

29th May 2020

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Dear Kip

On behalf of the Anglian Water Customer Engagement Forum, thank you very much for the CMA Panel's time at our meeting on Wednesday. I hope that you found our input helpful.

As it was a wide-ranging discussion involving four separate appeals and four Customer Challenge Groups, we thought that it might assist the Panel to summarise the perspective of the Customer Engagement Forum (CEF) in respect of Anglian Water's appeal against Ofwat's Final Determination (FD).

The role of the CEF is to scrutinise and critique Anglian Water's customer engagement, and to report on the degree to which that is driving the company's business planning. Our modus operandi is to be independent, objective and evidence-based, and constructive in our challenge. The ultimate objective, as with Challenge Groups in other sectors, is to influence a culture change within the regulated monopoly, towards putting the customer first.

In scrutinising Anglian Water's plans for PR19, the CEF established four sub-groups, covering Sustainability and Resilience, Vulnerability and Affordability, Economic Valuation, and Hartlepool. Hartlepool Water is a water-only company owned by Anglian Water. It is relevant in the context of this appeal process in so far as the priorities of customers in Hartlepool were found to be different, based on geography and demographics, from the rest of the Anglian region. This lends weight to the proposition that customers in different parts of England are likely to have differing priorities from each other.

We explained that we had good engagement from the company, and other regulators such as the Environment Agency, Natural England, and the Drinking Water Inspectorate. Engagement from Ofwat was reasonable, through the periodic meetings between CCG Chairs and Ofwat, although it was not as frequent or detailed as the engagement from other regulators (Ofgem, CAA) with the Challenge Groups in their sectors. That said, Ofwat did respond positively to the CEF's invitation to present to us their Response to Anglian Water's Statement of Case, and we found that a useful and constructive dialogue.

To emphasise, it is not for the CEF to take sides in the appeal process. Our role is to comment in an independent and objective way on the customer engagement that fed into the company's Business Plan. We do not seek to endorse either Anglian Water's Business Plan, or Ofwat's Final Determination.

The CEF judged the quality of Anglian Water's customer engagement to be very good. It was wide-ranging, innovative, and imaginative. This was further recognised by Ofwat in awarding Anglian Water's customer engagement an "A" rating – the only water company to be so recognised. The

consequence of this is that, while the Panel will correctly wish to take the customer engagement of all companies into account in reaching its decisions, the Panel can place particular weight on the views of Anglian Water's customers in respect of the company's Business Plan. The Panel can be doubly assured (by both CEF and Ofwat) that the engagement was of high quality.

To simplify the overarching findings of Anglian Water's extensive customer engagement: it is vital that the needs of the 20% of customers who find payment difficult, or find themselves in vulnerable circumstances are addressed. Engagement showed that the company's proposals were broadly acceptable in this respect, and this area is not one of dispute between the company and Ofwat. As long as those 20% of customers are looked after, 80% of customers are prepared to pay a modest increase in bills, in return for service enhancements (including environmental and resilience improvements), which they value.

Of course, and as Ofwat correctly points out, customers would be happier still if these enhancements could be delivered alongside a bill reduction. However, it is clear from the customer engagement that customers' priorities were for service enhancements ahead of bill reductions.

The company provided to the CEF a list of examples of enhancements, which it claimed would be unaffordable under the terms of the Final Determination. We were assured by Ofwat, on the other hand, in our meeting with them, that there were no proposed enhancements in the FD that would be so precluded. As one example, we highlighted to Ofwat our concern that leakage and water efficiency outcomes supported by customers might be negatively impacted if the company were to reduce its smart metering programme by 30% in response to the FD, as the company has indicated it would.

This brings us to the CEF's answer to one of the questions the Panel asked: what is the CEF's understanding of the differences between the company and the regulator? There appear to be three key areas:

- **Efficiency:** The CEF is not competent or constituted to comment on the differences of opinion between Ofwat and Anglian Water on this matter.
- **WACC:** Similarly, this is out of scope for the CEF. The Panel asked us whether the company has conducted customer engagement on the question of inter-generational payment, i.e. whether investments should be paid for now, or later. The company did: customers showed a clear preference for payment now, even if the benefits would not be realised until a point in the future.
- **Growth:** CEF member and independent economist Paul Metcalfe explained that the two sides are using different bases for their growth forecasts, and this translates into a cash difference of millions of pounds. Clearly any forecast is just that and could turn out to be wrong.

Finally, the CEF welcomes the referral of this matter to the CMA, as a way to resolve the differences between Anglian Water and Ofwat, for the benefit of Anglian Water's customers. It is essential that the enhancements identified by customers are delivered, because that is their priority over bill reductions per se.

If the CEF can be of further assistance to the Panel in its deliberations, please don't hesitate to let me know.

Yours sincerely,

Jeff Halliwell  
Chair, Anglian Water Customer Engagement Forum

