



# CUSTOMER ENGAGEMENT FORUM

## Customer Engagement Forum (CEF) Valuation Sub-Group

**Date:** 9 July 2018  
**Time:** 9.00-11.00  
**Location:** Lancaster House, Ermine Business Park, Huntingdon, PE29 6XU

**Present:**

- Daniel Storey – Director, High Point Economics (Chair)
- Beth Corbould – Economist, Civil Aviation Authority – by phone
- Jeff Halliwell – Independent Chair of Customer Engagement Forum (CEF)
- Paul Metcalfe – MD, PJM Economics – by phone
- Darren Rice – Anglian Water
- Carolyn Cooksey – Anglian Water
- Helen Dunn – Anglian Water
- Arun Pontin – Anglian Water
- Mark Coulson – Anglian Water
- Sophia Ronketti – Anglian Water
- Lisa Gahan – ICS Consulting – by phone
- Vicky Anning – CEF Report Author

**Apologies:**

- Bernard Crump – CCWater

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### Agenda Items

### Action

#### 1. Review of previous minutes

There were some revisions to the 21 June minutes.

**Action:** Vicky Anning would revise and circulate

VA

Action points outstanding:

- Microsite and ShareFile would be updated
- Paul Metcalfe's industry benchmark report would be circulated
- Adjust records so it's a closing action

CC/SR

PM

Carolyn Cooksey had asked Accent to recut data and this is in progress.

CC

Daniel Storey said that there had been a good discussion on 21 June about how to use other companies' data and both sides had had the opportunity to make their points. It should be noted that there was an outstanding methodological debate, which should be reflected in both minutes and panel report.

## **2. ODI Deep Dive**

Darren Rice and Arun Pontin had prepared updates on AW's performance commitments and said this was a chance for the panel to ask any outstanding questions.

Daniel Storey wanted to focus on WINEP reward measure and C-mex.

Paul wanted to talk about justification for enhanced reward for leakage.

Jeff Halliwell wanted to make sure there was a process for Bernard Crump to feed in his comments and to capture his input on this.

**DR/BC**

### **C-Mex**

Darren explained this is an evolution of Ofwat's current incentive mechanism and is determined by Ofwat. The scale of incentives is predetermined by regulator (not by any WTP or customer engagement work).

Daniel asked whether maximum penalties and rewards were set by Ofwat?

Arun explained that the top three companies would be assessed every year and rewarded accordingly (by revenue).

Daniel suggested this should be noted (as it's a large amount of money at stake, even if there's no room for manoeuvre).

Jeff agreed that, CEF could note in its report that C-Mex represents a substantial slice of the pie and it's not had such significant customer engagement. This applies to other mandatory ODIs (14 common measures that don't necessarily align with AW customer approach).

Daniel: will make a comment on this in the panel's report. He asked if AW could write a little more explanation about their approach on this?

**DR/DS**

### **WINEP**

This is a reward only ODI. EA requires company to implement these measures by a certain date.

There was a challenge around this ODI by the Sustainability and Resilience

Panel. Discussions are ongoing.

Daniel was concerned that this ODI wasn't very transparent and felt there was a lot wrapped up in one measure.

Carolyn said that customer support is almost universal for natural capital approaches.

**Action:** AW set up joint call with Craig Bennett and members of S&R panel before end of month to discuss WINEP and Natural Capital ODI.

VA/DR

### **Leakage**

Paul Metcalfe was not 100% convinced that the valuation on leakage was justified. Although it's one of the more substantial ODIs, it seems that there's not a lot of customer engagement on this.

Carolyn reminded panel members that leakage is the biggest issue customers want to tackle, so it's a priority for AW in terms of penalties and rewards.

In terms of acceptability, Arun said that, even if AW had maximum level of reward on this measure, it would still be within range acceptable to customers.

Daniel thanked AW colleagues for responding to these challenges and said the issues would be included in the panel's report.

Darren thanked the panel for their input, which had helped to shape how AW articulates elements of business plan.

### **3. Wellbeing study**

Helen Dunn gave a presentation on AW's wellbeing study, which was part of a suite of PR19 valuation studies. It was an exploration of subjective well-being methods. AW chose to look at flooding incidents and road traffic incidents.

They had good operational information and good datasets on households from the Office of National Statistics. Well-being valuation is increasingly recognised in Treasury Green Book.

Benefits of this approach:

- Based on actual experience
- People not asked explicitly about service
- Accounts for adaptation
- Avoids various survey related biases
- Makes link to company operational data on incidents.

Analysis compares population that's affected with control group.

Jeff asked for a copy of the questionnaire and a lay person's explanation of how it works. Helen said they could share satisfaction survey and well-being measures.

HD

Daniel had a question about use of using lottery wins, which seemed quite weak to determine co-efficient on income, but he was reassured by discussions.

Paul thought the study was generally excellent and innovative. He hasn't seen any others like this in water sector. AW should be applauded for this but he had a couple of concerns:

- Values aggregated over postcodes – cap of £30k per household (p24 of report). Is there an endogeneity bias (e.g. sewer flooding is correlated with very bad weather rather than just about sewer flooding so should be cautious about results).
- Nothing has been done to scale results. It doesn't seem to have been incorporated in triangulation values.

Helen responded that a natural way to report was value per incident rather than value per property. There are quite a few sources of evidence and wellbeing is not at top of range. AW has tried a range of ways to think through the process.

Daniel agreed it was a really innovative report. The point about scaling remains outstanding although it's not the sole and only driver. This should be noted.

#### **4. Investment Plan Development**

Mark Coulson gave an update on AW's Investment Plan Development. He shared some examples of the expenditure process and constraints applied.

This model has run for two price reviews and is triangulated against current expenditure.

AW was looking at deferring some of the investments required by WINEP and there was some discussion around this.

#### **5. AOB**

Daniel felt that outstanding questions from panel members had all been covered and that the panel had reached the end of the process in terms of scrutiny for this business plan. He would revise the panel's report following this meeting

Next steps:

**DS**

- A call would be set up to discuss WINEP and Natural Capital ODIs
- Meeting of full CEF on 31 July