



CUSTOMER ENGAGEMENT FORUM

Customer Engagement Forum (CEF) Valuation Sub-Group

Date: 22 May 2018
Time: 10.00-12.00
Location: Lancaster House, Ermine Business Park, Huntingdon, PE29 6XU

Present:

- Daniel Storey – Director, High Point Economics (Chair) – by phone
- Jeff Halliwell – Independent Chair of Customer Engagement Forum (CEF) – by phone
- Paul Metcalfe – MD, PJM Economics – by phone
- Alex Plant – Anglian Water
- Darren Rice – Anglian Water
- Helen Dunn – Anglian Water
- Arun Pontin – Anglian Water
- Lisa Gahan – ICS Consulting - phone
- Vicky Anning – CEF Report Author – by phone

Apologies:

- Beth Corbould – Economist, Civil Aviation Authority
- Bernard Crump – CCWater

Agenda Items

Action

1. Review of previous minutes

Helen Dunn reported that the mainstage report had been updated to reflect CEF comments and had been circulated.

Action: Annexes would also be circulated, at panel request.

HD

Paul Metcalfe reported that a synthesised report by his company (PJM) had been circulated in draft form. The final report would be circulated shortly.

PM

Daniel Storey thanked colleagues for one-page ODI summaries that have now been received.

Paul asked whether it was possible to see part 2 of the triangulation completion report, which has all the details of how the numbers were arrived at. He had

concerns about how numbers have been generated, especially those using PR14 numbers across the industry. He had been unable to reconcile the figures.

Helen said that triangulating core anchor values was the main starting point so getting a good understanding of that is key to the whole thing. She suggested following up discussion outside of meeting.

PM/HD

Action: Part 2 would be circulated/placed on ShareFile once finalised (by end of week).

HD

Minutes from 20 April meeting were approved.

WINEP update

Alex Plant updated the panel on WINEP progress. Anglian Water had conversations with Defra and the Environment Agency and have been through WINEP to strip out any duplication.

They are looking at schemes where they believe the company can deliver the same outcomes through natural capital/catchment management options, with more time (e.g. phosphate removal).

The company has held off on putting a submission in to Defra until all details are in place. Expect to submit within next week.

The company received a detailed response from EA on Friday to the draft WRMP. EA expect AW to deliver climate change mitigations within next AMP, rather than option of deferring until AMP8.

The company continues to press on metaldehyde but outcome is still unclear.

Alex reported the company had a board meeting the previous day and went through a series of Totex scenarios with a large spread in them. The company is working hard to nail that down.

3. Update on societal valuation, including final valuation report and customer segmentation results

See slide set: Societal Valuation Update – <https://anglian-water.sharefile.com/share/view/sbfc047587d44be38>

Helen Dunn gave an update on progress since 22 May meeting, which included:

- Delivery of final main stage report incorporating CEF sub-group comments
- Updated Valuation Completion Report
- Completion of customer segmentation analysis

More information on Hartlepool is included in the main stage report and annex.

- Final Valuation Completion Report includes new section exploring how priorities and preferences differ by customer segment
- In line with Ofwat methodology, the focus has been on exploring differences around future generations, affordability and vulnerability
- The main customer segments analysed include;
 - Socio-economic groups (SEG)
 - Age
 - WaterSure (social tariff for those experiencing hardship and need to use large amounts of water)
 - Disability
 - Anglian Water customer behaviour segments
 - Hartlepool

Key findings of customer segmentation:

- While differences in opinion exist amongst customers, preferences or values for core services do not vary across different customers groups that often
- The main differences in WTP was between SEG DE and the AW customer behaviour segment 'Parochials'
- The analysis confirms that average WTP values are representative across a wide range of customer segments, with only a few exceptions
- SEG DE customers had lower WTP for: reduce leakage, severe water restrictions, reduce odour from sewage treatment works

Lisa, ICS: eftec split customers into age bands (under 30, over 60 and in the middle). Younger and older people were slightly less willing to pay for some service areas than the middle band. There are a few exceptions but nothing systematic.

Daniel: One striking finding was that one-quarter of customers (DE) are willing to pay 40% of what average customer base is willing to pay for leakage. It would be interesting to know how the company is going to operationalise that result.

Alex: Whilst majority of customers say they're broadly comfortable with a slight bill increase, company is increasing initiatives for households that are struggling to pay (e.g. by linking more effectively with local authorities, energy companies and charities to provide wrap around provision of support for vulnerable customers).

Paul: The numbers reflected in slide 6 are solid numbers and there's a need to reflect on what that means for performance commitments and overall bill levels.

Jeff: Suggested that this should be highlighted at the Affordability & Vulnerability meeting scheduled for later that week.

Helen reported on next steps:

- Completing final valuation completion report and will put on ShareFile
- Reviewing secondary evidence from other water companies
- Developing narrative for final business plan
- Lessons learned for programme evaluation results going forward.

Further discussion on presentation 1a – Valuation Completion report – Anchor Values <https://anglian-water.sharefile.com/share/view/sbfc047587d44be38>

Paul said that the key question is regards how PR14 industry comparison numbers have been used: he thinks there's an error in calculations in methodology in that the transfer values have been adjusted (up) for the relative number of households in Anglian region in comparison with the (lower) number of households for other water companies from where valuation results have been drawn.

Lisa confirmed that they took aggregate WTP numbers and converted these into household values.

Paul suggested this was problematic. He said unit of measure is a standard unit of measure – not sensitive to size of company.

HD/PM

Helen suggested taking this offline in separate discussion with Paul.

Daniel thought the slides were very useful, covering a wide range of material. It would be helpful to have a one-page flow diagram to summarise the logic steps (e.g. for CEF members).

LG/HD

Action: Lisa to take this forward with Helen

Paul said that numbers seem pretty sensible apart from internal sewer flooding, which might be a bit high. Subjective well-being study has driven this up beyond what the WTP survey said it would be.

HD

Helen will put well-being survey on ShareFile. She said it's an important study as it reflects an alternative valuation approach. It's based on using Anglian Water flooding incident data and it's based on how people actually experience a flooding incident. It captures the wider impact of flooding incident from wider area which explains why some of valuations are higher. It's a new approach and very innovative – it was given a lower weight in triangulation but it uplifted some of the values.

It's an approach that could be used in other areas. It's had some review through steering group, but it's not had detailed peer review.

Daniel said it might be worth flagging this up as an issue when looking at performance commitments around internal sewer flooding – and look at how data has been used in that case, given that there are new techniques being used in terms of subjective well-being.

Action: Paul to write up his main points around use of PR14 data.

PM

3. 3 May submission: update

Darren Rice gave an update on 3 May submissions to Ofwat:

- 1) Early submissions based on cost adjustment claims. Major components related to key areas of WINEP, maintaining and enhancing leakage and WRMP programme.
- 2) Performance commitment measures were submitted to Ofwat– companies were to set out entirety of measures for early regulatory scrutiny.

Measures were put into long-term SDS context, both in terms of how they feed into the company's four long-term ambitions and how they reflected customer feedback.

AW included customer engagement trail/one-pagers as a result of CEF Chair's input. ODI suite includes a total of 34 performance measures.

Final version included a social capital measure as well as natural capital to capture broader impact of business on the community. Company is still working on defining measures in more detail

The only another amendment was around drinking water quality contact following discussions with DWI.

AW are expecting high-level feedback from Ofwat on submission in late June/early July.

Daniel asked about quantifying financial under-performance and out-performance incentives. How do you extract from the huge wealth of customer engagement data some parameters that might quantify your under-performance penalties?

Arun Pontin: Ofwat have given companies a formula to calculate outperformance and underperformance incentive rates. AW can share this

AP

formula and give some examples.

Daniel suggested it would be good to think about what kind of asymmetry the company would come up with based on evidence in front of them and asking whether there a glaring mismatch between this evidence and Ofwat formula. This is worth a serious thought to explain how that's going to be operationalised.

Alex agreed this is an important issue that could also could merit a broader discussion at CEF level.

4. Interim results of ODI Asset Health Survey – update

See presentation 3: <https://anglian-water.sharefile.com/share/view/sbfc047587d44be38>

Arun Pontin presented interim results of ODI Asset Health Survey. AW undertook the study to get another source of customer evidence on appropriate incentives for asset health performance commitments.

Final results were received yesterday and would be shared in next week or so.

Headline findings (slide 4):

- Strong support from customers on financial incentives, where these are proposed, including for assets
- Customers think there should be similar weighting between asset health and service
- Support for incentive c. 2% RORE (return on regulatory equity) range for appropriate rate of financial incentives (will help judge whether these are appropriate to adjust and calibrate incentives)

Results (slide 12-)

- 80% of customers agree or strongly agree that there should be financial incentives
- 37% of customers suggest there should be higher bills for better service

Overall results show customers do understand the role financial incentives can play. Customers also understand the need to look after assets today to protect services in future.

AW also asked about reputational incentives but over 60% of customers think that there should be financial incentives, as this is a better driver of company performance (rather than reputational).

Customer priorities include:

- Leakage
- Customers interested in supporting those in vulnerable circumstances
- Water quality comes up on top

Slide 21:

Over 50% of customers agreed with enhanced incentives for frontier performance (15% don't agree.) On leakage specifically, 60% of customers supported enhanced incentive rates (9% don't agree).

Slide 22:

AW asked customers what they thought an appropriate uplift to basic rate would be. 3 to 4 times the standard rate might be appropriate (set by Ofwat). About 30% of customers supported an increase of that scale.

Slide 24:

£4.40 cap is average cap value, which is slightly higher than the bill impact if AW had enhanced reward if strong outperformance on leakage (powerful result)

Arun said there will be further focus groups on these issues to give backstop information on overall package customers expect to see. AW can look at how this has been translated into incentive rates.

LG to circulate

Lisa said that segmented information would be available by end of week.

5. Timetable update

Need for meeting end of June/early July. Meeting subsequently set for 21 June.

Vicky suggested it would be helpful to take stock of information provided to date and answer questions from Aide Memoire to feed into CEF report.