymru.
- Improvements in communication with vulnerable customers at times of crisis such as in severe weather events.
- The importance of a specialist focus on those most in need.
- An extension to the Rhondda Fach pilot into a mainstream community focused programme.

**Social Tariffs**

The CCG received the results of the research on social tariffs at the May 2018 meeting. The research tested the extent of customers' willingness to support the cross-subsidy element that contributes to the Dŵr Cymru social tariff. The results show that the majority (61%) of informed customers supported up to a £3 increase, but the Company did not feel this was a large enough majority to justify increasing the cross-subsidy.

“We are not currently proposing to increase the cross-subsidy borne by customers to fund our social tariffs due to the lack of an overwhelming mandate from customers reflected in the results of our research despite a majority being in favour of the concept of a cross-subsidy itself.”

**Letter from Dŵr Cymru Chair to CCG 18th June 2108**

During the July 2018 meeting, the CCG considered the need for a revised approach to social tariff support given:

- the evidence that customers do not demonstrate strong enough support to justify an increase of the cross-subsidy beyond current levels.
- the anticipated lower sums available for ‘customer distributions’ from the Company during AMP7.
- new data suggests that up to 31% (400,000) of the total customer base may be eligible, based on the existing eligibility criteria, financial or non-financially vulnerable.
• the PR19 plan includes an increase from the current 90,000 customers supported to 148,000 customers. The Company confirmed to CCWater that it will be looking for over 100% increase on current levels on the HelpU social tariff within that target, with an increase to 119,600 from 57,000 customers currently receiving this support.
• the evidence from current distribution shows take up does not necessarily meet those in most need.

The CCG accepted the analysis of the situation and agreed that it was vital to redesign the scheme to be better targeted. The CCG emphasised that in the development of a new approach, the Company should:

• draw on the lessons from Rhondda Fach pilot on better targeting of those most in need.
• be aware of limitations of a solely area based model.
• have a bigger part to play in a multi-agency, multi-sector collaborative approach.
• focus on staff training to provide responses tailored to customer circumstances, for example a metering solution as opposed to default to social tariff schemes.
• strengthen interaction with customers and tracking to take account of changed financial or personal circumstances.
• improve general customer awareness of the support for those less able to pay through the mix of cross-subsidy and Company contribution.
• establish clear metrics for measuring impact, as recommended by CCWater.
• directly involve the customer base and those who find the bill a stretch on the re-design.

**Priority Services Register**

The Company’s business plan commitment to increase engagement with priority service customers, from 2% to 8% in line with the current energy sector benchmark, is welcome, but the CCG notes that Ofgem are seeking the energy sector to offer a far higher level of engagement in servicing various degrees of vulnerability.

The Company will need to apply the lessons from CCWater’s Priority Services Register review. Performance is reported against quality measures of the effectiveness of support provided as well as the increase of numbers on the register. There should also be evidence of collaboration and shared learning with the energy sector.

**Next steps**

The CCG recognises that the Company has an industry leading record in supporting customers in financial difficulty, but there will need to be a step change in the approach to implementation in the next period.

The Company has committed to working with the CCG to further develop the strategy for supporting customers in vulnerable circumstances with a stakeholder workshop planned for November 2018. The CCG will want to ensure that this reflects the ambition to ‘do even more’ in the efforts to support customers in vulnerable circumstances.
Chapter 8
Outcome Delivery Incentives

Ofwat methodology clearly states that companies are expected to engage with customers on the design of rewards and penalties. The early CCG discussions on the operation of ODIs highlighted issues over their application, in particular the potential difficulty of engaging customers on the detailed design of an ODI scheme, particularly given Dŵr Cymru’s not-for-profit operating model. The CCG did, however, stress that it was important to seek customer views on how rewards and penalties, were likely to influence customer bills. The Company undertook qualitative research on customer views on ODIs, which was reported back to the CCG in March 2018.

The concerns of the CCG were reinforced by the findings of the research where customers accepted the principle of penalties, but did not understand why they had to reward the Company for good performance through increased bills, particularly given the not-for-profit status of Dŵr Cymru.

Customers were clear that there should be penalties for poor performance against their expectations of a quality service. Equally any incentives to reward excellence should clearly reflect the customer priorities based on the particular context of the Company’s operations. Such incentives should reflect performance well beyond customer expectations and which would be recognised as such by customers.

The CCG therefore welcomed the Company’s intent to weight ODIs more towards penalties than rewards and agreed with the principle that they should be set at the lower end of the Ofwat range.

The CCG also welcomed the proposals for a ‘Water Share’ scheme for managing any net ODI rewards through returning a proportion to customers in lower bills, and consulting with the CCG, Natural Resources Wales and the Environment Agency, before deciding on how the remainder would be returned to customers.

At the July 2018 meeting, the CCG considered the qualitative research on the acceptability of ODIs undertaken by Accent which concluded that:

“the majority of customers understood the principle of targets and associated rewards/penalties for businesses. However, for most, linking the rewards and profits directly to the customers’ bills is felt to be negative. Whether bills are perceived to be manageable or not, customer bill increases are not welcomed within this context and they find it difficult to comprehend why the customer has to be penalised for Dŵr Cymru exceeding targets. Dŵr Cymru’s not for profit model adds an additional layer of complexity and many questioned the relevance of rewards/penalties for Dŵr Cymru”.

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.
- Acknowledged that the proposals reflected the customer priorities.
• Reinforced previous agreement to the pitching of the ODIs at the lower end of the Ofwat range with a greater emphasis on penalties; and incentives only being applied to what customers would see as exceptional performance.
• Stressed the importance of building the informed customer base and communicating transparently the application of ODIs in practice.
• Repeated previous concerns in respect to the principle of ODIs, particularly as applied to a not-for-profit operation.

The research provided customer views on the priority performance areas across the measures of success to guide the Company’s proposals for the allocation of the penalties and rewards.

The Company proposals for the allocation size and distribution of rewards and penalties presented to the CCG were largely in line with these findings with the top priority areas being:

• Water quality (risk to health).
• Sewer flooding in customer properties.
• Worst served customers (waste-water).
• Water supply interruptions.
• Pollution incidents.

The Company is proposing ‘trust levels’ as a ‘flagship ODI’, yet the research indicated that “reward or penalties are not appropriate for subjective, softer measures such as this”.

In response to a challenge on this issue the Company stated:

“The key thing is that customers agreed that Trust is really important (“critical”), and captures a range of the things that customers care about (service, reliability, communication etc). However, there were some reservations as to whether it would be suitable for rewards and penalties. Some of the customers just felt that rewards and penalties were only suitable for ‘hard’ measures rather than ‘soft’ measures such as Trust. But they didn’t give a basis for this. In fact, we know that Trust can be robustly measured through surveys, and we would argue that it is suitable as a ‘flagship’ measure that attracts significant rewards and penalties, because it is so important to customers, and because it is a hard number with a clear methodology”.

Dŵr Cymru July 2018

A similar point can be made for the lower level reward and penalty proposals in education and recreation which customers believe are important but feel “that softer (self-imposed) targets are more appropriate.”

The CCG also raised the point that the lack of a question on ODIs in the final acceptability quantitative survey could have impacted the overall acceptability result and perhaps making it more favourable than it would be if such a question was included – a point stressed by CCWater.
The Company responded:

“1) 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.

2) Including a question on ODIs therefore risks ‘contaminating’ the quality of the answers to the wider survey.

3) 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.”

In summary
The CCG supports the approach the Company is proposing for ODIs, as consistent with customer views:

- A greater focus on penalties.
- The plans for returning any net reward to benefit customers.
- The application at the lower end of the range to minimise volatility and retain customer confidence.
- Prioritisation across the measures which are important to customers.

The CCG accepts that the concept is complex and difficult to convey effectively in the final quantitative acceptability survey, although the Consumer Council for Water have stressed that they see this as a missed opportunity.

The CCG will want to ensure that there is a transparent approach to the application of the ODIs to ensure customers understand how the rewards and penalties are being applied and to develop an improved narrative to better engage customers over AMP7 and beyond.
Chapter 9
Achieving a Balanced Plan

The CCG has a key role in reviewing the Company’s approach to achieving a balanced plan, in particular reflecting the trade-offs between:

- Providing current customers with the best possible service at affordable levels.
- Meeting the expectations of society as a whole in delivering wider benefits and supporting customers in vulnerable circumstances.
- Ensuring investments will meet the needs of future customers.

The March 21st 2018 CCG meeting reviewed the evidence from customers about their circumstances and outlook, their opinion of affordability and acceptability of the current bill, and the balance of views between keeping bills low and investing for the future and improving performance.

The CCG highlighted affordability as a key concern for a customer base where average incomes are lower than the rest of the UK, yet have a water bill above the industry average, and where the customers are concerned about future income levels, with 42% saying that paying the bill is a ‘stretch’. The evidence base therefore means that affordability issues need to be front and centre of the business plan.

Equally the CCG stressed the challenge for Dŵr Cymru to ensure delivery against the long term plans, ensuring that investment levels in the business plan deliver sufficient progress against the ambitions set out in Welsh Water 2050.

The CCG were supportive of the conclusions and the proposed approach set out by the Company to:

- Drive efficiency as hard as possible to keep bills down on an ongoing basis.
- Pass through any savings arising from the lower cost of capital directly to customers in the form of lower bills.
- Expand social tariffs so that affordability support is better focused on those customers who most need help.
- Charge today’s customers for the costs of running the business and maintaining assets on an annual basis, plus a share of the costs (including borrowing costs) of required investments depreciated over a reasonable period.
- Ensure that the Company has a revenue forecast that enables it to maintain a strong credit rating and hence keep the costs of borrowing down.
- Take a measured approach to long-term (Welsh Water 2050) investments, ensuring that we ‘make a start’ during AMP7.
Options Testing Research

Phase 1

It should be noted that, due to severe weather and ensuing problems for the Company, the CCG meeting arranged for 5th March, where the Phase 1 options testing was to be discussed, was postponed. The research framework was circulated for comment but with very tight deadlines. The CCG received initial findings from this research in April 2018 and the full report in May 2018.

The Phase 1 options research presented a ‘base plan’ and an optional ‘extras package’. The ‘base plan’ was linked to an average bill of £425, a real term reduction of £20 from 2020 levels. The ‘extras package’, consisted of a package of improvements and, was offered at an average bill of £435, £10 more than the ‘base plan’.

The research did indicate customer support for the ‘extras package’ particularly through the qualitative research but the overall summary of the research indicated only a 51% majority in favour of the higher bill and ‘extras package’. The CCG wrote to the Company in April 2018 indicating its view that “that the research findings did not provide a clear mandate for the Company to proceed with the additional options in the business plan and the associated additional cost on the customer bill.”

This view was supported by the Dŵr Cymru Board in May 2018, they asked the CCG to consider a compromise in that the Phase 1 research provided customers with an either/or choice on two packages. The Company indicated that they had done further work on the financial modelling and this had provided some further flexibility which could allow some elements of the enhanced package to be funded while keeping the bill reduction at the same level.

“Following the results of our “options research,” we have decided to reduce the average household bill (before inflation) by approx. £20. Our research established a majority support for a smaller reduction (£10) that would have delivered additional service improvements, but not an overwhelming level of support. Therefore, following the firming-up of our financial plans we have reflected these customer views and we’ve been able to fund some additional services – including customer service improvement that customers indicated they expected to see in our Business Plan.”
Letter from Dŵr Cymru Chair to CCG June 2018

This compromise package would include elements where customers had indicated higher priority in the Phase 1 ‘extras’ list:

- **Customer service**: Keeping up with other sectors i.e. appointment tracking.
- **Lead pipe extra expenditure**: A clear part of Welsh Water 2050 and the Welsh Government strategy. High level of stakeholder support.
- **Water network resilience**: Investment that would help build resilience in more populated areas, a requirement highlighted as a response to Storm Emma.

If these options were not included there could be a further bill reduction in the region of £5 per year.
The CCG stressed that the options research on its own did not provide strong evidence as the percentage differences were small, so it would be important to ensure that the three areas could be linked back to the main customer research programme. The Company provided the following response:

“*The margins of customer preferences between the various options were very narrow, ranging from 22% for the highest to 15% for the lowest. We therefore had to rely on other rationale when selecting the optimal combination of options to progress and decided to include three of the options in our business for the reasons below:*

- *Although the appointment tracking system scored lowest of all the options, the feedback from the “options testing” focus groups made it clear that customers weren’t scoring the appointments tracking option highly because they didn’t want it but because customers felt that the appointments tracking system should be included as “business as usual” as it is becoming standard practice in other sectors.*

- *Additional lead pipe replacement is something that we know has strong stakeholder support, and we have been pushed to do more on this issue by the DWI, and helps us move faster towards a key Welsh Water 2050 objective.*

- *Strengthening the resilience of the water network is a high priority – as already included in the business plan – however, in light of the impact of Storm Emma we believe that the need was highlighted by Storm Emma.*”

The CCG agreed that the additional investment areas should be included in the final plan for acceptability testing, while maintaining the bill level reduction already committed; as opposed to a further reduction of £4/5 per annum in the bill.

The customer research had highlighted the importance of affordability but there was no strong message that bill reduction was the overriding priority over other aspects of service improvement.

The CCG raised a concern over whether the efficiency drive to deliver the bill reduction would lead to a squeeze on ambition especially in relation to improvements in environmental outcomes which were of high priority for customers. The Company indicated that investment plans did not indicate that this would be the case and business efficiencies would deliver savings for customers without impacting on investment levels which would be higher than in the current AMP.

The CCG also raised the question as to whether future bills would be impacted adversely through a tightening in the next AMP, if not enough progress was being made against Welsh Water 2050 objectives. The Company noted that every price review requires them to balance affordability, financability and operational performance for both today’s and future customers. The company noted that it would continue to track progress against 2050 objectives whilst always striving to keep bills affordable.
Overall Acceptability
The CCG discussed the proposed final acceptability testing at the private April 2018 meeting, and raised two points in respect of the nature of the online panel and the engagement of non-household customers:

a) “The nature of the online panel being used for the core online survey – does this include the Online Customer Panel established by the Company? How do you intend to minimise the self-selecting nature of online surveys? In this discussion the CCG also asked to be briefed on the current status of the Company’s online customer panel.”

Company Response
The online survey is not related to Dŵr Cymru’s customer panel. Instead the sample is sourced from a 3rd party panel provider.

Online panels are a highly representative solution, with online penetration nearing saturation (in 2016, 85% of households in Wales had Internet access. Source: ONS). To ensure the sample is as representative as possible, we will apply quota controls on key demographic criteria (age, gender, social grade and region). Our quota targets will be based on 2011 census information for Wales. An online method also offers the key benefit of being able to display visual stimulus which we believe will be essential in conveying bill profile scenarios to customers in an easy-to-understand way. The online survey will function both on computers and mobile devices, ensuring we reach the broadest possible range of consumers, and that they will be able to complete the survey at a time and place convenient to them.

Our ‘Online Community’ panel (Have your Say Panel) currently has 514 members and has been used for eight projects to date, including our bill redesign project, options testing and Welsh Water 2050. I’d be happy to update the CCG fully on this at a future meeting.

b) The proposed ‘in community’ survey while being welcomed as a means of reaching out to seldom heard customers, would not include the opportunity to secure views from non-household customers. We would encourage opportunity to specifically engage small and medium sized business who may also be seldom heard.

Company Response
Non-household customers are represented comprehensively elsewhere in the project and we have a sample size of 180 non-household customers. The community panels are specifically to include hard to hear/remote/non digital household samples. All stimulus has been circulated ahead of the next CCG and we would welcome further discussion on this matter at the meeting.

At the May 2018 meeting, the CCG further reviewed the acceptability testing survey following updates made by the Company and the research agency. The key points raised by the CCG and stressed by the Consumer Council for Water were:
• The importance of being clear on the impact of inflation in the acceptability testing the bill profiles with customers.
• The feasibility of including ODIs in the survey.

Acceptability Research Results
At the July 2108 meeting, the CCG reviewed the results of the acceptability research. 80% of uninformed customers surveyed found the plan acceptable/very acceptable with the figure rising to 92% when participants were informed. 95% of all customers surveyed found the bill affordable but 30% say they would find it ‘a stretch’. The acceptability research also shows 81% of customers felt it was good value for money, this is significantly above the perceived value for money of the current bill levels.

The CCG acknowledged the results as strong levels of acceptability and affordability. Specific areas highlighted were:

• The degree to which it is possible to compare against the PR14 results; Dŵr Cymru provided an analysis (Appendix 14).
• A profile was requested on the 30% of people that would find the bill ‘a stretch’; subsequently provided by the Company.
• The lack of a question on ODIs could have impacted the overall acceptability result and perhaps making it more favourable than it would be if such a question was included.

Dŵr Cymru’s response to this challenge:

“1) 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

2) Including a question on ODIs therefore risks ‘contaminating’ the quality of the answers to the wider survey.

3) 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.”

CCWater subsequently submitted a list of questions in respect of the acceptability research. The Company response to these is included in Appendix 19.

Tensions and Trade offs
The CCG accepts that there are necessarily trade-offs and tensions across competing priorities.

The CCG commentary on the measures of success in Appendix 15 references some of the examples that have been discussed with the CCG in the process of building the plan:

• Low willingness to pay to address worst served customers due to high cost and low numbers involved, but the CCG supports the Company view that investment to provide solutions is justified.
• There are mixed customer messages concerning the importance of lead pipe replacement, but the CCG supports DWI and Welsh Government views that this needs to be a priority investment.

• Concepts such as catchment management and nature based solutions can be difficult for customers to understand without a more informed engagement process so giving variable results on customer priorities, the CCG and the IEAP have been consistent in the support of these approaches.

• The customer response to social tariffs showed a majority were in favour of an increase in the cross-subsidy, but the CCG agreed that this was not a clear enough mandate to justify the increase.

• Despite Welsh Language Services not being included in the results of the Triangulation exercise, Customer Service research noted the importance of the provision of Welsh Language services to customers and it was consequently added to the final list of measures of success with strong support from the CCG.

• The overriding tension is between the ambition to do more across a competing range of priorities; including the need to keep bill levels affordable for a customer base with high levels of financial vulnerability.

The CCG believes that Welsh Water 2050 reflects the aspirations of current customers and the needs of future customers. It provides the Company with a strong framework and clear direction to manage tensions and guide short-term decision making.

Our key area of concern throughout has been whether the PR19 Plan will make enough of a start in meeting these long-term objectives: “Is this plan big enough a step toward 2050?” The targets agreed by the Board in July 2018 set out the milestones on that journey and will enable the CCG to measure progress.

The CCG has pressed the company to be ambitious across a range of performance commitments. These have to be balanced against the priority of keeping bills affordable for a customer base that is financially insecure.

This imperative should not limit ambition to achieve a step change through innovation and doing things differently through a stronger partnership with customers. The Next Steps chapter sets out the key customer focused initiatives which will need to be successful if the 2050 ambition is to be realised.
In summary
This report demonstrates the scale of engagement the CCG has had with the Company throughout the process of developing the plan. The plan has been influenced by customers and the contribution of the CCG throughout its development.

It is the CCG’s view that the Company has been successful in securing an understanding of the representative views of its customer base, and that this evidence has been used to develop the performance commitments and customer bills in the business plan. The final acceptability testing demonstrates strong support for the plan that meets customers’ expectations, representing improved value for money.

The CCG’s push for ambition in the plan recognised the necessary balance between addressing the affordability needs of the customer base in Wales and the need to make progress against the ambitions of Welsh Water 2050, in line with customers’ expectations. The plan sets out to deliver a reduction in bills and increased investment levels with stretching efficiency targets to keep costs low. The CCG will continue to challenge the Company to be ambitious through innovation and the participation of customers in delivering solutions.
Chapter 10

CCG Next Steps

The Customer Challenge Group is conscious that this report represents a starting point rather than being an end in itself.

It is important to recognise that the Dŵr Cymru not-for-profit business model provides the foundation for a much stronger and trusting relationship with customers who ‘have their say’ in how the return of value is distributed. The CCG will want to ensure that the Company uses this relationship to deliver leading practice in customer participation and coproduction in the delivery of the business plan.

The six strategic challenges will provide a framework for continued engagement with the Company and as a reporting framework for the CCG. The Company has set out how it intends to take forward actions under each of the challenges:

1. **Engagement with customers demonstrates a progression from listening and understanding customer needs to active participation of customers:**
   a. Roll out Resilient Community Pilot to one new area per year until 2025.
   b. Further develop our ‘Have your say’ Online Community and drive membership.
   c. Develop our behavioural change campaigns to include behavioural economics.
   d. Look for new engagement tools and channels to increase two-way discussions.
   e. Develop an ongoing research and engagement plan with input from the CCG for AMP7; ongoing process of engagement with customers; how is value returned and agreed (e.g. Water Share).
   f. Create a permanent youth board.

2. **The Company draws on all interactions with customers to inform decision making, giving particular attention to groups who find it more difficult to have their voices heard:**
   a. Develop customer sentiment dashboard and make it operational.
   b. Use data and sentiment analysis to inform decisions and how we react during incidents and severe events (e.g. Storm Emma).
   c. Use data to drive Resilient Community project.

3. **An understanding of customer priorities based on the evidence of customer engagement is embedded as a business imperative across all elements of the business:**
   a. Annual Customer Conference being considered.
   b. Ambition to achieve ICS Servicemark Distinction by 2020.
   c. Develop an approach for how customer feedback is disseminated through the business.

4. **There is a clear focus on affordability of bills, with specific support for those who find it difficult to pay. Customers in vulnerable circumstances are supported through their direct involvement and collaborations with other companies, the public and third sectors:**
a. Vulnerable customer strategy development.
b. Resilient communities roll out.
c. Reduce our costs.
d. Ongoing research programme to tackle affordability topic.
e. Currently investigating potential financial education programme being developed for schools.

5. The Company demonstrates that it drives innovation through working with customers and stakeholders on collaborative projects that offer multiple benefits:
   a. Continues focus on innovation (including conference and awards etc).
   b. Learn from international best practice.
   c. Develop online community.
   d. Develop behavioural change approach, behavioural economics etc.
   e. Roll out Water Resilient Communities pilot.
   f. Continue to look for and test innovative approaches (e.g. Chabot, virtual assistants, dial testing etc).

6. The principles of the Well-being of Future Generations and Environment (Wales) Acts are applied by the Company, demonstrating the ways of working and contribution to our national wellbeing goals:
   b. Follow up on our Biodiversity Action Plan.
   c. Develop and open new visitor centre in Cardiff.
   d. Continue discussion with partners to progress the Brecon Beacons Mega Catchment concept.
   e. Review and act upon results of our SMNR trials.

The CCG will be reviewing these proposed actions, keeping the company true to its commitment to learn from the PR19 process and to further develop its customer insight strategy.

“We will be conducting a review post PR19 submission to identify the key lessons to be learnt from the research programmes undertaken by Dŵr Cymru and other companies, and provide recommendations on the ongoing customer engagement programme. The long term approach will form part of this PR19 review. We will also be developing a Customer Insight strategy to identify how customer engagement will form part of our ongoing BAU in AMP7 to influence AMP8.”


The CCG sees a greater balancing of the formal customer research processes with the evidence from a stronger involved customer base as an important direction of travel. The not-for-profit status is a key driver of customer trust and along with the devolved legislative structures provides a platform for involving customers and partners in creating new solutions. The PR19 plan includes key opportunities for this to be taken forward, including:

- The Water Resilient Communities work.
- Support for customers in vulnerable circumstances.
- Water Source model for catchment management.
• The ‘Cartref’ scheme delivering multiple benefits in reducing leakage, reducing demand and lead pipe replacement.
• Stop the Block behaviour change campaigns.

The CCG has been consulted on the Company’s annual reporting procedures over the last two years, but has not been able to give it enough focus due to the intensity of the PR19 research process. This will need to be a key element in the work plan for the CCG going forward, as we monitor delivery against the commitments in the business plan.

A key lesson from the PR19 customer engagement process has been the importance of enabling an informed and involved customer base, who are more able to understand, accept and willing to pay for future investment. The feedback loop to customers is a critical factor in this process, where the outcomes of their contribution are communicated and understood.

This point particularly applies to the whole process of customer feedback to the large numbers who have actively contributed to the business planning process in the PR19 process. Ensuring this feedback to customers on the outcomes of their contribution will be a key focus for the next stage of the CCG.

A key task will be to review the lessons from the operations of the group and the priorities for an independent role going forward. This report highlights the demands and the range of expertise required from a group largely made up of voluntary contributions, as well as its potential as an agent for enabling change and stimulating innovation. We will need to draw on the lessons from other CCGs in this process and also build links to the work of the equivalent groups being established in the energy sector.

The immediate priority is for the CCG to provide any further feedback on the PR19 business planning process, to respond to specific queries and engage with any further requirements as requested by Ofwat.
Appendices

Appendix 01 CCG Strategic Challenges with Company Response 2018
Appendix 02 Research Assurance Report
Appendix 03 Company response to Research Assurance Report
Appendix 04 Terms of Reference
Appendix 05 Timeline
Appendix 06 Trello screenshot
Appendix 07 CCG report to Board May 2017
Appendix 08 CCG report to Board September 2017
Appendix 09 CEO response to CCG Board papers May Sept 2017
Appendix 10 Natural Resources Wales Annex and Letter
Appendix 11 Environment Agency Annex
Appendix 12 Company response to CCWater Willingness to Pay Research
Appendix 13 Youth Board Report 30 Jan 2017
Appendix 14 PR14 and PR19 customer engagement comparison
Appendix 15 CCG commentary with Company responses on Measures of Success
Appendix 16 CCG Report on Rhondda Fach Pilot
Appendix 17 CCG response to Draft Vulnerable Customer Strategy
Appendix 18 Company Response to CCG comments on Draft Vulnerable Customer Strategy
Appendix 19 CCWater acceptability research principles and Company response
Appendix 20 CCWater letter with CCG Chair Response