



ANGLIAN WATER INDEPENDENT CHALLENGE GROUP

MINUTES

Date: 30 June 2023
Time: 13.30-16.00
Location: Virtual

Present:

- Craig Bennett – Chair (M)
- Gill Holmes – CCW (M)
- Paul Metcalfe – MD, PJM Economics (M)
- Nathan Richardson – Waterwise/Blueprint for Water (M)
- Justin Tilley – Natural England (M)
- Victoria Williams – Environment Agency (M)

- Peter Holland – Director of Customer and Wholesale Services, Anglian Water
- Neil Manning – Head of Income and Tariffs, Anglian Water – for agenda item 2
- Darren Rice – Regulation Director, Anglian Water
- Laura Tuplin – Water Resources Programme Manager, Anglian Water – for agenda item 3
- Rachel Walters – PR24 Customer Engagement Lead, Anglian Water

- Vicky Anning – Secretariat (O)

Apologies:

- Peter Simpson – Chief Executive, Anglian Water
- Claire Higgins – Cross Keys Homes (M)
- Peter Holt – Chief Executive, Uttlesford District Council (M)
- Joanne Lancaster – MD, Independent (M)
- Sarah Thomas – CCW (M)
- Richard Tunnicliffe – CBI (M)
- John Vinson – CCW

Summary of actions

Action	Status
Gill to check with colleagues about circulating CCW “what good looks like” papers to AW colleagues	Open
Gill would feed back concerns from AW about changing guidance on ODIs and Affordability and Acceptability Testing late in the BP process	Open
Pete and Neil to reflect on Craig’s proposal about targeting segments of customers	Open
Nathan asked if it was possible to see a glide path towards reaching 8% of customers in water poverty	Open
Pete to respond to John Vinson’s questions in writing	Done
Laura to circulate more detailed information/figures regarding NHH use and smart meters	Open
Darren to follow up with Victoria Williams on specific WRMP questions	Open
Craig to decide how to proceed with the 25 July meeting	Done
Craig to circulate bullet points to ICG colleagues ahead of 19 July AW Board meeting	Pending
Paul to share his thoughts before going on leave	Open
Darren to provide more information on timelines for finalising PCs and bring final plans back to the ICG	Open
ICG members were keen to see results of Willingness to Pay Survey	Open
Vicky to add relevant points to challenge log	Ongoing
<i>Open (carried over)</i>	
Nathan requested more information/data on how smart meters had been used to help reduce demand in the 2022 drought and how smart metered customers behaved v non smart metered / unmetered	Open
Craig and Victoria both requested more information about the Pollution Incident Reduction Plan (PIRP) and glide path to zero pollution incidents and ICG requested earlier sight of the plan than September	Now actioned
Conversation about engaging with developers raised by Jo to be continued	Open
Craig to raise Ofwat guidance on ODIs at the next COG meeting	Open
AW colleagues to consider feedback mechanisms for customers on results of customer engagement	Open
Paul requested sight of the assurance reports from Jacobs, ICS and AW on triangulation	Open
Rachel to ask Simon Dry for a copy of Customer Board challenge log and to enquire about Craig attending a Customer Board meeting.	Open
Craig to discuss/clarify details about his attendance at AW Board meeting on 29 July	Done
Craig to talk to Victoria at EA about WINEP and A-WINEP	Open

Meeting minutes

Item	Action
<p>1. <u>Welcome from ICG Chair</u></p> <p>Craig Bennett, Chair of the Independent Challenge Group, welcomed everyone to this virtual ICG meeting and attendees introduced themselves.</p> <p>Minutes from the 16 June meeting were accepted as read, with a few minor amendments.</p> <p>Craig said there was no update from the Central Oversight Group (COG) as there hadn't been a meeting since the last ICG meeting on 16 June. He also hadn't yet followed up assurance arrangements with AW Chair John Hirst, although there was agreement at the last meeting that Craig would report to the Board meeting on 19/20 July.</p> <p>Craig asked AW colleagues about recent developments at Thames Water highlighted in the media.</p> <p>Darren Rice said these were Thames-specific topics and concerns relating to the portfolio of debt interests and how they relate to inflation and operating costs and the willingness of shareholders to put equity into the company.</p> <p>From AW's perspective, he pointed ICG members to Ofwat's ongoing assessment of companies' financial resilience, whereby companies are required to set out their long-term viability:</p> <ul style="list-style-type: none"> • AW was regarded as "standard", which is the highest category. • AW has no issues with raising debts (recently raising £860m in two debt bonds). • AW is financially resilient and the answer to whether the same issues could happen at AW is categorically no. • Parliament's Environment, Food and Rural Affairs (EFRA) Committee has a meeting scheduled for 12 July to explore current positions and the ongoing situation at Thames Water. <p>Rachel Walters gave an update on Ofwat's evolving Acceptability and Affordability Testing Guidance:</p> <ul style="list-style-type: none"> • There had been a few changes to the guidance from Ofwat during the previous week, which Rachel had shared with ICG members, about the presentation around performance commitments; feedback from COG testing with customers conducted by other companies who have fed back to Ofwat, suggested that the information presented as per the guidance was too complicated for participants to understand. • An updated, simplified version of the guidance was suggested by Ofwat, which AW could choose to use if materials had not already been developed. 	

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	<ul style="list-style-type: none"> • Cognitive testing for AW’s A&A testing is currently ongoing, using both presentation versions, and AW will consider the evidence from that testing in collaboration with Accent in deciding which version of the materials to use. • By early August, a more informed decision would be possible as there should be a clearer view by then; there was still a lot up in the air. • Rachel would keep the ICG updated on the latest developments, and reiterated that it was beneficial AW was doing a lighter touch version of the A&A testing at this stage, which allows for easier resolution of any issues regarding the changing guidance. <p>Gill Holmes explained in more detail about two internal working CCW documents that had been circulated to ICG members as pre-reading. These were about what “good” looks like in terms of affordability and vulnerability and statutory discretionary performance. They were designed as internal documents to help CCW assess company Business Plans but were considered useful for ICGs too.</p> <p>CCW colleagues had agreed that parts of the document could be circulated to ICG members, if useful, in the interest of openness and transparency. Gill stressed that these were CCW and not Ofwat documents.</p> <p>Darren enquired about the publication of these documents and whether they were intended for internal use only.</p> <p>Gill explained that they are in the early stages, but if companies found them useful, she would go back to CCW colleagues to seek permission to circulate them.</p> <p>Gill also updated ICG members on an action point from the last meeting regarding the guidance on common ODIs by Ofwat. She confirmed that CCW was involved in initial research but not in subsequent decisions about how ODIs should be treated.</p> <p>Darren expressed concern about the late movement of component parts with Ofwat guidance and how it created ambiguity in the system. It was unhelpful to companies that were already committed to a certain path. He emphasised that AW had some comfort on ODIs, as discussed at the 16 June meeting. However, they were committed to testing two different versions with customers to gather the most robust results rather than waiting for the music to stop in terms of central guidance on A&A testing.</p> <p>Gill said she would feed that back.</p>	<p>Action GH</p> <p>Action GH</p>
<p>2.</p>	<p><u>Affordability and Vulnerability</u></p> <p>Craig opened the discussion by thanking AW colleagues for the detailed pre-reading material that focused on answering three specific challenge questions posed by ICG members, as outlined in the agenda:</p>	

Item	Action
<p>1) <i>What is the overall impact the affordability/vulnerability programme will have on the Business Plan (and bills)?</i></p> <p>2) <i>Have customer views been tested on this specifically?</i></p> <p>3) <i>Will any increase in support include more money from the company itself, or will it just be paid for through an increased cross-subsidy from customers?</i></p> <p>Pete Holland and Neil Manning provided a summary of the company’s approach towards Affordability and Vulnerability (A&V), building on pre-reading materials.</p> <p>Key points discussed:</p> <p>i. Progress in the current Asset Management Period (AMP):</p> <ul style="list-style-type: none"> • Pete expressed pride in the achievements during the current AMP in terms of A&V. • AW would continue the existing efforts but on a larger scale in the next AMP. • The focus would be on pushing boundaries regarding leakage, PCC (per capita water consumption), smart meter rollout and keeping bills as low as possible. • These steps would also drive multiple ODI benefits. <p>ii. Measuring water poverty/willingness to pay:</p> <ul style="list-style-type: none"> • Neil explained that AW was engaging in a remodelling exercise with Experian on water poverty. • They were forecasting how real-term incomes were expected to change during the period under review. • According to Experian’s analysis, the water poverty rate would increase from the current 8% to 10% under scenario 1, potentially impacting around 290,000 households. • AW currently has 123,000 customers on the Lite tariff and funding to increase it to cover 160,000 customers. (They also have 40,000 customers on Watersure and 80,000 on the legacy tariff Aquacare). • Willingness to pay testing was currently underway with customers to determine the level of cross-subsidy they would be willing to accept in the future, with the proposed bill increase from £12 to £14. • Based on the Experian analysis, it was expected that there would be sufficient funding in AMP 8 to provide tailored tariff support for all customers in water poverty. <p>iii. Tracking customers in water poverty:</p> <ul style="list-style-type: none"> • Nathan asked what proportion of the 8% of customers were in the 5% of income water poverty bracket and what proportion were getting support? 	<p style="text-align: center;">Question/ challenge</p>

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	<ul style="list-style-type: none"> • Neil explained that, while AW does not specifically track customers in water poverty when looking at lower tariffs, they do know that customers on the Lite tariff include those in water poverty. • He mentioned efforts to migrate to conducting specific affordability tests for all customers who apply for reduced tariffs and using DWP data matching to ensure support reaches the right customers. • Nathan said it was a shame AW wasn't able to track the 8% - he suggested it would be helpful to see a glide path of how close AW was getting to that 8% cohort. <p>iv. Effectiveness of support:</p> <ul style="list-style-type: none"> • Paul asked if AW had looked at the effectiveness of the programme in lifting customers out of water poverty. • Neil shared that the introduction of the Lite tariff initially had four bands, but most customers qualified for the 80% discount. • AW acknowledged that a 50% discount alone might not lift all customers out of poverty but stated their intention to help as many customers as possible based on the available funding. • Pete emphasised the importance of wraparound support and holistic assistance in addressing the issue of water poverty, including benefit signposting. <p>v. Increasing awareness among hard-to-reach customers:</p> <ul style="list-style-type: none"> • Gill commended AW's offering and asked how they planned to increase awareness among the most difficult-to-reach customers. • Pete mentioned using partnerships and independent third parties to reach out to a wider customer base, particularly through social housing partnerships. • He highlighted the opportunity presented by smart meter rollouts to engage with customers and maximise PCC benefits. <p>vi. Will any increase in support come from the company or from customer cross subsidies?</p> <ul style="list-style-type: none"> • Pete said there wasn't an answer to this question yet so it would be wrong to make a commitment. • Darren explained that the proposal was to explore all possible options with the Board at the next meeting on 19/20 July. • Nathan noted that company support would align really well with AW's purpose-led credentials. <p>vii. Dividing support for different customer segments:</p> <ul style="list-style-type: none"> • Craig asked whether AW had considered dividing support among different customer segments and suggested exploring ways to help customers transition to smart meters. 	<p>Challenge</p> <p>Question/ challenge</p> <p>Question/ challenge</p> <p>Question/ challenge</p>

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<p>Laura Tuplin – AW’s Water Resources Programme Manager – provided an overview of the responses received for the WRMP consultations that had helped to shape the draft plan submitted on 31 May.</p> <p>Overall, responses to AW’s four consultation themes were positive.</p> <ul style="list-style-type: none"> • The reservoirs were supported, with respondents recognising the positives they could bring the region, although regulators have requested further information. • The three-tier strategy¹ was, on the whole supported, but many stakeholders stated that AW should be increasing leakage ambition. A small number also requested that AW prioritise water reuse. Desalination was, on the whole, disliked. • The AMP8 WINEP investigations were supported but a large number of environmental stakeholders felt AW should be acting sooner, and doing more. • Compulsory metering was supported, with many stakeholders highlighting the need to consider vulnerable customers. <p>Laura also shared the following key points:</p> <ul style="list-style-type: none"> • 55 responses were received, primarily from councils and industrial users on the South Humber Bank. • Overall, there was a positive response regarding reservoirs, with groups recognising the environmental benefits they would bring, aligning with the company’s purpose. • The 3-tier strategy was well supported. • Feedback suggested that more should be done on the leakage ambition; this has led to an increase in leakage ambition to 38%, which includes pipe replacement at the end of the AMP (at a significant cost). • Stakeholders supported WINEP (Water Industry National Environment Programme) investigations and felt they were the right approach for specific catchments for the next AMP. • While people generally supported compulsory metering, they also wanted assistance in managing measured charges. • The company was using surplus resources to bring licence caps forward, particularly in sensitive environments, in liaison with Natural England. • AW is including a significant amount of non-potable demand for the South Humber Bank, which is recognising the carbonisation that needs to occur in that area; they are currently checking the funding mechanism with DEFRA. • AW is also including NHH demand, which was not initially included in the draft, but was worked on in collaboration with WRE (Water Resources East). Many aspects of the NHH work mirror what is being done in households. • Positive feedback was received regarding the use of existing resources, such as recycling backwash water to maximise efficiency. 	

¹ Three-tier strategy: Making best use of existing resources including demand management; ii Strategic water resource options - development of two new reservoirs; iii Adaptive future resources.

Item	Action
<ul style="list-style-type: none"> • The revised draft of the plan is looking strong, and constructive challenges have contributed to its improvement. <p>Questions from Ofwat regarding customer engagement were discussed (see slide 61):</p> <ul style="list-style-type: none"> • Ofwat challenged how much engagement had been done around a 500-year drought timings and costings. AW is going to be addressing this through focus groups around the Long-Term Delivery Strategy. • AW were also challenged around the 1-in-10-year hose pipe ban frequency and discussions with customers. This was addressed in the pre-reading but AW believes it is engaging with customers all the time about water scarcity and efficiency measures; meaningful engagement is also carried out through TUBS (Temporary Use Bans). • Engagement with Hartlepool customers was challenged, and for the revised draft, the company will highlight the extent of engagement with Hartlepool customers more clearly. • Positive feedback was received from CCW about the non-technical summary and asked to share more information about how customer views fed into the leak strategy, which will be further shared in the revised draft. <p>Questions/challenges:</p> <p>Nathan inquired about the next steps for the revised draft: whether it would undergo a second round of engagement or go directly to regulators.</p> <p>Laura said it was up to the company to determine what constitutes “material changes” and to decide on the consultation process accordingly. AW would consult on the specific parts that have changed rather than re-consulting on unchanged sections. This will be decided in the next month or so.</p> <p>Nathan also picked up on the NHH programme, which he said looked promising, but questioned whether there could be more ambition based on savings through smart meters.</p> <p>Laura agreed to discuss this with her colleague Phil Stevens and provide more information on the numbers mentioned in the slides. She clarified that the current plan is seen as the beginning of the NHH journey.</p> <p>Action: Laura to circulate more information after the meeting.</p> <p>Craig expressed appreciation for the graph presented on slide 27, which showed demand management versus new supply side options. He asked to what extent the reduction in demand can provide the resilience that’s needed until such time as reservoirs and new supply side options come on stream.</p> <p>Laura responded that AW has developed adaptive pathways, which include trigger points to divert to different plans based on changing circumstances in demand management, which are closely monitored. AW is working with EA and NE on this.</p>	<p style="text-align: right;">Action LT</p>

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<p>Darren reminded ICG members about the supply-side initiatives being implemented to ensure a reliable water supply and meet higher levels of drought resilience. Variations in demand management options do not affect the scale of what is required to make the region resilient.</p> <p>Victoria Williams asked whether customers were engaged on the level of challenges over the next planning period: it's not just about keeping taps running, it's also about environmental improvements and resilience to more frequent hot, dry summers.</p> <p>Darren responded that engagement efforts compared to previous engagement had gained better insights on these big issues. He was happy to follow up with Victoria directly, particularly as she was relatively new to the ICG.</p> <p>Darren mentioned that AW had a robust understanding based on customer feedback and emphasised that AW has the lowest PCC of any water company in England.</p> <p>Craig mentioned the potential for disruptive innovation and emphasised the importance of being open to digital innovations and the possibility of making big strides forward.</p> <p>Nathan, sharing his insights from Waterwise, mentioned that there is often a desire to take action but low awareness among customers. For instance, one in three customers was unaware that water companies abstract water from rivers. He also highlighted the recent situation with South East Water, which had sufficient water but struggled to deliver it to customers during peak demand. He asked how AW is preparing for this kind of risk?</p> <p>Laura responded that AW has conducted in-depth evaluations in each area to ensure the company is in a better position than other water companies to respond to peak demand. They are experienced in managing assets during hot, dry summers. She emphasised AW's resilience and mentioned that they conduct a summer wash-up after every summer to learn from any restrictions experienced and identify necessary investments. They use the lessons learned and weren't complacent.</p> <p>Paul flagged the significant increase in costs for leak reduction and questioned the tangible environmental impact of this investment. He was concerned that customers may confuse leakage reduction with lower bills, if this wasn't explained really clearly.</p> <p>Laura mentioned that AW was currently waiting for options to be decided on. She acknowledged that customers generally don't understand the costs associated with fixing water mains. Ofwat targets are calling for a 50% reduction in leakage (with a potential cost of more than £20bn); AW don't believe this is feasible and consider a 38% reduction more reasonable (costing £4.3bn by 2050). Most customers believe leakage should be reduced at any cost. AW has tried hard to</p>	<p>Action DR/VW</p>

Item	Action
<p>balance the demand against the supply side options so that there are a range of options that provide resilience (while also considering bill impact).</p> <p>Darren explained that current leakage options for AW were different than for other companies because they started from a frontier position, therefore fewer options were open except mains replacement. In the shorter term, there is a greater focus on supply-side leak initiatives that were discussed at the previous meeting. The adaptive nature of the plan would also have implications for the Long-Term Development Strategy (LTDS).</p> <p>Craig thanked Laura for an interesting presentation, and Laura left the call.</p>	
<p>4. <u>Customer engagement: update</u></p> <p>Rachel Walters – Anglian Water’s PR24 Customer Engagement Lead – gave an update on Customer Engagement, focusing on the following:</p> <p>Are customers in Hartlepool saying anything different from the rest of the region?</p> <ul style="list-style-type: none"> • Hartlepool was specifically looked at in the customer engagement process. • Hartlepool represents a small proportion of the overall AW customer numbers which is reflected in the segmentation strategy used throughout the engagement work programme; customer views should be understood without giving them undue weighting. • This approach will be recognised in the forthcoming A&A testing. • According to Ofwat’s guidance for the A&A, there is no requirement to survey any water-only customer group that constitutes less than 10%. • However, AW wanted to incorporate key insights from Hartlepool as it is recognised they are an important voice to be considered. • The goal was to identify any differences in priorities and preferences since PR19 period. • Currently. there was found to be very little difference between what customers were saying in PR19 and the current engagement. • From PR19 the conclusion was that Hartlepool customers were particularly satisfied with value for money and caring about the communities seemed increasingly important to customers. • From PR24 insight, the key difference is Hartlepool customers are keener on keeping their bills lower, even compared to those in vulnerable circumstances across the rest of the AW region. • In the A&A Qualitative research Hartlepool customers chose lowest cost plan with cost being primary driver (44% chose this option) • All relevant links to specific research reports where views of Hartlepool customers were explored were presented to members in the slide pack and are available via clickable links in Synthesis Report and on SharePoint. 	

Item		Action
	<p>Challenge/questions</p> <p>Paul raised the question of considering different tariff levels for Hartlepool to address customers' desire for lower bills.</p> <p>Darren explained that tariffs are already different for Hartlepool. In the PR19 period, when there wasn't much proposed investment for Hartlepool, the decision was made to suppress their bill increase. It was seen as more of a targeted, one-off adjustment.</p> <p>In the PR09 and PR14 periods, significant upgrades were carried out in the Hartlepool region. The aim now is to bring everything back on track in terms of broad cross-subsidy.</p> <p>Mapping of customer engagement:</p> <p>Gill asked if any mapping of customer engagement had been done and if it could be visually represented?</p> <p>Rachel mentioned that clear quotas were set at the beginning of the engagement programme through customer segmentation. A visual representation had been considered in demonstrating how all areas across the region had been engaged, but not all research fits into these segments eg capturing our business as usual insight, Ofwat's centralised research and the online community where we can't specify who takes part. However, there are quotas for each area in the segmentation strategy that both AW and their external partners have abided by in research design.</p> <p>BAU (Business as Usual) data is an important source of evidence, and specific regions have been asked about specific issues which is being included as part of the business plan decision making.</p>	
5.	<p><u>General discussion</u></p> <p>Forward look:</p> <ul style="list-style-type: none"> • The July meeting will include discussions on the PIRP (Pollution Incidence Reduction Plan) glide path and company performance. • Paul was scheduled to go on leave the following week and would be travelling for two months. • Rachel reported that Darren and Pete (and possibly also Brian Ebdon) wouldn't be available on 25 July to give updates on the BP and company performance. • Victoria pointed out that the July 25 meeting overlaps with an AW/EA meeting, which will cover operations and strategic matters for most of the day. • Nathan was also on annual leave on 25 July. 	

Item	Action
<p>Water Resources Management Plan (WRMP):</p> <ul style="list-style-type: none"> • Members felt more confident in this area and felt that the WRMP had also moved to amber or green status. • Customer preferences were clearly outlined in the Synthesis Report. • AW had responded to the challenge regarding NHH customer demand and has developed a suitable programme. • There was some discomfort expressed from an economic perspective that the company was being pushed into leak reduction by Ofwat policy, even though customers supported it. • Members felt the company was listening and being open to feedback, but uncertainties still needed to be resolved before a final ICG assessment could be made. • It was suggested that the ambition of the plan was laudable but the delivery would be challenging. • Members also wanted to know whether the revised plan would go back to customers for consultation. <p>Housing developers and NHH customer demand:</p> <ul style="list-style-type: none"> • Members discussed that AW could be more assertive with housing developers and suggested employing lobbyists to have a greater impact on demand management. • NHH customer demand is included in the Water Resources East (WRE) plan, and WRE is addressing the agricultural sector's water needs. • There was a role for AW to play in leading the debate. • There was a need for AW to consider alternative water supplies and involve regional groups in addressing multi-sector demands, including farming resilience. <p>Hartlepool:</p> <ul style="list-style-type: none"> • Members were satisfied with the actions taken in Hartlepool. <p>Outcome Delivery Incentives (ODIs):</p> <ul style="list-style-type: none"> • Members expressed some frustration with the company's lack of engagement with the ICG on the ODI package and this would be one of the points flagged to the Board. • It seemed likely that the company may only have construction carbon as a bespoke PC. • It was still unclear whether the company might challenge Ofwat's approach to the ODI package, potentially affecting rewards and penalties. • This could be a significant issue for the ICG to take a view on. • This was the main thing that was still up in the air at the moment. 	

