



ANGLIAN WATER INDEPENDENT CHALLENGE GROUP

MINUTES

Date: 25 July 2023
Time: 10:00-13.00
Location: Virtual

Present:

- Craig Bennett – Chair (M)
- Gill Holmes – CCW (M)
- Peter Holt – Chief Executive, Uttlesford District Council (M)
- Joanne Lancaster – MD, Independent (M)
- Sarah Thomas – CCW (M)

- Arun Pontin – Regulatory Policy Manager, Anglian Water
- Emily Timmins – Director of Water Recycling Services, Anglian Water
- Andrew Snelson – Head of Economic Regulation, Anglian Water
- Rachel Walters – PR24 Customer Engagement Lead, Anglian Water

- Amanda Markwardt – ICS Consulting
- Rachel Risely, Accent
- Lauren Durrell, Accent
- Vicky Anning – Secretariat (O)

Apologies:

- Darren Rice – Regulation Director, Anglian Water
- Peter Simpson – Chief Executive, Anglian Water
- Claire Higgins – Cross Keys Homes (M)
- Paul Metcalfe – MD, PJM Economics (M)
- Nathan Richardson – Waterwise/Blueprint for Water (M)
- Justin Tilley – Natural England (M)
- Richard Tunnicliffe – CBI (M)
- John Vinson – CCW (O)
- Victoria Williams – Environment Agency (M)

Summary of actions

Action	Status
Craig to circulate bullet points shared at 19 July AW Board meeting	Pending
Emily to arrange a meeting with Peter Holt and Jo Lancaster re. calls to action for council chief executives	Done
Rachel W to circulate timelines of different reports (e.g. WRMP, DWMP, LTDS etc.)	Pending
Arun to provide data on performance commitments/company performance over three years	Open
AW colleagues to feed back on any changes to ODIs and performance commitments as a result of A&A Testing or other customer engagement at 15 September ICG meeting	Open
Sarah T to reflect on mandatory guidance for Acceptability and Affordability Testing and feed back by 28 July	Done
Craig and Vicky to work on ICG report	Open
Future agenda items proposed: <ul style="list-style-type: none"> • Alignment of different strategies that form Business Plan (e.g. DWMP, WRMP etc) • Biodiversity deep dive • PIRP – sight of accelerated PIRP • Strategic risk register/risk profile to be added to future ICG agenda • Assumptions underlying planning scenarios related to the environment, legislation and planning regulations. • A focus on the vulnerable customer agenda, including how data is used to help change customer behaviour. 	Open
<i>Open (carried over from 30 June meeting)</i>	
Gill to check with colleagues about circulating CCW “what good looks like” papers to AW colleagues	Open
Gill to 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 to see a glide path towards reaching 8% of customers in water poverty	Open
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
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 cross-subsidy Willingness to Pay research and any future plans to support vulnerable customers	Open
Vicky to add relevant points to challenge log	Ongoing

<i>Still open from previous meetings</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
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	Available as follows: Anglian Water Assurance Report June 2023.pdf Triangulation report not finalised; Jacobs report to follow: final reports expected w/c 28 August
Rachel to ask Simon Dry for a copy of Customer Board challenge log and to enquire about Craig attending a Customer Board meeting.	Available as follows: CB challenge log .xlsx Awaiting info on date for Craig to attend
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.</p> <p>Craig reported that he had joined the Anglian Water Board meeting on 19 July and had offered a 20-minute summary of the main themes and challenges from the ICG and the Customer Engagement Task and Finish Group during this price review, as well as highlighting areas where the ICG would still like to push the company further.</p> <p>He emphasised that this was still preliminary thinking and there was still some way to go before the Business Plan was finalised before the 2 October submission. It had been agreed with Darren Rice that the ICG would provide a report to Ofwat alongside AW's Business Plan.</p> <p>The AW Board appreciated the ICG's work and asked Craig to pass on their thanks.</p>	

Item	Action
<p>Action: Craig to circulate his slide deck/update to the Board.</p> <p>COG update There was no update to report from the Central Oversight Group (COG). Craig wasn't able to attend the previous week's meeting but would watch the recording and share an update as soon as possible.</p> <p>Minutes Minutes from the 30 June ICG meeting were accepted as read.</p>	<p>Action CG</p>
<p>2. <u>Pollution Incident Reduction Plan (PIRP)</u></p> <p>Craig thanked Emily Timmins, AW's Director of Water Recycling Services, for the pre-reading materials. He was pleased to be getting an update on the PIRP.</p> <p>As part of the update to the AW Board, Craig had made the point that it was surprising the PIRP had not landed sooner as it was such a key part of the Business Plan and was key to regaining public trust.</p> <p>Emily talked through the main headlines of her slide deck presentation on ambitions for AMP8. She stressed that the company needed to be bold in setting pollution limits. AW aims to continuously improve its environmental efforts, aligning with the ongoing Get River Positive initiative.</p> <p>She highlighted the unique nature of the company's complex asset base and the challenges this poses (as an 89% rural region). She explained that the PIRP is being continuously developed in collaboration with the Environment Agency (EA) to incorporate technical content and data-led performance information, and to make sure it's tailored to AW's circumstances.</p> <p>A subset of significant data that underpins the PIRP was being presented to the EA during a performance and strategy meeting concurrent with the ICG meeting. The PIRP addresses an asset class improvement plan, focusing on issues like blockages. This approach was industry leading.</p> <p>However, there needed to be a change in focus towards more monitoring to prevent problems before they happened. This was challenging because a lot of assets were out of sight in rural areas.</p> <p>Challenge/questions</p> <p>Jo Lancaster asked if the company had made a commitment towards change. While she applauded the PIRP ambition, she pointed out that AW couldn't tackle this alone. She would like to see a step change towards zero pollution incidents.</p> <p>Emily emphasised AW's commitment to reducing pollution incidents and funds had been made available to tackle these issues (e.g. by installing 20,000 monitors although more were needed in low-risk locations).</p>	<p>Challenge</p> <p>Challenge</p>

Item	Action
<p>She acknowledged the need to make a step change improvement and was currently working on an acceleration plan for the PIRP.</p> <p>Emily also emphasised the importance of partnership working, sharing best practices, and learning from other water companies. She highlighted initiatives like the Norfolk hub to address issues related to nutrient neutrality.</p> <p>There was a discussion about engaging with various stakeholders, including county councils and the agricultural network and drainage boards, to tackle pollution incidents collaboratively.</p> <p>Peter Holt asked Emily to provide specific data and calls to action for a September meeting of Council Chief Executives from Norfolk, Suffolk, Cambridgeshire, Hertfordshire and Essex. He wanted to try and get agreements in principle on models of best practice from colleagues to help build momentum in this area.</p> <p>Action: Emily to arrange a meeting with Jo and Peter.</p> <p>Gill Holmes acknowledged improvements in self-reporting.</p> <p>Emily said the improvements were being made through telemetry and liaising with the Environment Agency.</p> <p>Craig said these developments were very welcome but it was surprising that this type of thinking had not happened until now. It would be good if the company acknowledged that and learned from past mistakes. Like Jo, he would still like to see a forecast of getting to zero pollution incidents to help increase the level of ambition, commitment and innovation. He agreed partnership working was important but felt water companies could offer a much louder and bolder voice in terms of advocacy (e.g. through Water UK).</p> <p>Emily highlighted AW’s adaptive planning approach, using scenario-based strategies for future planning. AW plan to take long-term investment approaches to monitor and control pollution and use similar innovations to the oil industry to make sure water becomes a more highly-valued resource.</p> <p>Craig thanked Emily and asked for further updates to come back to the ICG in future.</p>	<p>Action ET</p> <p>Challenge</p> <p>Action for future ICG agenda</p>
<p>3. <u>Business Plan update – including Performance Commitments</u></p> <p>In Darren Rice’s absence, Rachel Walters (Anglian Water’s PR24 Customer Engagement Lead) gave a brief update on the status of the Business Plan, which had been presented to the AW Board on 19/20 July.</p> <p>The Board gave support for each of the investment buckets that had been seen by the ICG, as they were presented to customers as part of the Acceptability and Affordability Testing with customers.</p>	

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<p>The main focus of Board discussions was on deliverability; Rachel said the company was in a good position in this regard. However, there was recognition that AW still needed to be agile because there were still quite a lot of statutory requirements and requests coming through from the Environment Agency, Drinking Water Inspectorate and Ofwat.</p> <p>The proposed 17.4% bill increase over AMP8 aligned with Affordability and Acceptability Testing results. This means an increase from around £495 per year for the average customer in 2024-25 to up to around £580 in 2020-29.</p> <p>The Board had raised questions regarding the balance of risk and return, and further work with KPMG was ongoing in this area. The final decision would be made at the next Board meeting in early September.</p> <p>Andrew Snelson added that the framework of the Business Plan was now fixed but the details were now being added, which was still a substantial task.</p> <p>Challenges/questions</p> <p>Gill Holmes asked about the letters from the EA circulated to ICG members, which talked about discretionary spend and she asked whether that was likely to change AW's approach to discretionary spend.</p> <p>Rachel responded that it was on the radar but it was a bit early to say any more than that. There were conversations ongoing about growth and facilitating housing development.</p> <p>Jo Lancaster asked an interlinked question: given recent rating announcements, had there been discussions about whether the focus of the plan might need to change subtly. She raised concerns about the challenge of cutting water consumption by 10% in the face of projected housing growth. She also flagged that she felt all of the different plans submitted by AW had subtly different focuses and needed to be more joined up.</p> <p>Arun Pontin assured the ICG that it was always at the top of AW's agenda to make sure that customers had enough water; this is enshrined in the Water Resources Management Plan (WRMP).</p> <p>On the second point, he felt that it would be helpful to come back to the ICG in September to make sure that all the themes in the different plans had been drawn together.</p> <p><i>Performance commitments</i></p> <p>Arun then went on to give an update on Performance Commitments, alongside Amanda Markwardt from ICS Consulting.</p> <p>Detailed pre-reading had given ICG members an overview of:</p>	<p>Challenge</p> <p>Action for future ICG agenda</p>

Item	Action
<p>1. AW’s proposed PR24 performance commitment levels – looking at detail on Affordability and Acceptability Testing findings to look at the golden thread</p> <p>2. AW’s approach to PR24 incentives – some new content building on previous discussions</p> <p>3. Bespoke performance commitment feedback and next steps info</p> <p><i>1. Performance commitment levels</i></p> <p>Arun explained that, although Ofwat were increasingly centralising customer engagement at PR24, AW customers were still shaping the company’s outcomes programme and were taking part in an ongoing valuation refresh.</p> <p>Despite this centralisation, AW thinks it remains important for companies to understand their own customers’ views. Ongoing customer engagement has informed the company’s investment decisions, which in turn informs performance commitments.</p> <p>More specifically, through the ongoing Acceptability and Affordability Testing, AW put forward proposed performance commitment levels, with mixed feedback from customers.</p> <p>In some areas, customers thought the proposed levels were acceptable and in other areas they said AW could be more ambitious.</p> <p>In response, AW was going to increase investment in four areas:</p> <ul style="list-style-type: none"> • Total pollution incidents • Internal sewer flooding • Leakage • Water supply interruptions <p>AW decided not to focus on external sewer flooding, in spite of customer feedback on this. Early customer engagement results from the July Affordability and Acceptability research suggest that was the least important of the highlighted area for customers.</p> <p>The final few slides of this section presented the whole suite of proposed performance levels for all the other performance commitments, as well and some notes on the customer engagement that has fed into building those investment plans.</p> <p>Arun concluded that proposed ambitions for AMP8 were very stretching. But AW was prepared for the challenge and had taken on board ICG feedback on increasing ambitions, in particular for pollution incidents.</p> <p>Challenges</p> <p>Gill Holmes questioned how challenging some targets were considering some targets had been missed in previous years (e.g. on water supply interruptions). She wondered whether the targets were ambitious enough.</p>	<p>Challenge</p>

Item	Action
<p>Arun said the ambitions for improvement were stretching, even if AW was behind on performance targets in some areas. The increased frequency of extreme weather events (particularly in 2022) was challenging. He suggested it might be helpful to look at a three-year average for some performances measures to smooth out the volatility created by extreme events in some years.</p> <p>Gill acknowledged that the qualitative research was based on 2021/22 figures and she felt it would be helpful to see improvements over a three-year rolling average rather than just basing it on one year's results.</p> <p>Action: Arun to follow up this action point with further information.</p> <p><i>2. PR24 incentives</i></p> <p>Arun focused back to Slide 28 of the pre-reading materials. The purpose of this section was to give the context around Ofwat's evolving approach towards setting incentives for PR24, AW's reflections on the alignment of Ofwat's proposed incentives with their customer evidence, and AW's initial views on where there is a case for using incentive rates based on the company's own customer evidence in the Business Plan.</p> <p>Generally, Ofwat's top-down approach appeared to over value service compared to the views of AW's customers through societal valuations and other sources of evidence.</p> <p>In certain places the level of inconsistency was such that AW is proposing to use their own customer evidence to set incentive rates. This is for:</p> <ul style="list-style-type: none"> • Total pollution incidents • Serious pollution incidents • Per capita consumption and • Business demand. <p>Generally, Ofwat is encouraging companies to use centralised incentive rates, unless there is compelling evidence to do otherwise. AW has looked at where it makes sense for the company to have the strongest evidence, looking at the overall balance of risk and return.</p> <p>Challenges/questions</p> <p>Jo Lancaster said that overall she was heartened by the focus on re-prioritising according to customers' views and she felt that the four focus areas were obvious candidates (particularly business demand, as there are many water-intensive industries in the region), but she would like to see more focus on biodiversity.</p> <p>Arun responded that Ofwat was using Defra's definition of biodiversity units to support the common incentive level in this area. This is going to be set at the last possible moment to reflect the most current information. AW is not considering challenging Defra's definition and hasn't talked to customers about this.</p>	<p>Action AP</p>

Item		Action
4.	<p><u>Customer engagement: update</u></p> <p>Rachel Walters – AW’s PR24 Customer Engagement Lead – introduced Rachel Risely from Accent, who had just completed Phase One of the light touch quantitative stage of the Acceptability and Affordability Testing, which was developed to inform the AW board meeting on 19 July. They had circulated a slide deck a few hours ahead of the meeting (hot off the presses).</p> <p>Rachel Risely said a total of 530 responses were received from household customers in the dual supply area (target was 500). A random sample of customers were approached by email. Future customers weren’t included. In terms of sampling, the survey was designed to reflect the mandated methodology. It also reflected the weighting method that was used for the collaborative ODI.</p> <p>Findings from the survey (affordability):</p> <ul style="list-style-type: none"> - 37% of participants stated they could afford their existing water and sewerage bills fairly or very easily - 19% found the bill fairly or very difficult to afford. - after being informed of the proposed bill, 17% thought it would be easy to afford. <p>In terms of acceptability, just over half (51%) of respondents found the proposed plans and price increase acceptable after hearing about nine enhancement schemes (rather than the mandated six schemes proposed by Ofwat). 36% of respondents said it unacceptable or completely unacceptable.</p> <p>Those who found the plan acceptable thought that it was ambitious and was addressing the right things. Those who found the plan unacceptable fell into two main camps:</p> <ul style="list-style-type: none"> - the first felt that the plan wasn’t ambitious enough and wasn’t addressing the right things; - the others felt that investments should be paid for out of water company profits. More details were presented in the pre-reading materials. <p>Accent was planning to launch the main stage survey on 7 August, so that findings were available in time for 6 September Board meeting and 15 September ICG meeting.</p> <p>Rachel R sought guidance from the ICG on deviations from the Ofwat guidance (showing nine enhancements instead of six). Discussions were also needed around placement of the single service bill.</p> <p>ICG feedback was also sought on the potential to run a mirror survey, which would run completely as mandated. This would mirror the other survey that supplemented Ofwat standard guidance but was designed to provide more meaningful responses with more context as requested by customers in the Qualitative research component and supported by COG testing.</p>	<p>Action ICG</p>

Item	Action
<p>Discussion</p> <p>There was a discussion about the sequencing of questions and the need to present acceptability data carefully. It was important to ensure that the survey represented a balanced range of respondents, including vulnerable customers and age range, to provide meaningful insights.</p> <p>Rachel W explained that, in order to meet the criteria set out by Ofwat’s high quality standards, AW was having to supplement the mandated guidelines to make this a meaningful piece of research. In consultation with Ofwat, where companies want to do this they need to liaise with their ICG for their views. She therefore wanted to get a steer from the ICG on running a shadow survey with these additional elements at the same time as running the standard guidance survey, as Rachel R had explained. She was particularly interested to hear views from Sarah Thomas and Gill Holmes from CCW around (not) meeting Ofwat guidance.</p> <p>Sarah Thomas said she needed more time to look at the slide deck and think about the question and would provide comments by the end of the week.</p> <p>Action: Sarah Thomas to provide input by end of w/c 24 July.</p> <p>Gill Holmes asked whether there would be any further materials before 7 August requiring ICG input.</p> <p>Rachel W said she would be happy for ICG members to review materials as these were developed, particularly for the mirror survey, although turnaround times would be tight.</p> <p>Craig mentioned that the situation resembled a bigger version of the <i>Your Water Your Say</i> dilemma and he looked forward to hearing Sarah and others’ opinions. The ICG agreed to come back with a strong steer, considering CCW’s perspective.</p> <p>Rachel Risely and Lauren Durrell from Accent left the call.</p>	
<p>5.</p>	<p><u>Company update</u></p> <p>Andrew Snelson – AW’s Head of Economic Regulation – shared an overview of AW’s Annual Performance Report (APR).</p> <p>In summary, the company was disappointed with the previous year’s performance in the round and was determined to do better. At the top of the list was tackling pollution incidents, as already discussed, but AW also wanted to improve leakage performance and CMEX (which measures brand performance among customers).</p> <p>AW met 55% of their performance commitment levels for the year (2021: 75%, 2022: 63%) – this compares to around 62% among other water companies.</p>

Item	Action
<p>AW incurred a net financial reward (penalty) for the year of £-22.4m (2021: £9.7m, 2022: £-8.3m) – this is also in the same direction as other water companies.</p> <p>Weather challenges in 2022 accounted for well over half of penalties incurred in the last financial year.</p> <p>From the data, it appeared that the company’s performance was on a downward slide but standards to meet get increasingly tougher. For example, although leakage performance improved year on year, AW still missed the performance target. It also earned a penalty, whereas its poorer performance in the previous year had attracted a small reward.</p> <p>Discussion</p> <p>Jo Lancaster pointed out that the changing climate may change the risk profile of the company and asked how AW was responding to that and making sure they were more resilient?</p> <p>Andrew responded that, in the short term, AW needs to benchmark themselves against other companies and look at where improvement was needed. In the longer term, their response to the resilience challenge was the proposal for two new reservoirs. In the Annual Integrated Report (AIR), there’s a section about the risk assessment that the Board undertakes.</p> <p>Craig added that what we once considered extreme weather was going to become the new normal in future years and this needs to be built into models on leakage and other areas, including the company’s risk profile.</p> <p>Andrew agreed that this would be good to cover in more detail at a future ICG meeting. AW has a vast asset base that can’t be amended easily; it requires innovative solutions. There is thinking on this outlined in the LTDS.</p> <p>Action: Add risk profile in response to climate change to a future ICG agenda</p>	<p>Action for future ICG agenda</p>
<p>6. <u>General discussion</u></p> <p>There was general discussion around next steps for AW’s Business Plan, which was due to be signed off by the Board at their next meeting on 6 September:</p> <ul style="list-style-type: none"> • Craig had had a conversation with Darren Rice about a report from the ICG (to provided assurance and challenge on customer engagement on behalf of Board alongside business plan) • Craig will pull together report by late August with Vicky to share with ICG members in early September and to finetune. <p>Jo said it would be useful to have an update on dates of all the individual plans due to be submitted to Ofwat.</p> <p>Action: Rachel to circulate a timeline.</p>	<p>Action CB/VA</p> <p>Action RW</p>

Item	Action
<p>Once the Business Plan had been submitted on 2 October, Craig suggested that the ICG would take a step back to reflect on ICG's work and role and to start thinking about the next price review.</p> <p>Jo said it would also be helpful to hear from AW colleagues about role of ICG and anything else that could be done.</p> <p>In a farewell to Rachel Walters, Craig thanked her for her support and engagement over the past two years, especially for driving improvements in pre-reading materials.</p> <p>Rachel said she had enjoyed working with the group and the challenge had been really beneficial. In her absence, the ICG should liaise directly with Darren Rice and Abi Morgan. Her final working day was 11 August.</p> <p>The meeting was adjourned for an ICG-only session, and Craig extended his best wishes to all for a great August.</p>	
<p>6. <u>ICG only session</u></p> <p>Reactions to PIRP:</p> <ul style="list-style-type: none"> • Some members expressed concerns that, despite the talk and enthusiasm, there still wasn't enough assurance that the issues were being effectively addressed from a company level. Ambitions weren't yet being reflected in AW's performance. • The company's priority and commitment to reducing pollution incidents should be clear and unambiguous, with firm limits set rather than vague targets. • Partnership work was welcome, but there's a need to focus on future planning and actions. • Questions were raised about why the company wasn't doing certain things before and what Water UK's future plans were. • It was agreed that this was an area that the ICG needed to keep pushing the company on. <p>Performance commitments:</p> <ul style="list-style-type: none"> • More detailed information was provided this time, which was helpful and the pre-reading materials had given more context. • Concerns were raised about the company's approach to bespoke performance commitments and its implications for customers. • What would happen if AW challenged Ofwat's approach and what would be the impact on customer bills? • ICG members agreed they would also keep a close eye on developments in this area. 	

Item	Action
<p>Customer engagement update:</p> <ul style="list-style-type: none"> • ICG members had given feedback on draft Acceptability and Affordability Testing materials, but felt that some comments had not been taken into account. • There were a number of areas that ICG members weren't happy with: <ul style="list-style-type: none"> ○ There were concerns about how the company was reflecting its performance to customers (e.g. was it fair to say that AW's performance on pollution incidents "had made steady progress")? ○ ICG members found some of the additional information about the investment buckets quite confusing (where more than six were added) and found it surprising that customers felt this easier to navigate. • It was a risk that the survey's structure and adherence to Ofwat guidance was up in the air, with potential implications for the final Business Plan. <p>Company update:</p> <ul style="list-style-type: none"> • ICG members agreed it hadn't been a good year for the company. • They were left with the overall impression that company was not fully prepared for extreme weather events over the next decade. • There was a need for backcasting and long-term planning, considering the rapidly changing projections and realities. <p>Agenda items for future meetings:</p> <ul style="list-style-type: none"> • Request to see the assumptions underlying planning scenarios related to the environment, legislation and planning regulations. • Strategic risk register. • A focus on the vulnerable customer agenda, including how data is used to help change customer behaviour. <p>Next meeting: 15 September 10:00-13:00 (virtual)</p>	<p>Action for future ICG agendas</p>