



30 August 2018

Dear Peter

CCWater's opinion on Dŵr Cymru's customer challenge and engagement process

This letter summarises some of the views and challenges of the Consumer Council for Water (CCWater) during Dŵr Cymru's Price Review 2019 (PR19) customer challenge process.

CCWater is the statutory body representing the interests of household and non-household water and sewerage customers across England and Wales. As a member of the Customer Challenge Group (CCG) our representatives have participated in the process with a view to help deliver a plan driven by customers' priorities (as evidenced in research) and which addresses their needs over the next five years and, quite importantly, within a long-term context.

CCWater is represented on Dŵr Cymru's CCG by Lee Gonzalez, Local Consumer Advocate, and the contributions of Lia Moutselou, Senior Policy Manager. Our key views on this price setting process have been communicated through the company's CCG, our bilateral PR19 engagement with the company and Welsh Government's PR19 Forum. The views and contributions expressed at those meetings have been consistent and have provided a clear outline of CCGWater's key objectives and expectations on behalf of the consumers it represents.

As well as participating in all CCG and other PR19 meetings, CCGWater proactively shared advice, guidance and an outline of its expectations (challenges) to ensure these are incorporated in the challenge process. Below is a list of some of our guidance documents shared with the company and the CCG which can be made available on request:

- [CCWater's guidance on Willingness to Pay](#)
- [CCWater's guidance on Triangulation](#)
- CCGWater's Key objectives on PR19
- CCGWater's expectations on Outcome Deliver Incentive Research
- CCGWater's expectations on Acceptability Research

We are pleased that:

- The company took a long-term perspective to its business planning across investment periods through its Welsh Water 2050 document. However the link between the business plan discussed at the CCG and this long-term strategy needed be made clearer in the final version agreed. Examples of areas where this is important include the National Environment Programme (NEP) investment, the company's long term ambition to reduce contact from water customers on water quality and achieving meaningful reductions in water supply interruptions (i.e. phasing out twelve hour and over interruptions in this Asset Management Period (AMP) whilst aiming for further reductions at a faster pace in the future).
- The company responded positively to our suggestion to include a Non-Household Customer Experience measure as part of its Performance Measures package (B-Mex). CCGWater felt it is important to monitor this customer segment's experience as the company should be vigilant to respond to their needs and aim to offer the best services across England and Wales.
- Dŵr Cymru was one the first water and sewerage companies to test an alternative approach to willingness to pay research and to accept the need for a triangulation framework.

- The company has included an ambitious target, planning an over 100% increase, on the take-up of its Social Tariff ([HelpU](#)) - its target being almost 120,000 customers on the tariff by 2025¹. This will involve a review of the overall assistance package to consider how this increase can be funded. This is necessary given there is no customer support for an increase to the current cross-subsidy according to the company's recent research on social tariffs. We would also like to note our challenge to the company to extend its broader vulnerability strategy beyond financial vulnerability and area specific projects (such as Maerdy Porth) which might risk leaving out large segments of the population in less obviously disadvantaged areas. We have provided detailed comments on the company's vulnerability strategy and these are available upon request.
- The company committed to broad customer engagement which provided it with much data and evidence to analyse and use in its business planning process. However we note that similarly to PR14 the story of how decisions were influenced by research was not made clear throughout the process.

Customer engagement and influence on plan

We have worked closely with the CCG and Dr Dimitrios Xenias who completed a review of the company's customer engagement. Our key views on customer engagement and research are:

- **A clear narrative (the golden thread) and systematic triangulation:** At the outset of the challenge process we were pleased to see the company commit to the development of a triangulation framework. This, however, commenced before [CCWater's guide on the triangulation process](#). Complexity in the initial triangulation process as well as challenge on the weighting of some of the data used, meant that this framework was abandoned at the early PR19 research stages. This created a gap in the company explaining how it was using the extensive customer data it collected during the subsequent customer engagement phases. In response to our challenge at the CCG (at the latter stages of the challenge process in 2018) the company produced two papers which, a) demonstrated its approach on customer engagement and understanding customer views under each performance commitment theme, b) summarised customer views for specific segments of their customer base, namely vulnerable, non-household and future customers and c) explained how they have considered research to set targets for their PCs. Despite those documents which summarise the broad and extensive customer engagement that the company undertook, we have not been able to clearly see:
 - A golden thread that runs through the company's decision making and a clear narrative demonstrating how some of the plan decisions were reached iteratively throughout the process.
 - A systematic and methodical triangulation approach, demonstrating the weighting and analysis of all research at all stages which would also allow us to easily understand how tensions between evidence sources were addressed and how quantitative or other evidence was given prominence within the decision-making of the company. It was not clear to us how the evidence was prioritised in this decision making process.

However we recognise the effort and work of the company has put in this in response to our challenges and we would like to acknowledge the hard work of their team in responding to us and the CCG at the latter stages of the process.

- **Willingness to Pay (WtP) research:** The company embarked on its WtP research before [CCWater completed its good practice guidance](#). We would have liked better engagement from the company during the drafting of the WtP material. At the CCG we challenged the differences in valuation that had resulted since PR14 and whether this was due to changes in the methodology or reflected changes in customer views; this is something to be noted in the development of future approaches

¹ The assistance scheme targets for the company's performance commitment is 148,100. Out of this 119,600 is the target for customers on the HelpU tariff. This target represents a significant increase from a baseline of 57,118. The remainder is the number of customers the company is planning to have on WaterSure Wales, the non-statutory scheme which targets high consumption customer on benefit in Wales. The figures for WaterSure Wales represent a reduction of 14%.

of service valuation in price setting cycles - how to be certain what is driving changes in the resulting valuations.

- **Outcome Delivery Incentive research:** We shared CCWater's expectations on ODIs research, focussing on testing:

- The principle of using these incentives
- Where performance incentives should be applied and the service levels which should trigger a reward or penalty
- Test the acceptability of the potential bill impact of rewards, should the company set or achieve them.

We were not consulted on the design of the research material and we note the company did not seek to define ODIs triggers for rewards and penalties through this research. We also note that customers did not seem supportive of the ODI principle. More specifically they were not supportive of paying rewards but keen to see penalties for the company on underperformance. Nonetheless the company considers it important to follow Ofwat's instruction to include ODIs (with rewards and penalties) in its package.

- **Acceptability research:** CCWater shared its acceptability research expectations early on in the process. The company included inflation in the values of charges it tested for customers and sought uninformed and informed views. However the uninformed testing of bill profiles included and excluded inflation on the same slide - we would have preferred this to have been tested separately so that we can assess uninformed acceptability on bills including inflation v. excluding inflation. The uninformed acceptability result was 80% which meets the minimum acceptability threshold we consider acceptable in this PR19 process. We are however disappointed that the company did not take the opportunity to test acceptability of the potential impact of ODIs in this piece of research even though we acknowledge the challenge faced by the industry in finding the best way to engage on this research topic. We would also like to note that the percentage of customers who are likely to find the bill unaffordable in the future increases from 4% to 7% in this survey. This is important context in considering future impacts on bills and we are unsure how the company considered this finding. Finally, as agreement on the company's response to the National Environment Programme (NEP) was not reached at the time we wrote this letter, we would like to note that should there be an impact on customer charges because of the NEP, the company should repeat its acceptability research on a revised bill profile. It concerns us that there is still no clarity on whether Natural Resources Wales has accepted the company's response and that we have not been involved in discussions relating to the NEP.
- **Using WtP data to define targets:** One of our key points of disagreement with the company is using the WtP valuations to define targets and triggers for ODIs rewards and penalties. In our WtP guidance we clearly explained that we would not support this approach. We do not consider this to be good practice and would like this concern to be noted.
- **Customer response to the ODIs concept:** We are pleased that the company's ODIs research tested customer views on ODIs in principle. Whilst customers were keener on the application of penalties (rather than rewards) the findings presented to this CCG demonstrated limited support for the ODIs concept in Wales. We would like it noted that the company felt it is important to proceed with ODIs in Wales despite this finding in order to comply with their interpretation of the economic regulator's (Ofwat's) expectations.

Performance commitments

We welcome the company's engagement with CCWater at the CCG, the Welsh Government PR19 Forum and through our bilateral PR19 engagement on its performance targets. We agree with the rest of the CCG and regulators that the company's ambition seems moderate but we have carefully considered their narrative, their interpretation of customer evidence and their cost benefit analysis. We also understand

that performance ambition was moderated because of the company's interpretation of research indicating there was no overriding support for a plan which would deliver further service improvements but could result in an increase to charges.

We would like our views to be noted on some performance commitments which we think merit more ambition from the company:

- **Water Supply interruptions:** The company's PR19 customer research evidenced strong support for the elimination of longer water supply interruptions. In 2017/18 Dŵr Cymru (+256%) saw the second largest increase of water supply interruptions after Bristol Water (+500%) as a result of Storm Emma. We recognise the affordability challenges explained by the company. However, the impact of severe weather events on customers in Wales and the on-going issues with water supply interruption performance in the past few years in the company's area demonstrate the need for ambition by the company. In our challenge we asked the company to prioritise addressing water supply interruptions of twelve hours or more but we are not clear how the target presented in the PCs aims to do this. To inform the challenge process we shared the following evidence:
 - o Dŵr Cymru performance on water supply interruptions has been below industry average for at least three years.
 - o In 2016/17 the company managed an over 40% reduction but still remained an above industry average performer².

This is an ongoing issue for the company and whilst we understand the challenges in addressing this we are concerned that the pace of improvement is not facilitating significant improvements for customers.

- **Leakage:** We are pleased to see the company accepted the 15% Ofwat leakage challenge but believe it could be more ambitious within the context of its performance, given that leakage is such an important issue for its customers. CCWater's 2016/17 industry performance report highlighted the leakage industry average as 121 megalitres/property/day and Dŵr Cymru being one of the five companies above that level on leakage (at 123)³. The performance measure set by the company for its performance commitment is not comparable to CCWater's statistics.
- **Water consumption:** Working to reduce water consumption in Wales where the perception of abundant water and increased leakage act as barriers to behavioural change is not an easy task. However we believe that the company's ambition on working towards a more challenging target to reduce water consumption (alongside leakage) is still important. We understand that new metrics of water consumption are being considered through a Water UK project but we have had to use the metrics available to us to inform the challenge discussion. The 2016/17 CCWater's industry performance report highlighted Dŵr Cymru was one of the companies whose level of water consumption was above average, and it showed an upward trend in consumption in recent years. In 2017/18 we noted a further increase on water consumption by 3.56%. Despite this we noticed that the 2024/25 target proposed by the company is nearly at the same level as that of 2015/16, therefore raising concerns on the company's ambition to drive more significant change within its customer base.
- **Customer acceptability of water quality:** CCWater does not measure customer contacts on water quality but has an understanding of the levels of contact being an ongoing issue in Wales - the level

² CCWater (2017) 'Water Water Everywhere' – annual industry comparative performance report on water services, <https://www.ccwater.org.uk/wp-content/uploads/2017/12/Water-water-everywhere-Delivering-a-resilient-water-system-2016-17.pdf>

³ See Footnote 2.

of customer contact in Wales on taste, colour and smell of water is significantly higher than England. The challenging targets at PR14 seemed to be successful at mobilising the company to implement some improvements in its performance through additional investment and by looking at ways it can improve its practices, e.g. by working towards eliminating issues caused by third parties. CCWater's understanding of the Drinking Water Inspectorate's expectations on this metric is that the target should be more challenging to improve the company's performance in AMP7 whilst demonstrating higher strategic ambition in the long-term. The measure chosen by the company is not comparable to what is measured by the Discover Water Dashboard therefore not allowing direct comparisons with the rest of the industry.

- **Sewer flooding:** In 2016/17 we noted an increase in internal sewer flooding for Dŵr Cymru (+23%) even though it met its targets and had been a good performer over the previous years. We also noted that the company still has a significant number of external sewer flooding incidents. Our overall position is that we want the industry to be more ambitious in addressing external sewer flooding and looking to sustainable drainage solutions and engagement with customers and stakeholder to achieve this.

Other issues

- **National Environment Programme (NEP):** Throughout the process CCWater has asked that the NEP and the company's response to the regulatory requirements be included in the challenge process discussions. However, at the time this letter was being written there had been no meaningful discussions on the way that the NEP could be delivered and/or even phased. We understand that NEP discussions took place between the company and NRW, and at the Independent Environment Advisory Panel (IEAP) chaired by Prof. Steve Ormerod. However, we understand from our representative on the IEAP that the NEP discussion did not involve challenging the company's response. We would have liked to take part in discussions which considered different options (including catchment management, innovative solutions and sustainable drainage) to address some of the NEP requirements. At a recent Welsh Government PR19 Forum we noted NRW willingness to consider phasing investment provided that a broader programme of catchment management solutions was proposed by the company. We understand the company's view to be that AMP7 would allow testing such catchment management approaches which could then be implemented in future AMPs. In an ideal scenario CCWater would have liked to see regulator and Welsh Government input and written view on potentially phasing the delivery of some of these requirements across future investment periods if this were appropriate.
- **Ofwat's Aide Memoire:** In terms of our on-going concerns, we feel that the CCG report does not address some of the requirements set out by OFWAT in their [Aide Memoire for Customer Challenge Groups](#)⁴. This was raised by our representatives in private discussions, at the CCG and in emails regarding the report sign off. The CCG report provides an extensive narrative of its meetings and

⁴Extract from Ofwat's Aide Memoire for Customer Challenge Groups (March 2018)

'Consistent with our legal duties and strategy, our assessment of business plan quality must be evidence based. In this context, it is important that the CCG reports highlight:

- areas of challenge and disagreement, including how the company has responded to challenges;

- any areas of outstanding disagreement; and

- how trade-offs have been explored and reflected in the development of the company's business plan.

This is so that we can have honest commentary that informs our assessment of companies' businessplans.'

some of its discussions, but does not specifically identify the challenges, the range of 'disagreements' between some of the members and the company or the trade-offs the company had to make to address tensions raised by those challenges or as identified in customer research. This is because some of these discussions did not take place extensively at the CCG, such as for example Natural Resources Wales's (NRW) concerns about the company's response to their NEP. Whilst other times it could be that some of those challenges were not recorded in detail at the time they were raised. For example, CCWater's concerns about the absence of the narrative explaining how the company build the plan from the bottom early on in the process and our feedback from bilateral meeting where the company had communicated that the triangulation process had been abandoned because of complexity. Another example would be the company's increase of investment in lead pipes removal, which the CCG supported, but which was not considered against any other competing needs and priorities for customers.

- **Special cost factors:** CCWater challenged on the company's special cost factors (or cost exclusions) asking that evidence of the proposals are supported by customers and can help deliver demonstrable benefits to them. One of our key challenges on the proposals presented to us was relating to whether some of the regulatory drivers, such as the NEP, justified the inclusion of some of the schemes on this list (e.g. Gwili Gwaendraeth and the Llanelli /Gowerton investment resulting from the European infraction proceedings). We are pleased to have seen some evidence on customer benefits in the submission presented to Ofwat (shared with us). We were, however, surprised to see a submission on customer acceptability improvements which we do not think was discussed with us at our bilateral meetings.
- **Lessons Learnt:** We are pleased to have been part of the customer challenge process and we think there are some lessons that could be learnt early on at this stage:
 - o We think a platform like Trello (instead of a detailed challenge log which could be an alternative) would benefit the challenge process from now on, provided that actions and follow ups are accurately recorded and regularly updated by a secretariat to the CCG.
 - o We really value the private sessions introduced to CCG meetings at the latter part of the process in 2018. They allowed time for members to digest the high levels of information presented to them and to clarify their positions and views, making them heard.
 - o We think some subgroups/task and finish groups, particularly with a view to progressing some of the more detailed work of research projects, could be very useful in the future.

If you have any questions please do not hesitate to contact me and our team in Wales (tom.taylor@ccwater.org.uk, lia.moutselou@ccwater.org.uk).

Sincerely



Tom Taylor FCCA FCPFA FCMi FIoD FHFMA

CCWater Wales Committee Chair

tom.taylor@ccwater.org.uk

07811282686

*Providing independent challenge, scrutiny and advice
Darparu craffu, herio a chyngor annibynnol*

Dear Tom,

Many thanks for your letter of 30th August setting out the CCWater's opinion on the 'Dŵr Cymru Customer Challenge and Engagement Process'.

Firstly, many thanks for the contribution of CCWater to the work of the Customer Challenge Group, which I acknowledge in my introduction to the CCG report to Ofwat. The report has incorporated the majority of key points that have been put forward by CCWater in that process, several of which are emphasised in your letter.

Secondly, I do though want to address a number of points that you raise which are not reflected in the CCG report.

Your letter refers to the triangulation process having been abandoned by the company. This has been raised previously by CCWater colleagues, but I have had no evidence of this being the case and as far as I am aware, was not contained within any minutes arising from your bilateral discussions with the Company. The CCG report refers to some of the complexities in the process and to adjustments in the weightings to the Welsh Water 2050 triangulation following challenge.

I was asked by CCWater to include reference to increases in customers who would find the bill unaffordable but the number of customers who will find the bill unaffordable increased by only 1% from 4% currently to 5% in the plan, as opposed to the 3% figures quoted in the letter. While this is still a very important constituency of customers, the increase is not statistically significant.

It is important to note that rather than there being "no customer support for an increase in the cross-subsidy for social tariffs", 75% uninformed and 61% informed customers did support a minimum increase of £0.25p per month. The CCG did not feel that this level of support justified a move from current levels.

I am pleased to inform you that Dŵr Cymru and NRW have agreed the NEP with no impact on bill levels. The CCG report does refer to issues around the implications of the very late negotiations in respect of the NEP, which were largely held outside of the CCG meetings. As CCG Chair, I was kept informed of these negotiations on the NEP, but given the statutory nature of these discussions neither the CCG nor IEAP were involved in the detailed negotiations. This will be part of our review of the PR19 process.

Your letter emphasises the point regarding the importance of the 'golden thread' linking customer evidence to decision making. As the CCG report stresses, this was a strong and consistent challenge from the group throughout as the Company developed the business plan from the bottom up. There was certainly a challenge to maintain a clear narrative that made these connections through the process, which is documented in the report. Nevertheless, the company did work with the CCG to demonstrate the linkage between the evidence and the business plan decision making, culminating in the final submission of the 'Delivering Outcomes for Customers'. I am therefore confident in the Groups conclusion that the customer evidence base was used to inform decision making.

As the CCG report indicates there were certainly periods where the CCG was not able to engage with the detail, but we did consistently press for a stronger narrative that connected the elements of the plan as it was being built from its constituent parts and considered in detail the measures of success with their tensions and trade-offs as referred to in the CCG report.

The Dŵr Cymru Welsh Water Customer Challenge Group **provides independent challenge, scrutiny and advice** to ensure the company meets the needs of current and future generations.

Mae Grŵp Her Cwsmeriaid Dŵr Cymru Welsh Water yn craffu, herio a rhoi cyngor annibynnol i sicrhau y bydd y cwmni yn cwrdd ag anghenion anghenion cwsmeriaid heddiw a'r dyfodol.

Providing independent challenge, scrutiny and advice
Darparu craffu, herio a chyngor annibynnol

The CCG obviously brings together different perspectives with different priorities for the plan. We have pressed the company to be ambitious across key performance indicators. However, I believe the report reflects the CCG's understanding of the need to achieve a balance, based on customer priorities and affordable bills. As the report indicates, there is an expectation on the Company to demonstrate ambition in making step changes through; innovation, culture change, process optimisation and involving customers in delivering new solutions. I see this as a key priority for the role of the CCG going forward, maintaining the challenge.

There are, of course, many areas where we can improve the process from the lessons of the PR19 experience. Your letter begins helpfully to set out some of the areas which we can include in our review.

I am sure it will also include how we can improve the connection with your bilateral meetings with the Company, which I think has been highlighted as a key gap in the process.

I am sure you will want to join with me in acknowledging the contributions of colleagues on the CCG who have brought their time voluntarily to provide independent perspective and challenge.

I will include this response to your letter in the annex to the CCG report.

Yours sincerely,



Peter Davies
Chair of the Welsh Water Dŵr Cymru Customer Challenge Group

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