



# Hafren Dyfrdwy / Severn Dee Customer Challenge Group

Report to Ofwat  
on Hafren Dyfrdwy's Customer  
Research and Engagement  
Process for PR19



## Glossary of Acronyms

|         |                                      |
|---------|--------------------------------------|
| AMP6    | Asset management plan 2015 to 2020   |
| AMP7    | Asset management plan 2020 to 20205  |
| CAPI    | Computer Aided Personal Interviewing |
| CBA     | Cost benefit analysis                |
| CCG     | Customer Challenge Group             |
| CCWater | Consumer Council for Water           |
| DCWW    | Dŵr Cymru Welsh Water                |
| DWI     | Drinking Water Inspectorate          |
| HD      | Hafren Dyfrdwy                       |
| IMD     | Index of Multiple Deprivation        |
| NDA     | Non-Disclosure Agreement             |
| NRW     | Natural Resources Wales              |
| NAV     | New Appointments and Variations      |
| NEP     | National Environment Programme       |
| ODI     | Outcome Delivery Incentive           |
| Ofwat   | Water Services Regulation Authority  |
| PR14    | Price Review of 2014                 |
| PR19    | Price Review of 2019                 |
| ST      | Severn Trent                         |
| PC      | Performance Commitment               |
| UKWIR   | UK Water Industry Research           |
| WACC    | Weighted average cost of capital     |
| WASC    | Water and sewerage Company           |
| WG      | Welsh Government                     |
| WOC     | Water only Company                   |
| WRMP    | Water Resources Management Plan      |
| WTP     | Willingness to pay                   |
| WTW     | Water treatment works                |
| WWTW    | Waste water treatment works          |

### Disclaimer

This document has been produced by the Customer Challenge Group (CCG) of Hafren Dyfrdwy (HD) specifically for issue to Ofwat to aid Ofwat's risk based assessment of the HD Business Plan for 2020-2025. The document has been produced by the CCG based on the evidence provided to it by HD. The CCG recognises the need for further detailed challenge by Ofwat on those elements of the Business Plan unseen by the CCG and beyond its remit and competence. It is noted that the ability to deliver against the objectives and outcomes set is reliant entirely on whether the company has made sufficient provision in its financial calculations and is able to deliver against its Business Plan, and the outcome of the final determination. The document and/or its contents are not intended for use or to be relied upon by any other party.

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## Key:



**Support**



**Good Idea**



**Caution**

# Preface



With the exception of a few large businesses, the majority of water customers in Wales have no choice over who provides them with water, or who takes away their wastewater and sewage. Likewise there is no option to choose between different service levels and prices. Customer Challenge Groups (CCGs) encourage companies to engage fully with their customers to establish their priorities and to ensure that they are reflected in the company's business plan over the next five year period 2020-2025.

I am delighted to be the Independent Chair of the Hafren Dyfrdwy (Severn Dee) CCG whose role is to make sure that the company puts its customers at the heart of its decision making process. The CCG challenges the company on the different ways it interacts with customers, on-line or face-to-face by example, and perhaps more importantly how the company takes account of customer views when developing its services and deciding on the pace of investment. Not only do we want the customer voice to be heard, we want it to be listened to, and for its impact to be visible in future investment choices and service delivery plans.

Our membership is drawn from a cross section of customers, regulators, statutory organisations and other groups who play an important part in the life of our region. I must record my gratitude for the input of my fellow colleagues on the CCG throughout this process which has been cognitively challenging at times.

I also wish to thank sincerely the many staff of Hafren Dyfrdwy (HD) involved in the process for the huge amount of time, effort and support they have expended to ensure that the CCG members have the information required and, where it was not immediately available, to provide it so that our challenges have been as relevant and focussed as possible. The process could only work with a genuine two way interaction that was both positive and constructive and I believe the plan, as submitted, reflects such an approach having been adopted successfully.

Nevertheless, this has been a very challenging process. It must be recognised that the acquisition of Dee Valley Water by Severn Trent which resulted in the creation of a new Welsh company Hafren Dyfrdwy did not come without its many challenges, happening as it did just mid-way through the 2015-2020 investment period. Both the CCG members and the company representatives were tested at times in areas unforeseen at the outset of the process. Working together for the common customer interest however, I feel certain that many of the initial obstacles and bumps were levelled out by a genuine willingness to create a company plan that reflects the needs of customers served by it.

There have of course been areas of divergence of view, some of which remain unresolved, yet the vast majority of areas that were challenged have led to some modification by the company. The CCG is now confident that the plan better reflects the wishes and expectations of the customers it serves and is more balanced than initially presented.

The process has been stimulating in that there have been fierce debates with the Company on a number of important issues: the need for geographical equity of research and engagement; the appetite and ambition for even more stretching targets in some areas of performance (notably pollution, leakage, sewer flooding and water supply interruptions); the cost adjustment proposals; the bill profiles for domestic and business customers as a whole, for 'water only' customers and for 'water and sewerage customers' particularly in today's tough economic climate. Finally, the customer acceptability of the plan as a whole,



and the Outcome Delivery Incentive (ODI) regime in particular, have been critically analysed for customer benefit and support.

The need to ensure geographical equity of research and engagement was a key expectation of the CCG. As Hafren Dyfrdwy comprises two previously distinct areas, Powys and Wrexham, the CCG had a particular hard task to balance the sometimes differing priorities and views of customers in each area to ensure that the business plan's priorities, performance commitments and bill profiles reflected a genuine level of equity and fairness for customers across the two areas. The Challenge Group enshrined the promise made by Severn Trent at the time of the Dee Valley Water acquisition that there should be 'no detriment' to any customer in Powys or Wrexham as a result of the licence change. This is a recurring feature in the CCG's challenges

The Customer Challenge Group is pleased that the Hafren Dyfrdwy Board, in its final deliberations, has responded to our challenges on bill profiles and stretching targets, including a commitment to reduce leakage by 15% across the region. We welcome the commitment of the company in reacting to the concern of customers, CCG members and other stakeholders regarding these issues.

The revised bill profiles do represent a relatively significant shift from earlier proposals for bill increases in *real* terms but there do remain concerns given the affordability issues experienced by many of HD's customers. The average combined bill is set to increase by 2.2% and when inflation is factored in, the average combined bill will increase by 11.2% in by 2025. The further impact of additional payments facilitated by the ODI regime must not be underestimated.

The CCG regrets that the required repeat of the customer acceptability research in **both** Powys and Wrexham to properly reflect customer views of the revised bill profiles and plan will not be available for Group consideration prior to the submission of this report to Ofwat.

The Board has provided assurance that its plan has the necessary levels of investment in it to meet statutory requirements and to achieve customer priorities for a safe secure supply of water with wastewater and sewage safely taken away. It has also revised bill profiles from that originally presented to the CCG. It will be for Ofwat, as the economic regulator, to satisfy itself that the proposals ensure 'no detriment' to any of HD's Welsh customers as a result of the licence change.

This report has been written by myself with support from the members of the Customer Challenge Group and I commend it to Ofwat.

**Clare Evans**

*Independent Chair, Hafren Dyfrdwy Customer Challenge Group*



# Executive Summary

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Hafren Dyfrdwy Customer Challenge Group (CCG) brings together a wide range of organisations and businesses to challenge the company to develop customer-supported, long-term strategic business plans which will deliver agreed commitments as well as being a good deal for the customer.

The CCG has prepared this report to provide independent challenge to Hafren Dyfrdwy and independent assurance to Ofwat on:

- the quality of a HD's customer engagement; and
- the extent to which the results of its engagement are driving the company's decision making and being reflected in the company's business plan.

## Background

Dee Valley Water's acquisition by Severn Trent in April 2017 followed a five month hiatus in the activity of the CCG. This led to a compressed timescale in which the CCG and company had to work and the effort of all involved in the process is to be commended. The restructuring needed to create the Wales-only Hafren Dyfrdwy company involved splitting the former Dee Valley Water into two, and hiving off Severn Trent's Powys business from its operations in England.

Quite apart from the management and operational challenges this involves, it meant that it has been difficult - perhaps far more so than the company envisaged - to establish reliable PR14 historic bases for many of the key metrics to monitor performance of the current AMP, as well as in setting realistic and stretching targets for AMP7. The company has worked diligently to separate its AMP6 targets between Severn Trent's English and Welsh customers and it has committed itself to differentiate the service offering for its customers in Powys and Wrexham. The introduction of a three-line assurance process across the HD region has been a valued development.

## CCG's Expectations of the company's customer engagement

The CCG challenged the company to meet its expectations (as set out in Section 2) to ensure the research was fully representative of the area. In particular the CCG wanted to ensure the following groups were represented in the research: Welsh speakers, urban and rural customers, digitally disenfranchised customers, customers in vulnerable circumstances (financially as well as those with health and well-being issues), worst served customers (including those suffering repeat failures), non household customers and future bill payers. The company worked closely with the CCG in developing and amending research proposals which were shared with the CCG, in the majority of cases, prior to piloting/field testing.

### **Specific Challenge – parity for Welsh speakers to participate in research**

***The company positively responded to the CCG's challenge to ensure equality of opportunity of Welsh speakers to participate in research projects in their native tongue***

This included the introduction of a Welsh language option for all customers in key face to face interviews as well as in written surveys and questionnaires. Their commitment to ensure relevant local dialects were used was particularly applauded. The research company also recruited bilingual staff.



***The CCG is satisfied that the research undertaken extends to all these segments – and more - and as a result is representative of the area both geographically and demographically.***

The company also worked hard to ensure its research reached customers who may be rurally isolated or digitally disenfranchised (running research sessions at a very well-attended weekly sheep and cattle market for example) as well as targeting those customers with a range of vulnerabilities. The company has been open with the sampling methodology used, and it has explained any weightings that may have been applied where sample quotas had not been met. As a result, the CCG is reassured that the company has made great strides to ensure transparency as to how customers being consulted were representative of the area as a whole.

The company must be commended in its openness and transparency in developing its research proposals. Some research had taken place prior to the acquisition of Dee Valley Water (some WtP and Customer Needs Research) and the company effectively agreed to 'start again' as far as was practically possible. The result was a customer engagement plan more specifically focused on the HD region with a significantly greater number of household and non household customers contacted than in PR14, some 3800 participants/respondents.

### **Specific Challenge – equity of research approach between Powys and Wrexham**



The CCG challenged the company to adopt an approach which sought to ensure equity of approach in customer research and engagement activities between the distinct areas of Powys and Wrexham. This allowed the CCG to satisfy itself that the assurance given by the company in the licence negotiations that there would be 'no detriment' to any future Welsh customer of HD as a result of the licence had been honoured.

The company accepted this challenge and, once adopted, uncovered some quite significant differences in priorities, need and attitudes relating to service improvements and bill profiles which lead the company to make some discrete modifications to performance commitments and bill profiles to better reflect customer views in each area.



***The CCG believes the PR19 research programme demonstrates a much greater and deeper level of interaction with customers than in previous price review processes. It has demonstrated a step change in approach.***

### **Affordability and Vulnerability**

The company has undertaken several pieces of research around affordability and for customers in vulnerable circumstances. It has also set up new partnerships and relationships with relevant stakeholders and the CCG looks forward to this work moving forward. There are also clear opportunities for the two water companies operating in Wales to work together to improve performance in this regard. The CCG has been assured that these arrangements are falling in to place and this is an area for on-going monitoring.



***The CCG has specifically welcomed the company's acceptance of the CCG's challenge to develop impact/outcome based performance commitment measures for both affordability and vulnerability.***





The CCG noted the embryonic nature of HD specific strategies for affordability and vulnerability and the CCG looks forward to working with the company as it develops these key documents. The CCG also welcomes CCWater's challenge for the company to consider three further metrics to track (i) *customer awareness of assistance schemes*, (ii) *customer satisfactions of those receiving assistance*, and (iii) *the percentage of customers who consider their charges are affordable*.

## Research methodologies and techniques employed by the company

Given the seeming over-reliance on willingness to pay (WtP) stated preference research that characterised much of the PR14 research programmes, the CCG challenged the company to ensure that a wide range of engagement was employed.



***The CCG welcomes the development of the Customer Insight document<sup>1</sup> which provides detail on the company's research activity.***

The document was written specifically to provide a research compendium showing how all research had been undertaken and how the company had triangulated it with other sources of information. It links closely with the 'PC Target Setting'<sup>2</sup> document and, when read in conjunction with each other, these documents provide a comprehensive overview of the sources of information used by the company in developing its plan. CCG comments on the main research projects are detailed in Section 3.2 of this report.

## Cost Adjustments

The company now proposes four cost adjustment claims that have been fully challenged by the CCG. Where applicable, clear and detailed evidence has been provided to the CCG of technical risk assessments undertaken by the company which have been peer reviewed for both scope and cost to ensure that they are the most cost beneficial over the long term. Specific customer research has been undertaken for all projects and each has received high levels of customer support and customer benefits have been articulated. In addition, the projects relating to reservoir safety, supply resilience and reducing lead in water have the support of the DWI and the enhancing bio-diversity and well-being project is supported by the NRW in particular.



- **Reservoir Safety:** This has a statutory driver and historical investment is seen by the company to be insufficient for the number of reservoirs across the patch (atypically large for the population served). ***The CCG agrees that the company's findings are acceptable.***



- **Supply Resilience:** HD has advised the CCG that it has an atypically large number of treated water reservoirs for the population served. ***The CCG agrees that the company's findings are acceptable.***



- **Reducing Lead in Drinking Water:** This cost adjustment reflects the appetite in Wales to reduce lead in drinking water. The CCG were keen to ensure customers knew this was not a statutory requirement and that they had a *choice* whether to contribute to a reduced lead Wales. ***The CCG agrees that the company's findings are acceptable.***

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<sup>1</sup> Section X of the Hafren Dyfrdwy Business Plan 2020-2025

<sup>2</sup> Section X of the Hafren Dyfrdwy Business Plan 2020-2025



- **Enhancing Biodiversity and Well-Being:** This area of activity will help HD to achieve the Biodiversity Duty of the Environment (Wales) Act which places a requirement on the company to enhance bio-diversity.

*The project is well developed, will be assured by NRW, and is supported in general terms.*



*However, the CCG does have some concerns about the balance of the cost of the proposal that falls upon HD customers. Much of the work undertaken will improve the 'catchment' and as such the CCG wants to be reassured that United Utilities customers are also contributing a fair share towards this project.*

## Performance Commitments

The company has, through its engagement plan, **sought the views of customers** on a range of available options and **stretch targets** for PCs where customer input is most likely to influence.



Not all performance commitments were tested with customers and neither were all ranges. The CCG challenged the company to provide a comprehensive document setting out their rationale and framework for each PC. This '**PC Target Setting**' document evidences the company's use of multiple data sources and outlines how they have balanced these factors (triangulation) when setting their proposed targets. Importantly, for each PC the company has reviewed all the publicly available information to help the CCG understand how HD compares to the rest of the industry and this is also set out in the document.

For each PC the document seeks to balance the bill level, risk exposure, performance and where there is evidence, customer support. Evidence is provided on current and comparative company performance, how future performance has been forecast, where on an industry scale (as far as is possible) the forecast performance would place the company as well as the type, impact and mechanism of the ODI to which it relates.

### Specific Performance Commitment challenges by the CCG

The ambition evidenced by the performance commitment targets were challenged by the CCG specifically in relation to the following areas:

- **environmental pollution** where more stretching targets were agreed
- **leakage reduction** where a significant shift led to commitment for the 15% reduction target
- **internal sewer flooding** where issues around repeat failures have been recognised, and
- **water supply reductions** where even tighter targets have been agreed

and the CCG is pleased to have seen positive movement on all the above areas (in Section 5) which it believes are in the best interest of customers.

In relation to **the bespoke affordability and vulnerability measures**, the Group welcomed the company's agreement to develop performance commitments that are **impact/outcome focussed** as opposed to the input focussed (eg numbers on registers) approach.

The company also **accepted the CCG's challenge to adopt introduce a Non Household Customer Measure of Experience (NHH C-MeX)** to ensure the views of its NHH customers are sought and tracked by the company.

In addition, **the company have also agreed to track external sewer flooding** and provide the information to the CCG but it will not be a formal PC.



*There is concern at the Willingness to Pay (WtP) research valuations being used to define ODI rates / triggers for rewards and penalty payments. This use of the WtP was not advised to customers or to the CCG when the research was undertaken.*



*The CCG welcomes that, for the measures that are comparable across the industry proposed by the company, the company estimates that it will be within the upper quartile for at least 60% of them by the end of AMP7.*

## Outcome Delivery Incentives

Financial ODIs are being proposed for 18 of the 28 measures and the company has evidenced good customer support in general terms for the principle of the ODI framework.



The research material stated that ***“Over the five year period customer water and wastewater bills will fall on average by 5% before the effect of inflation is added in<sup>3</sup>”***. This is incorrect: the combined bill will increase. If customers thought their future bill was going to reduce, it is quite possible that their opinion about additional spend for outperformance may have been influenced. ***The CCG is concerned this statement may have affected responses regarding acceptance of PCs and ODIs.***



***The CCG welcomes HD’s confirmation that no outperformance payment would be made for performance that would simply be catching up with the rest of the industry, rather it would be for frontier shifting performance.***

The company has provided the CCG with detailed and logical flow chart information showing how it is applying the PR19 methodology with clear rules relating to the application of ODIs.

In initial discussions about the potential impact of ODIs on the average customer bill, the company had advised the CCG that the maximum impact would likely be in the range of +/- £1 per average bill per year over the five year period. Recent calculations provided to the CCG have increased that figure slightly (to around +£1.88 and -£3.33).



In order to offer further protection to customers, particularly on top of potentially increased bills, ***CCWater has challenged the company to apply a cap on rewards/penalties per year per average bill.*** CCWater has noted the company’s response that, whilst it will not cap rewards, its expected impact on customers’ bills will most likely be in the region of +£1/-£2. However, the context in which the acceptability was made was potentially misleading.

## Bill Profile and Acceptability Testing



***The CCG welcomed the presentation of bill profiles within the acceptability research with and without inflation and the fact that the research included both informed and non-informed participants.***



The revised bill profiles represent a relatively significant shift from the earlier bill profiles and ***the CCG welcomes the commitment of the company in reacting to the concern of the CCG and stakeholders and to the low acceptability of the bill profiles by customers.***

*However .....*

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<sup>3</sup> Questionnaire: SVT – PCs and ODIs



The revised bill profiles for 2020-2025 for HD suggest an **increase in the average combined** (water and sewerage) bill of 2.2% without inflation, rising to 11.4% with inflation. The **sewerage-only** bill is flat without inflation but rising to 8.2% with inflation. The **water-only** bill will increase by 3.6% without inflation but rising to 13.5% with inflation. Given the evidence of affordability issues in the HD area, and Wales in general, these rises are of considerable concern to the CCG.



***The CCG urges the company to ensure that the repeated acceptability testing for the revised bill profiles is extended to BOTH Powys and Wrexham customers and to examine any differences carefully. As before, the testing should continue to be both quantitative and to include bill profiles with and without inflation.***

***It will be for Ofwat to satisfy itself that the proposals ensure ‘no detriment’ to any of HD’s Welsh customers as a result of the licence change.***

## **Innovation and Ambition**

The company’s response to the customer engagement appears to have driven fair and ambitious, yet balanced programme of investment. Approximately 60% of the PC targets represent a forecast UQ target which represents a good package for customers.



Due to the low number of metrics in some areas and the nature of some ‘failures’ being outwith direct company control (eg environmental pollutions and internal sewer flooding) the company will need to be innovative in looking at ways to educate its customers. The leakage reduction target of 15% represents a huge ambition and will likewise require some innovative approaches and perhaps use of behavioural science.

## **Accounting for Past Delivery**



The CCG has repeatedly sought information about the company’s treatment of savings accrued as a result of the adoption of the Legacy Alternative project in AMP6. The previous DVW management had given assurances to CCWater and to the CCG that any outperformance for that project would be returned to customers and that the CCG would have had the opportunity to comment on the mechanism for return.



The CCG’s view remains that those efficiencies should have come back to customers in their entirety, or at least, proposals for use of the money should have been discussed and agreed with the CCG. This remains an unresolved challenge to the company who the CCG encourages to take a customer focussed view on the matter as opposed to a technical totex-centric position.

## **Assurance**



The CCG had detailed sessions with the company’s external third-line assurers (Black and Veatch) on three separate occasions and are reassured by their assessments. There has been little formal involvement of the Severn Trent/Hafren Dyfrdwy Board at meetings of the CCG, no doubt in part due to the HD being launched on 1 July 2018. Following sign-off of the business plan by the HD Board at its meeting of 31<sup>st</sup> August 2018 the CCG received its written assurance of a high quality business plan that customers can trust (Appendix D). The Black and Veatch report provided to the Board confirmed that its assurance supports the Board signing the assurance statement to Ofwat.

## Conclusion

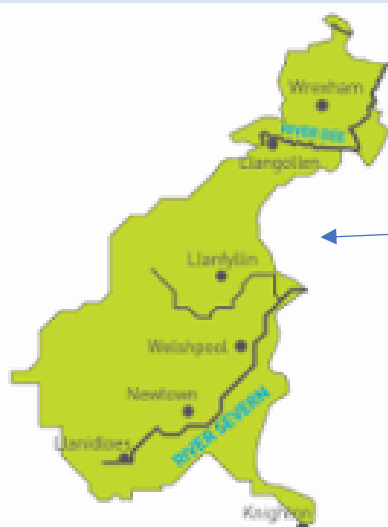
Overall, the CCG believes that the range of research undertaken by the company has been extensive and wide ranging. There is evidence of a clear thread and systematic analysis of customer research with the company demonstrating a good understanding of the range of customers views which it has considered carefully when making decisions. The company has considered the needs of customers with affordability or service vulnerabilities and the CCG is aware of an increasing uptake in the social tariff scheme already. It will be important to track the impact of such measures which the company has committed to do.

There have been several instances where changes to the company's plan as a result of customer research and further challenge by the CCG has been reflected in the plan by more stretch targets, greater importance or amendment of the bill profile and further detail is provided in following sections of this report.

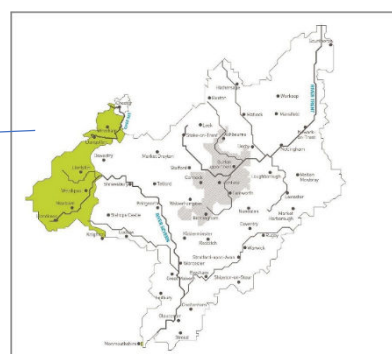
In particular the development of the **Customer Insight** document, logging all the research data used throughout the process, coupled with the **PC Target Setting** document, at the instigation of the CCG has been crucial in aiding the CCG's understanding – and moreover in evidencing – the work undertaken by the company to get it know its customers, its 'new' patch and the challenges both customers and the company faces to deliver the required service and investments at a level customers find acceptable.

The process does not stop here however, and the CCG looks forward being involved in the development of a clearly articulated strategic vision document (25 year plus) for the HD area. Such a document in to which the 2020-2025 business plan could be seen to have fit, would have aided the CCG's deliberations and would have been particularly helpful when contextualising investment. The CCG will look to ensure that customers are also at the heart of this document.

*"Hafren Dyfrdwy is Welsh for Severn Dee, the coming together of Dee Valley Water and Severn Trent to form a new water service for customers in Wales"*



New Hafren Dyfrdwy and Severn Trent regions 2018





# 1.0 Introduction

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## 1.1 Process of setting price controls for 2020-25

A price review (PR14) takes place on a five yearly basis, when water companies and their customers create plans for the future that will deliver customers' wants and needs. To ascertain whether companies' business plans truly reflect the wants and needs of customers at a price they are willing to pay requires an independent overview of the whole process - from the initial survey to the customer's final bill. The Price Review in 2014 (PR14) saw the introduction of Customer Challenge Groups to undertake such a role and the focus on customer engagement and outcomes was one of PR14's key successes. The strengthened role of the CCGs for the PR19 process is welcomed.

## 1.2 Hafren Dyfrdwy's Customer Challenge Group (CCG)

Hafren Dyfrdwy's CCG was established in 2012 to provide independent assurance to Ofwat on Dee Valley Water's (DVW) submission of the business plan for the period 2015-2020. It continued to meet to monitor to progress of the company in meeting the agreed targets that had been set for that Asset Management Period (AMP6).

The HD CCG agreed a revised Terms of Reference to reflect the changes of the PR19 requirements and this is provided at Appendix A. The Terms of Reference include dealing with conflicts of interest. This set out in more detail the role but a summary follows.

## 1.2 Purpose of the CCG

The CCG provides ongoing challenge and scrutiny as the HD develops the projects and service levels that will form its business plan to run from 2020 to 2025. It scrutinises how the company takes account of consumers' views on issues which may impact on standards of service and the cost of customers' bills.

## 1.3 Role of the CCG

It has two main areas of activity. Firstly, it tracks how HD is delivering the service levels it promised to customers in its most recent business plan, operating from 2015 to 2020. Secondly, and for the purpose of PR19, CCGs have a very clear role. This is to provide independent challenge to HD and independent assurance to Ofwat on:

- the quality of HD's customer engagement; and
- the extent to which the results of this engagement are driving the company's decision making and being reflected in the company's business plan.

## 1.4 Remit



Not only does the CCG expect HD to speak with its customers on areas that will impact them, it expects the company to look at ways that solutions to some of these issues are actively explored with its customers. The CCG also has a particular interest to ensure the needs of the worst served customers, the vulnerable and those who may have affordability issues are fully considered.

CCGs are not a substitute for HD engaging with its actual customers and the HD CCG has been careful not to substitute its views for those of customers. The CCG wishes to ensure that there is a clear line of sight between customer priorities identified by the company's customer engagement through to the investment choices, pace and cost of the final business plan. Many of the CCG's challenges, listed in the Challenge Log (Appendix H) have related to (i) the way the company has undertaken its research programme, (ii) how it has interpreted, analysed, synthesised the findings, (iii) how it has triangulated the results, and finally (iv) how they have been reflected in the final business plan.

## 1.5 Customer Challenge Group Membership

Members have been appointed to reflect local and national, business and household customers, local authorities, environmental representatives and other relevant interests as well as the statutory representative of water consumers, the Consumer Council of Wales (Wales). Membership has changed over the years and difficulty in recruiting members has been experienced at times. However, the involvement of core, consistent and experienced members, coupled with expert support and advice where needed has resulted in a plan that has been well challenged.

### Hafren Dyfrdwy Customer Challenge Group Members

| Name                                                                                                                      | Biography                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Clare Evans (CCG Chair)</b></p>  | <p>Clare Evans was brought up on a farm near the Elan Valley reservoirs in Powys. Clare has extensive local government experience in economic development and policy, was lastly Head of European Affairs for Newport City Council and has spoken on themes relating to rural community economic development throughout Europe.</p> <p>Clare was a Local Consumer Advocate for the Consumer Council for Water, the statutory representative for water consumers and was also a member of Powys County Council's Standards Committee for six years. A long serving Town Councillor, Clare has also served as mayor on three occasions. Clare is currently a Minister appointed member of the Independent Appeals Panel for Farmers and Foresters in Wales. Clare lives with her husband on a mixed sheep farm in Radnorshire and runs her own property business.</p>    |
| <p><b>Angela Davies Jones</b></p>      | <p>Angela Davies-Jones, LLB(Hons), LLM was appointed as a Local Consumer Advocate sitting on the Wales Committee of the Consumer Council for Water in 2015 and is a member of the Hafren Dyfrdwy Customer Challenge Group. She is a Consultant Solicitor and Mediator with Milwyn Jenkins &amp; Jenkins, having been Director of the practice for a number of years.</p> <p>Having lived in Mid Wales for over thirty two years, she returned to her farming roots in West Wales during 2015, since which time she has actively farmed but also retained her legal practice base in Llanidloes.</p> <p>She has sat on various Committees and Boards to include the Mid and West Wales Courts Board, has served as President of the Mid Wales Society and is a member of the External Advisory Board of the Centre for Welsh Legal Affairs, Aberystwyth University.</p> |

| Name                                                                                                                    | Biography                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>David Oxley</b></p>              | <p>David Oxley is now retired. He started his career as an electrician in 1952 and had a career in gas and oil. David worked in Algeria for 2 years, developing a deep understanding for pipe networks and then in Libya where he worked for 20 years before retiring and returning to Wales. David was asked to join the CCG given his extensive operational knowledge and understanding of pipes and networks. David particularly enjoys being a member of the CCG and has noted the progress made since Severn Trent merged with Dee Valley Water. He was particularly keen to see that the company appreciated that the companies were different and was pleased to note that Severn Trent took great care to prioritise the Welsh language and to focus on customers in vulnerable circumstances or who struggled to pay their bills.</p> |
| <p><b>Paul Roberts</b></p>             | <p>Paul Roberts is now retired. He is a qualified Accountant who had a successful career in industry, most recently holding senior roles with Kimberly-Clark in North Wales. He spent 13 years as an elected member of Chester City Council, including a short spell as Council Leader. His interest in the Water Industry was kindled when residents in central Chester suffered from repeat internal sewer flooding in their homes, a problem he is delighted that was resolved after pressure on the local sewerage company. He spent nearly ten years with the Consumer Council for Water as a Local Consumer Advocate, and was also a Trustee of The National Flood Forum.</p>                                                                                                                                                            |
| <p><b>Moira Reynolds</b></p>         | <p>Moira Reynolds is a Natural Resources Planning Manager with Natural Resources Wales and has 25 years' experience in the environmental sector. She represents Natural Resources Wales (NRW) on the Customer Challenge Group. NRW is the principal adviser to Welsh Government, and advises industry, the wider public and voluntary sector about issues relating to the environment and its natural resources. NRW is a regulator, protecting people and the environment including marine, forest and waste industries, and prosecuting those who breach the regulations that we are responsible for.</p>                                                                                                                                                                                                                                    |
| <p><b>Councillor Joy Jones</b></p>   | <p>Councillor Joy Jones has been a county councillor for Powys County Council since 2012 for Newtown East which includes housing estates and rural areas, along with the town centre. Joy has also been the chair of Montgomeryshire which was a civic role for PCC and on many committees, as well as being the anti-poverty champion for the council. Joy has been on the town council and in the past has been Mayor of the town for 2 years. She has also done various other jobs in the past including being a full time carer. Joy is married and has a grown up family. Newtown is the largest town in Powys and she has lived there for more than 30 years and cares deeply about her town and local area.</p>                                                                                                                         |
| <p><b>Councillor Marc Jones</b></p>  | <p>Councillor Marc Jones serves on Wrexham County Borough Council for the Grosvenor Ward and is the Leader of the Plaid Cymru – The Party of Wales Group. Marc is Vice Chair of the Planning Committee and also services on the Audit Committee and the Employment, Business and Investment Scrutiny Committee. Marc is also a school governor.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

## **1.6 Statutory Customer, Environmental and Drinking Water Quality Regulators**

Ofwat's guidance clearly states the need for the involvement of statutory customer, environmental and drinking water quality regulators throughout the PR19 process. In particular the environmental and drinking water quality regulators should highlight any concerns raised about the ability of the proposed plan to meet statutory obligations. The input of these regulators is covered in Section 9 with their specific comments at Appendices D-F of this report.

## **1.7 Technical and Expert Advisers**

In addition, technical and expert advice was sought from a range of officers in other organisations as well as from the company to assist the CCG in undertaking its role (eg CCWater for debt, social tariff and general research advice, Wrexham CAB and Chester Voluntary Action for affordability and debt work, Federation of Small Businesses for Non Household Customers, the National Farmers Union, Montgomery Wildlife Trust for local biodiversity sites) and so on. Of course, HD had representatives at all CCG meetings to present items, to explain where necessary, to provide responses to actions and challenges raised by the CCG and to furnish members with further detail as necessary.

In Wales, the Welsh Government facilitates a Wales Water Industry Forum (WWIF), which also considers the PR19 process, and the CCG Chair is a member. The Forum includes members from the Welsh Government, all water companies in Wales, other relevant regulators in Wales, and customer representatives, including CC Water. This Forum, and an offshoot of it, the Welsh Government PR19 Forum, are a successful means of engaging a range of stakeholders in water issues in Wales. The Forum does not have an official role in the price review process but it does provide a useful platform for discussing issues relating to water regulation in Wales.

The Chair also attends regular meetings (for CCG Chairs), events and workshops run by Ofwat (CCG Chairs Quarterly Meetings) as well as regular meetings of CCG Chairs (held independently of the regulator) and these are particularly useful.

# 2.0 Overview

## - The Customer Challenge Process

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Hafren Dyfrdwy's CCG was established in 2012 to provide independent assurance to Ofwat on Dee Valley Water's submission of the business plan for the period 2015-2020 (AMP6). It continued to meet to monitor the progress of the company in meeting the agreed targets that had been set for that Asset Management Period (AMP6).

### 2.1 Independence

The Customer Challenge Group is chaired by an Independent Chair who was appointed by DVW in 2016 following the resignation of the previous Chair, Diane McCrea who had accepted the role of Chairman of Natural Resources Wales. The Chair does not represent any particular organisation or group of customers and operates completely independently of the water company. Members have been appointed for their respective knowledge and experience of the area, water industry or customer representation and participation involvement.

The independence of the CCG group has been fully respected by the company throughout the process. Private sessions of CCG members, without the presence of any HD representatives, took place at most meetings with the resultant notes, actions and challenges reported back to the secretariat by the Chair for action and inclusion with the minutes. This was a particularly useful opportunity for the CCG to focus on specific areas of concern, matters needing greater follow up/further explanation and for the CCG to consolidate its challenges.

### 2.2 Meetings

The terms of reference for CCG meetings mandate a minimum of four meetings a year. In the latter stages of the PR19 process, meetings have been monthly with regular conference calls, workshops and task and finish groups taking place as and when required by the process. Details of full CCG meetings, and topics discussed at each meeting is provided at Appendix B with an overview of the CCG involvement with the Research Agenda provided at Appendix C. Agendas are developed between the Chair and the company with the CCG developing an ongoing agenda to focussing on key milestones over the PR19 period.

### 2.3 Secretariat

The secretariat function for the CCG is facilitated by HD.

### 2.4 Minutes

All full meetings of the CCG are minuted with actions and challenges circulated shortly after and the full minutes being approved at the following meeting. Minutes are available on the company's website ( [www.hdcymru.co.uk](http://www.hdcymru.co.uk)). Notes of conference calls, email discussions and suchlike are also circulated between members. On occasion, meeting papers have been unavoidably delayed and this has caused some difficulty to members in assimilating a large amount of information in a short period of time. To ensure that no challenge was missed, the CCG has allowed affected members, such as CCWater, to provide additional/follow up challenges to those raised at the meeting to be actioned and recorded in the Challenge Log.



Should members be unable to attend meetings, they still receive all meeting material and are invited to provide comments to be fed in to discussions by the Chair.

## **2.5 Challenge Log**

Key actions and challenges of the CCG are recorded in the Challenge Log (Appendix H). The Log captures the following: who the challenge was raised by, the date, the person responsible for addressing the challenge, how it relates to Ofwat guidance, the company response, reference to the minutes/slide deck, the CCG view of the response, status and final comment. This has been a key document in holding the company to account and for establishing themes in challenges and areas for greater focus.

## **2.6 Non-Disclosure Agreement (NDA)**

Members signed an agreed NDA with HD. The company made concessions for some of the organisational representatives (CCWater and NRW) which allowed them to consult with relevant experts in their organisations on specific elements of the business plan.

## **2.7 Governance**

The CCG was created under Dee Valley Water (DVW) yet operates independently of the water company. The company has no reporting responsibility to or for the company but operates a positive two way open and transparent relationship. When operating with DVW each meeting was attended by the Chief Executive and often another relevant Executive Board Member.

Severn Trent acquired DVW in April 2017, with HD being launched on 1 July 2018. There has been attendance at a CCG meeting by the Director of Strategy and Regulation for Severn Trent, who is also a member of the company's Executive and Disclosure Committee. There has been no direct involvement by the HD Non-Executive Board Members at a CCG meeting to date but a Non-Executive Board member has observed some research focus groups.

The Chair has met with the Chief Executive of Severn Trent on several occasions as well as with individual Executive Directors. The Chair gave a presentation to Severn Trent Board Members in May 2018, followed by a robust and extremely useful question and answer session afterwards.

## **2.8 Assurance**

The CCG had regular updates from the company's external auditors, Black and Veatch who were also the auditors for DVW. The CCG welcomes the introduction of a three-line approach to assurance and examples were provided of errors found in data processing (eg in calculating leakage figures in 2017) which had been reported and are now resolved.

The CCG is confident that the new processes should assist the company in moving out of its current 'prescribed' category. This an extremely important area where there needs to be confidence and trust as the attainment of targets can often trigger rewards or penalties in accordance with the Outcome Delivery Incentive (ODI) regime.

## **2.9 Remuneration**

The Chair is paid an agreed daily/half rate plus reasonable expenses incurred directly in the role. At the request of the CCG itself, remuneration has been made available to CCG members who are unable to receive any remuneration or expenses from a sponsor

organisation/business on daily/half daily rate plus reasonable expenses incurred directly in the role.

The members fee was derived from the Independent Remuneration Panel in Wales findings. The agreed rates are widely used to remunerate members of local authority committees and ordinary members of other strategic committees within local government. They are also the equivalent to the current daily rates for members of the Welsh Government's Band 2 sponsored bodies. It is to be noted that there has been no uplift in these payment levels across such bodies since 2010.

The remuneration paid to the Chair is in excess of that paid to the CCG members to reflect the additional responsibilities and the requirement to undertake extra-curricular meetings, briefings and significant additional reading to fulfil the role.



## 3.0 Principles & Expectations

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In scrutinising the methods HD uses to elicit the needs and priorities of its customers for future investment and service level choices, the CCG had a number of principles and expectations of the company. The CCG challenged the company as to:

- ‘who’ was being consulted - to ensure the samples used were representative of the area;
- ‘how’ were customers being consulted – to ensure a range of methods and techniques were being used;
- ‘how’ findings were being interpreted and analysed – to check that important minority views were not being missed;
- ‘how’ the different sources of research were triangulated – to ensure the conclusions being drawn were fair and balanced; and
- ‘what impact’ this customer research and engagement has made to HD’s final business plan – what changed as a result of the customer research and engagement work.

### 3.1 Customer Segmentation

In addition to the usual customer segmentation that takes places at a price review, the CCG wanted to ensure that the company had, in particular, sought and reflected the views of specific cohorts of customers as outlined below.

- **Welsh speaking customers** – as Powys customers were now part of a Wales based plan there was a need to ensure that their basic requirement to engage in the process through the medium of Welsh was met;
- **Rural customers and well as urban customers** – the geographical area covered by HD encompasses intensely rural areas with scattered farmsteads and rural hamlets, small isolated villages with few public services to larger, well connected towns and it also includes the city of Wrexham;
- **Customer and communities more likely to be digitally disenfranchised** – given the above geographical back up of the area, and the demographics of the population this was an important aspect to consider;
- **Customers with a financial vulnerability** - The Index of Multiple Deprivation (IMD) shows a high proportion of customers with affordability and debt issues in the HD area. Rural areas are also often characterised by hidden poverty. HD estimates that approximately 11% of its customers struggle to pay bills. Ofwat’s Affordability and Debt report 2014-2015 shows more stark figures stating that for customers of companies operating wholly or mainly in Wales, 32% of households spend more than 3% of their income on water, while 15% spend in excess of 5%<sup>4</sup>. In addition, the costs associated with recovering and writing off water debts were stated by Ofwat as being the equivalent of adding about £21 a year to the bill of every household customer in England and Wales – up from £15 in 2009-10. **In Wales this**

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<sup>4</sup> Ofwat, *Affordability and Debt 2014-2015*, Pg 7

figure is believed to be over £30<sup>5</sup>. The CCG finds these figures startling and is keen to ensure that the affordability agenda is a cross cutting theme for HD moving forward;

- **Customers with a health and/or well-being vulnerability** – the water industry seems to lag behind other utility and energy sectors in addressing issues relating to customers with a health and/or well-being vulnerability. The new Welsh company offers an opportunity for the company to find new ways to understand and meet the needs of its customers particularly those with vulnerabilities;
- **Worst served customers** – the CCG has a particular wish to understand the predicaments of worst served customers such as those who experience chronic low pressure or repeated service failures;
- **Future bill-payers** – there is a need to ensure the themes of the Well-being of Future Generation (Wales) Act are reflected in the business plan and a focus on resilience, long term planning and intergenerational fairness is a way of doing that.
- **Non Household customers** – there is a need to monitor the service provided to non household customers to ensure it is best in class.

### 3.2 'No detriment' principle

Another crosscutting theme of the CCG was to ensure that there will be 'no detriment' to any HD customer in Wales as a result of the licence change.

### 3.3 Use of comparative information

With the outcome approach favoured by Ofwat, it is important that customers are aware how the service levels they receive – and the price they pay for them - compare to those of customers in different areas. This is of particular importance as improved or reduced performance is now more strongly linked to payments and rewards.

The CCG has made use of the Discover Water website, findings of other stakeholders and considerable support from CCWater in this regard.

<sup>5</sup> Ofwat, *Affordability and Debt 2014-2015*, Pg 8



# 4.0 Customer Engagement Process

## – Key Challenges of the Customer Challenge Group

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The customer research and engagement process has been extensive and encompassed several types of interaction. The CCG challenged the company to think differently about how it proposed to engage with its customers in Wales. This was particularly important given that PR19 is the first time that Severn Trent had talked to their Powys customers about levels of service *specifically* for the Powys area and how their needs and expectations might be different from those of the target customer base they used to be part of in England.

The CCG welcomed the company's approach in using a range of techniques which included face to face interviews in customers' homes, interviews in targeted locations and also by reference to other stakeholders' material, such as CCWater's. There did remain some concerns such as the lack of quantitative research in some of the research (notably the customer needs research) the smaller and shorter customer needs deliberative event in Powys and the lack of a social tariff co-creation event in Powys. The company has shown the CCG examples of how it has triangulated pieces of research and CCWater remains keen for further information as to the methodology used for this.

### 4.1 Policy Aspirations in Wales

The need to reflect the policy landscape in Wales was also important for the CCG to see reflected in the company's proposals, such as the aspiration to move to a reduced lead Wales, the requirement to contribute to the biodiversity duty imposed by the Environment (Wales) Act, the expectation to operate within the Welsh Language Act, and the commitment to consider investment and resilience in the round by contribution to themes under Well-Being of Future Generations (Wales) Act. The proposed business plan demonstrates action under each of these headings and is felt by the CCG to be an appropriate response to those aspirations.

### 4.2 Customer Insight

The CCG encouraged the company to summarise and present their research in to one document and to make every effort to cross-reference it to other sources of data, such as day to day customer contacts, so that the CCG could more easily see the impact of the customer voice in the business planning processes, as well as to challenge some of the conclusions. This has taken the form of the 'Customer Insight' document which clearly sets out HD's approach to, and their analysis of findings from, their customer engagement in Wales for the PR19 Price Review. This document has been extremely helpful to the CCG who like the approach and use of a wider framework to structure the research using 'Maslow's<sup>6</sup> hierarchy of needs theory which splits customer's needs in to three categories – delivering basic needs, meeting psychological needs and creating opportunities for self-fulfillment.

As a result of these challenges and opportunities, the customer engagement plan saw a high proportion of household and non household customers contacted, some 3800 participants/respondents. This shows a much greater and deeper level of interaction with customers than in previous price review processes and is a step-change from previous research activity in the area.

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<sup>6</sup> A Theory of Human Motivation; *A H Maslow (1943), Psychological Review, 50, 370-396*



Full details of the customer research and engagement process are provided in the Customer Insight document but a summary CCG's views on the main engagement and research is as follows:

#### **4.2.1 Customer Needs Deliberative Research**

**Date:** (October to December 2017)

**Method:** Deliberative workshops and some in-depth home interviews

Qualitative research had been undertaken by Severn Trent in on their England-centric plan (which then included Powys) in 2016, prior to its acquisition of Dee Valley Water. The attributes and themes generated by this research were separately tested and validated at an initial one-day deliberative event in Wrexham and, further to challenge by the CCG to ensure a similar half day event was undertaken in Powys. There were also some in-depth interviews with targeted groups (customers in both financially vulnerable circumstances and those with health and well-being vulnerabilities). The research material was available in both English and Welsh. ***The CCG would have liked the material to show the company's performance position relative to the rest of the industry and would also have liked a quantitative element as only 50 HD customers were consulted.***

#### **4.2.2 Customer Needs Co-creation (Wrexham only)**

**Date:** November 2017

**Method:** Co-creation.

This work aimed to tease out some themes of the customer needs research such as water efficiency, promoting visitor sites and awareness of lead pipes.

#### **4.2.3 PR19 Stakeholder Research**

**Date:** November 2017

**Method:** Self-completion written questionnaire containing ten questions  
A ST-wide piece of research with only 4 Welsh stakeholders responding.

#### **4.2.4 Customer Priorities Research**

**Date:** August and September 2016 (Prior to acquisition)

**Method:** Qualitative research.

This was a ST-wide project that took place prior to the acquisition of DVW and only eight Powys customers in Welshpool were consulted. This research was undertaken without any input from Wrexham, or from the HD CCG.

#### **4.2.5 Psychological need research (NAV research)**

**Date:** April and May 2017

**Method:** Qualitative research

This research was also discussed in conjunction with similar research undertaken by CCWater. ***The CCG welcomed this research and the commitment of the company to retain key aspects of a 'local service' valued by customers, such as Wrexham's customer 'hatch'.***

#### **4.2.6 Customer Satisfaction Tracking Research (Dee Valley) and Powys and Wrexham**

**Date:** Ongoing research in DVW areas, followed by Powys and Wrexham in January and February 2018.

**Method:** Telephone survey

This tracking research was undertaken as part of a PR14 commitment by DVW. Overall satisfaction with water company service is extremely high (Wrexham 94% and Powys 95%) but the survey results do demonstrate some differences in view between the two areas and

the CCG and CCWater is working with the company to further understand these. ***The CCG welcomed the extension of the tracking survey to include a specific Powys sample and urges the company to regularly extend the research to capture trends for all HD customers.***

#### **4.2.7 Helping Customers who struggle research**

**Date:** October to December 2017

**Method:** Mix of in-depth and telephone interviews (Powys and Wrexham) and co-creation workshop in Wrexham only. Bi-lingual service offered.

In all research the CCG urged the company not to link 'social tariffs' and 'debt management' in the same heading as it unhelpfully leads to an assumption that customers on a social tariff fall into debt; such a link is worrying. This was accepted by the company. CCWater's expertise was used by the CCG in particular when assessing the findings and their further challenges are being explored by the company. ***The CCG welcomed research on the social tariff but felt that an opportunity was missed in not having held a co-creation event in Powys, given that the HD region is currently served by two different social tariff schemes.***

#### **4.2.8 Social Tariff Cross Subsidy Research**

**Date:** 3-28 May 2018

**Method:** Face to face. Powys and Wrexham.

Detailed findings of the findings were given to the CCG ***and the cross-subsidy rates proposed by the company as a result were accepted by the CCG as being representative of customer support.***

#### **4.2.9 Insight from Customer Facing Employees (August 2017)**

**Date:** August 2017

**Method:** Staff workshops

The findings were of interest and the CCG would welcome sight of a similar workshop held with staff responsible for Powys service and assets.

#### **4.2.10 Willingness to Pay**

**Date:** October 2017 to January 2018

**Method:** Face to face computer assisted approach in customers' homes, split between Powys and Wrexham.

ST had originally undertaken some WtP research with their customers in Powys using attributes it had developed as part of customer needs research based in England. The CCG challenged the company that the results from such research in Powys were inappropriate as the attributes had not derived from Wales specific research, with packages not reflecting likely potential future service levels for customers of a future HD region. ***The company accepted the CCG challenge to repeat WtP research in Powys at the same time as it was done in Wrexham, based on attributes more specific to the HD area (eg the attribute relating to drought/temporary hosepipe ban was removed).***

***The CCG notes that the WtP survey did not set out the proposed performance of the company compared to the rest of this industry and that not all areas of proposed investment were included (ie no education or bio-diversity).***

#### **4.2.11 Asset Health and Resilience Research**

**Date:** April 2018

**Method:** Deliberative workshops in Powys and Wrexham and eight telephone depth interviews with NHH customers in Wrexham and Powys. These were specific to cost adjustment claims and reflected a range of options, pace and cost implications.

#### 4.2.12 Performance Commitments, investment choices and incentive research

**Date:** April and May 2018


**Method:** Deliberative workshops, focus groups and Compute Assisted Personal Interviewing (CAPI) surveys with HH and separately with NHH customers (weighted to reflect the demographics of the area).


The company tested six of the water PCs with customers and four of the waste ones. The company did not test any of the retail measures in this research as they advised they had used other methods and that the C-MeX, D-MeX and proposed Non Household C-Mex ones will be comparative anyway.

Even with a reduced number of PCs being tested with customers the CCG was concerned at the potential cognitive overload to cover all of these areas in a two and a half hour slot and advised the company to consider individual research projects for each element. The company however had felt that similar research had gone well in England and could be adopted for Wales.

The results from the research have been provided to the CCG and do show clear results from customers in many areas. The CCG would have liked a no 'ODI' outperformance with lower bills to have been an option.

The CCG appreciate that three quarters of HH and NHH customers think it is acceptable to link a small amount of their bill to performance. However, the nature of the ODI type was not fully discussed (financial, reputational, penalty only) with customers nor was the any rate to be applied. The company advised the CCG that, where appropriate, the ODI rates would be based on the WtP findings.

 In addition, there are concerns that the context in which the acceptability was made was potentially misleading. The research material stated that ***“Over the five year period customer water and wastewater bills will fall on average by 5% before the effect of inflation is added in”***<sup>7</sup>. This is incorrect: the combined bill will increase. If customers thought their future bill was going to reduce, it is quite possible that their opinion about additional spend for outperformance may have been influenced. The CCG is concerned this statement may have affected responses regarding acceptance of PCs and ODIs

 ***The CCG has concerns about the company using the WtP research in a way that was not made explicit or clear to the customer (nor to the CCG) when it was undertaken.*** The CCG urges great caution when making the assumption that a customer's prioritisation of a service level under the WtP research also means that customer automatically wants the company to outperform the level stated in the WtP and that the customer is happy to contribute for that outperformance.

The CCG recognises that the company has set out its rationale for how it will apply the PR19 methodology and that it has a clear strategy as to how incentives are applied. It does remain however that these have not been tested with customers.

#### 4.2.13 Acceptability Research (June 2018)

**Date:** June 2018

**Method:** Face to face interviews. Informed and Uninformed.

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<sup>7</sup> Questionnaire: SVT – PCs and ODIs

The acceptability research results, as presented to the last CCG meeting in mid-August demonstrated a wide variation in acceptability across the two areas with Powys giving very low acceptability for the plan. The CCG recognised the reasonably high levels of confidence in the company making the right investment decisions however.

The CCG were concerned to find out what was driving responses in Wrexham and in Powys and whether they related to the relative differences in bills profiles, to different service experiences, to demographics, or to income between the two regions. It is likely to be a mix of several things underpinning the difference in views. The fact that there was higher acceptability of the bill in Wrexham (which did not include a wastewater component) may have influenced their views. Powys customers were seeing the full water and waste bill which may have led to lower acceptability. The CCG noted the unusual occurrence of customers' acceptability falling in Powys as they became more informed about the plan.

**Given the proposed change in bill profile as a result of customer and stakeholder response, it is now strongly suggested by the CCG that the acceptability research should be run again in both areas with findings fully analysed, particularly from customers with low acceptability.**

#### **4.2.14 Customer Complaint Data**

Throughout the process the company was urged to use day to day complaints and contact information to 'sense check' the research findings. CCWater provided useful challenge at meetings as circulated information from their bilateral meetings with the company and, along with the CCG, continue to monitor performance. The ongoing development of the Customer Insight document an increased use of, and reference to, this information



## 5.0 Proposed Performance Commitments

### - Key Challenges of the Customer Challenge Group

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The performance commitments (PC) the company makes in its business plan should be treated as the basis of a contractual relationship with its customer. A good business plan will have presented its current and proposed stretch performance by 2025 to its customers and contextualised it by comparison with the current and proposed performance of other companies in the water industry. It will have considered the cost implications and service levels associated with the target and should have generated customer support by aligning the target with the customers' expressed needs, priorities and willingness to pay.

HD's detailed document entitled 'PC Target Setting' provides evidence and justification for the PC targets that make up the HD plan. This document has been welcomed by the CCG as a clear way to set out the evidence and basis of the judgements used to establish the proposed PC targets. Importantly the document sets out the rationale for each individual PC and the company's collective view to demonstrate that the proposed targets are a stretching package which, in the company's view, offer a fair and broadly equal balance of risk between customers and shareholders.

#### 5.1 HD's Key principles for establishing targets

The CCG welcomes the hard work the company has undertaken in preparing the PC Target Setting document which documents its approach to target setting, taking in to account the rationale for each proposed PC target and evidence to show why it is stretching. This includes:

- the regulatory expectations;
- a summary of customer views (and signpost to more information);
- performance in the context of historical performance;
- comparative performance; and
- evidence based on costs and benefits."
- a summary of the rationale for the target
- an overview of the approach and basis for associated incentives
- the ODI rationale, and
- the long term ambition.

The CCG believes this approach to be an open and transparent documenting clearly setting out the company's rationale for the targets set. The document also provides information in relation to the relationship between the PC and the nature of the ODI mechanism linked to it.

#### 5.2 Overview of Hafren Dyfrdwy's proposed Performance Commitments

HD is proposing 28 performance commitments, 19 of which are in some way compulsory measures (13 of the 19 are defined by Ofwat (**green** in figure 1), the remaining six are compulsory topics but companies can specify their own definition (**blue** in figure 1)). The nine company specific bespoke measures (**black** in figure 1) have been included in the suite for any of the following reasons:



- They are important service areas to customers, identified either through customer research or day to day contact with our customers (low pressure issues, drinking water complaints)
- They are intended to hold HD to account for delivering strategic schemes that it is including as cost adjustment claims because it is delivering a service that is either not currently being offered across the industry or because HD has the unique circumstances that mean Ofwat's generic expenditure models will not reflect its case (lead pipes replaced, length of river improved, hectares managed for biodiversity)
- They relate to something that HD and/or the CCG feel is important to have in place on customers' behalf (affordability and effectiveness of HD's affordability offering and inspiring customers)

**Figure 1**

|                              |                          |                              |                                         |                                         |     |                      |                  |
|------------------------------|--------------------------|------------------------------|-----------------------------------------|-----------------------------------------|-----|----------------------|------------------|
| Outstanding experience       | C-MeX                    | D-Mex                        | Non-household customer experience       |                                         |     |                      |                  |
| A service for everyone       | Affordability            | Service vulnerability        | % compliance with Welsh language scheme | Effectiveness of affordability offering |     |                      |                  |
| Lowest possible bills        | Voids                    |                              |                                         |                                         |     |                      |                  |
| Good to drink                | CRI                      | DWQ complaints               | Number of lead pipes replaced           |                                         |     |                      |                  |
| Water always there           | Interruptions to supply  | Mains bursts                 | Risk of low pressure                    | Leakage                                 | PCC | Resilience – drought | Unplanned outage |
| A positive difference        | Inspiring customers      |                              |                                         |                                         |     |                      |                  |
| Thriving environment         | Length of river improved | Satisfactory Sludge Disposal | Hectares managed for Biodiversity       | Treatment works compliance              |     |                      |                  |
| Wastewater safely taken away | Sewer flooding internal  | Pollution                    | Sewer blockages                         | Sewer flooding – extreme storms         |     | Sewer collapses      |                  |

Key:

Green = common industry definition

Blue = bespoke definition but mandatory inclusion

Black = bespoke (company specific)

The CCG challenged the company to demonstrate how the above performance commitments have been developed, to provide evidence that they are stretching and that they are supported by customers. In addition, the CCG has asked the company to explicitly assure it that where PCs are linked to ODI outperformance payments that the required performance to trigger such payments would be in the industry forecast upper quartile (2025) and this has been confirmed by the company.

Please note that the company has agreed that, while not a formal PC, it will specifically monitor performance in relation to external sewer flooding across the area. This is due to the fact that the research did not pick it up as a key area of concern for customers, but local knowledge of experience of CCG members were aware that it is an issue causing problems across the HD region.

Given the compressed timescale in which the company had to operate, the CCG could understand the company's approach to concentrate on consulting customers on PCs where they had the greatest opportunity to influence the PC. Customers were not specifically consulted on all the mandated PCs and their targets within the PC research. In these

instances, the company demonstrated in the PC Target Setting document how they have triangulated information from other sources to arrive at their conclusions.


This report will not go in to detail for each performance commitment proposed by the company, but it will highlight the particular areas on which the CCG would like to make comment, using the outcome based approach.

## Outcome 1 : Good to Drink


### 1.1 Drinking Water Quality Complaints

The CCG understands that neither current nor forecast UQ performance is being targeted, despite the high priority placed on this PC by customers. The proposed target does represent a significant improvement from both the FD 2019/20 position and the 17/18 performance and the CCG is satisfied with the justification provided. The reward and penalty ODI reflects the importance of this PC to customers.

### 1.2 Compliance Risk Index (CRI)


 The CCG supports the target of a CRI of 0 (100% compliance) and the non-financial nature of the incentive.

### 1.3 Reducing Lead in Wales


 This attribute was originally prompted to customers and gained momentum. The company has evidenced significant customer support for this PC which reflects the Welsh Government aspiration for a reduced lead Wales as well as meeting the ethos of the Well Being of Future Generations (Wales) Act. The company included specific deliberative research on this (asset health and resilience) which included choice on the pace and scope of investment. ***The CCG supports the PC and has seen the customer support and appetite for additional investment in this area.***

## Outcome 2- Water Always There


### 2.1 Interruptions to Supply

 Given the relatively low / mixed view of the priority of improving interruptions to supply couple with a relatively low experience of this service failure shown in different research results ***the CCG supports the target of 8 minutes which represents an almost 30% improvement compared to AMP 6.***

### 2.2 Mains Bursts

 No specific customer research has been undertaken here but the rationale for a 14 % improvement target that will not be funded by customers is supported. This is a reward and penalty ODI.

### 2.3 Properties at risk of low pressure

 This is a bespoke measure added by the company to reflect the research undertaken that shows relatively high levels of customers across the HD region suffer with low pressure. A 27% improvement target and the future focus of the company on to worst served customers (those with chronic low pressure) is welcomed by the CCG. The ODI is a penalty and reward based on customers WtP for incremental improvement.

## 2.4 Leakage

The research shows that leakage is a priority for improvement but that there is low WtP for further reductions.

*The CCG welcomes the company's commitment to include the 15% reduction which the CCG and other stakeholders had also challenged the company on. The company has decided that this will be a financial incentive with rewards and penalties but given the low WtP, it CCG welcomes the company's proposed use of a deadband to reflect the low WtP by customers for this activity.*

## Outcome 3: Safely take your waste away

### 3.1 Internal Sewer Flooding

This is a high priority for customers and the proposed UQ position in comparison with the rest of the industry is welcomed. The CCG also supports the end of AMP reconciliation.

### 3.2 Wastewater Pollution Incidents

This is an important priority for customers although there is less appetite from them to pay for improvements in the WtP. The CCG challenged the company hard to reduce its target from the FD target of 10 to 7, which is their current performance. The CCG had wished to press even further but given the low number of incidents was concerned that any further target reduction could lead to an unfair balance of risk between the company and the customer.

This is a financial incentive with rewards and penalties, to be reconciled at the end of the AMP.

### 3.3 Sewer Blockages

Customers were not specifically asked about this target. The 6% proposed target is what is needed to maintain a stable performance and the improvement will be delivered at no extra cost to customers.

This is a financial reward and penalty ODI calculated as an end of AMP reconciliation.

### 3.4 Sewer Collapses

Customers were not specifically asked about the proposed target which represents stable performance. This will be a financial incentive with rewards and penalties calculated as an end of AMP reconciliation.

## Outcome 4: Thriving Environment

This outcome title did not immediately resonate with customers, many of whom did not expect their water company to be aiming to achieve this but it has been included by HD to reflect the high importance that customers has put on the environment and bio-diversity which is evidenced in some research projects.

### 4.1 Treatment Works Compliance

Customers were not explicitly consulted as target is to achieve 100% compliance so there was no scope for customers to influence the target. This is a penalty only ODI with a penalty deadband proposed by the company which is the equivalent of one works failing. The CCG has accepted this justification as a fair balance of risk.



#### 4.2 Satisfactory Sludge Disposal

Customers were not explicitly consulted as target is to achieve 100% compliance so there was no scope for customers to influence the target. This is a non-financial ODI.



#### 4.3 Length of River Improved

This bespoke measure reflects the key obligations that form part of the National Environment Programme (NEP). Within the WtP this was a medium priority yet is a financial incentive with rewards and penalties.

***The CCG has challenged Natural Resources Wales (NRW) to ensure that the target is understandable, stretching and includes the appropriate parameters and has received confirmation from them that it is. The CCG wants to understand further how a statutory PC under the NEP/Water Framework Directive (WFD) can justify outperformance payment.***



#### 4.4 Hectares managed for Biodiversity

This is a bespoke commitment and a new innovative measure in partnership working across one of HD's catchments, Lake Vyrnwy. Whilst not included in the WtP survey, customers appear to have a high acceptance of the PC when it was presented to them.

This is a financial incentive with rewards and penalties.



***Whilst the project is supported in general terms, the CCG have some concerns about the balance of the cost of the proposal that falls upon HD customers. Much of the work undertaken will improve the catchment and as such the CCG wants to be reassured that United Utilities customers are also contributing a fair share towards this project.***

### Outcome 5: An outstanding customer experience

#### 5.1 C-MeX – Customer Experience Measure



This PC is mandated, defined at PC target level decided by Ofwat and as such the company had not explored this PC explicitly with customers. The company has circulated information it had received as part of the Ofwat working groups and the CCG looks forward to working more closely with the company as proposals develop.

This will be a financial ODI with rewards and penalties.

#### 5.2 D-MeX – Developer Experience Measure



This PC has not been specifically explored with developers and the CCG looks forward to working with the company as further details develop.

This will be a financial ODI with rewards and penalties.

#### 5.3 Non Household Customer Experience – NHH C-MeX



The CCG welcomes the inclusion of a non household customer experience measure which will include a satisfaction based measure which applies the principles of C-MEX to non household customers. Welsh Government, CCWater and the CCG have challenged the company to include this measure to enable an assessment of how non household customers' experience and satisfaction in Wales compares to those operating in the competitive market in England.

The CCG welcomes the commitment of the company to use the same C-MEX target for the NHH experience target. This is a financial ODI with in-period rewards and penalties.

## Outcome 6: A Service for Everyone

### 6.1 Supporting our Priority Service customers during an incident



The CCG welcomes the company's agreement to adopt an impact/outcome measure for this PC as opposed to an input type measure eg no of customers on a PSR. The proposed measure is to assist 100% of vulnerable customers (CIVC) who are registered on the PSR that are provided with support during a clean water incident. The additional service offerings from the current provision are welcomed by the CCG.

The CCG also suggests that the company considers CCWater's suggestion to include three additional measures to help assess the effectiveness of this PC which are as follows:



- a. Periodic research to measure customer awareness of the assistance on offer would help track how well they are communicating with customers.*
- b. A measure of customer satisfaction of those who are receiving assistance would help show how effective this has been. This could include customers' view of how easy (or not) the assistance was to access, as well as how satisfied they are with the assistance provided.*
- c. The percentage of customers who consider their water charges are affordable (CCWater currently tracks this measure through its annual tracking research).*

This is a reputational only ODI.

### 6.2 Affordability

Two PCs are linked to affordability and reflect significant discussion with the CCG to try to define measures that will indicate an impact/outcome for customers with affordability issues.

The measures are as follows:



- The percentage of struggling to pay customers supported through tailored schemes
- The percentage of struggling to pay customers supported through tailored schemes who continue to pay their bill twelve months after the scheme has been completed.

The company had undertaken specific research regarding the social tariff schemes and it has introduced some changes in an effort to streamline the current Big Difference Scheme which operates in Powys and the Here2Help scheme in Wrexham. This work has been undertaken in conjunction with expert advice from CCWater. The CCG would like to see an on-going dialogue with customers with regard to affordability issues and it is conscious that any further increase to customer bills, whether caused by an increase in the base bill alone, or whether by outperformance payments, needs to be monitored carefully.



Ofwat's Affordability and Debt Report of 2014-2015 showed that a worrying number of customers in Wales with a water affordability risk stating that **for customers of companies operating wholly or mainly in Wales, 32% of households spend more than 3% of their income on water, while 15% spend in excess of 5%**<sup>8</sup>. In addition, the costs associated with recovering and writing off water debts are the equivalent of adding about £21 a year to the

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<sup>8</sup> Ofwat, *Affordability and Debt 2014-2015*, Pg 7



bill of every household customer in England and Wales – up from £15 in 2009-10. In Wales this figure is believed to be over £30<sup>9</sup>.



*The CCG welcomes the work that the company is undertaken to address the problem of affordable bills in Wales and looks forward to working closer with the company as it monitors performance.*



*The CCG remains cautious to ensure that any future proposed 'payment matching' or 'debt write off' schemes do not place an unfair burden on other bill payers.*

### 6.3 Effectiveness of Financial Support

#### 6.4 Compliance with the Welsh Language Scheme



*The CCG supports the company's commitment to ensure 100% with the Welsh Language Act. It applauds the company's approach to changing its research programme to include the provision of materials in Welsh and the use of bi-lingual research staff.*

## Outcome 7: Lowest Possible Bills

### 7.1 Voids

This PC has not been fully developed by the company and therefore not specifically explored with customer or the CCG. ***Given the lack of information currently available the CCG cannot provide commentary on the acceptability or otherwise of the target, nor the application of the ODI reward mechanism which to some customers may seem counter-intuitive.***



<sup>9</sup> Ofwat, *Affordability and Debt 2014-2015*, Pg 8



## 6.0 Outcome Delivery Incentives

### - Key Challenges from the Customer Challenge Group

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Financial ODIs are being proposed for eighteen of the twenty eight measures.

#### 6.1 Consulting customers on ODIs

The company undertook ODI research as part of its 'PCs, Investment Choices and ODI research project' which was undertaken in April and May 2018 (ref Section 4.1.12). The CCG had suggested separate research be undertaken for each of the composite strands, but the company reassured the CCG that a similar project had run in England and it was confident there would be no undue cognitive overload.

The research findings evidenced good customer support in general terms for the principle of the ODI framework with three quarters of HH and NHH customers finding it acceptable to link a small amount of their bill to performance. However Section 4.1.12 show how the CCG's view on this is heavily caveated.

#### 6.2 The nature of ODIs, ODI reconciliation periods and ODI rates

The company has provided the CCG with detailed and logical flow chart information showing how it proposed to apply the PR19 methodology with clear rules as to how it proposes to apply incentives.

However, the nature of the ODI type to be used per PC (financial, reputational, penalty only) was not fully discussed with customers, nor whether they would reconciled in-period or end of AMP, nor was there any discussion of any rate to be applied. The CCG does have some sympathy with the company of the difficulties in trying to elicit conclusive customer support for concepts that may seem hard to understand but considers that stand alone ODI research may have made this more easily understandable and could have generated more specific customer insight to demonstrate better aligning of customers views with the ODI regime. The CCG's reservations remain.

#### 6.3 Setting ODI rates

The company advised the CCG that, where appropriate, the ODI rates would be based on the WtP findings. ***The CCG have concerns about the company using the WtP research in a way that was not made explicit or clear to the customer (or the CCG) when it was undertaken.*** The CCG urges great caution when making the assumption that a customer's prioritisation of a service level under the WtP research also means that customer automatically wants the company to outperform the level stated in the WtP and that the customer is happy to contribute for that outperformance.

The PC Target Setting document does provide the company's rationale for setting ODI rates in the absence of WtP information.

#### 6.4 The overall size of a company's ODI package

The CCG welcomed the company's commitment that that their ODI payments will only relate to real performance changes and not definitional, methodological or data changes in the performance commitment.





The CCG welcomes HD's confirmation that no outperformance payment would be made for performance that would simply be catching up with the rest of the industry, rather it would be for frontier shifting performance.



The PC Target Setting document provides the company's rationale for its application of the ODI mechanism in the absence of specific customer information and provides a logical and reasoned approach taking in to account a number of key factors.



However, the context in which the acceptability was made was potentially misleading. The research material stated that **"Over the five year period customer water and wastewater bills will fall on average by 5% before the effect of inflation is added in<sup>10</sup>"**. This is incorrect: the combined bill will increase. If customers thought their future bill was going to reduce, it is quite possible that their opinion about additional spend for outperformance may have been influenced. The CCG is concerned this statement may have affected responses regarding acceptance of PCs and ODIs.



In initial discussions about the potential impact of ODIs on the average customer bill, the company had advised the CCG that the maximum impact would likely be in the range of +/- £1 per average bill per year over the five year period. Recent calculations provided to the CCG have increased that figure slightly (to around +£1.88 and -£3.33).

In order to offer further protection to customers, particularly on top of potentially increased bills, **CCWater has challenged the company to apply a cap on rewards/penalties per year per average bill**. CCWater has noted the company's response that, whilst it will not cap rewards, their expected impact on customers' bills will most likely be in the region of +£1/-£2.



<sup>10</sup> Questionnaire: SVT – PCs and ODIs

# 7.0 Cost Adjustment Claims

## (Strategic Investments)

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### 7.1 The need and support for investment and securing cost efficiency

The company now proposes four cost adjustment claims that have been subject to great challenge by CCG members and have also been subject to specific customer engagement. The CCG were initially surprised at the projects put forward for a cost adjustment claim as they did not seem particularly large or strategic projects. The company advised the CCG that the Ofwat models will not satisfactorily reflect the nature of these lumpy projects and so a cost adjustment claim is necessary.

The company has provided the CCG with information to justify the need for the projects and also for the scope and cost of the project. These have not been further assured by the CCG as it has no competence in this regard.

- **Reservoir Safety**

This is a statutory driver and historical investment is seen by the company to be insufficient for the number of reservoirs across the patch (atypically large for the population served). In addition to the company's technical risk assessment for the spend having been per reviewed for both scope and cost the company undertook specific deliberative research (asset health and resilience) and high volume of customers (78% HH and 74% NHH) find the company's proposed pace acceptable with a further 16% of HH and 22% NHH happy to do even more to reduce the risk and share the cost with future customers.

*The CCG agrees that the company's findings are acceptable.*

- **Supply Resilience**

This is customer supported measure. In a similar vein to the above cost adjustment for reservoir safety not being reflected in Ofwat's models, HD advised the CCG that it has an atypically large number of treated water reservoirs for the population served. Specific deliberative research (asset health and resilience) evidenced high support for this investment at the company's proposed pace with reduced risk of water quality failures, reduced risk of supply interruptions, enhanced resilience and lower whole life costs being seen at the customer benefits.

*The CCG agrees that the company's findings are acceptable.*

- **Reducing Lead in Drinking Water**

This cost adjustment reflects the appetite in Wales to reduce lead in drinking water. This is an aspiration of Welsh Government and it delivers under the Well Being of Future Generations (Wales) Act and reflects an aspiration being pursued by other organisations in Wales including local authorities, Dŵr Cymru Welsh Water and the Water Health Partnership for Wales.

The CCG were keen to ensure customers were aware that this was not a statutory requirement and that customers had a choice whether to contribute to reduced lead Wales. The specific deliberate research and the PC research showed this area to be of high importance to customers for a number of reasons.

*The CCG agrees that the company's findings are acceptable.*



- **Enhancing Biodiversity and Well-Being**

This area of activity will help HD to achieve the Biodiversity Duty of the Environment (Wales) Act which places a requirement to enhance bio-diversity. Whilst some customers found it difficult to link this type of investment to water company activity it is an area that received support from customers when presented with a range of activities which could be additional to the core service. The PC research indicates a high acceptability for the project.

***The project is well developed, will be assured by NRW, and is supported in general terms. The leverage of this project as part of a much wider Lottery funded project will drive a much a larger spend in the catchment which is also to be welcomed.***

***However, the CCG does have some concerns about the balance of the cost of the proposal that falls upon HD customers. Much of the work undertaken will improve the 'catchment' and as such the CCG wants to be reassured that United Utilities customers are also contributing a fair share towards this project.***





## 8.0 Bill Profiles

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*The CCG welcomed the presentation of bill profiles within the acceptability research with and without inflation and the fact that the research included both informed and non-informed participants.*

The CCG did not welcome the original proposed bill profiles<sup>11</sup> however where in Powys (water and sewerage customers) proposals had been for bill increases of up to £17 or 6% excluding inflation (£46 or 16.5% increase including inflation) by 2025. Customers were also understandably unsupportive of them as evidenced by the low customer acceptability in research findings.

Any bill increase in real terms (net of any ODI outperformance payments that may also accrue to the customer) would have come as a surprise to the CCG given the expected effect of efficiency savings. The CCG challenged the company to provide a better explanation and to seek additional efficiencies or phasing of approaches to mitigate the situation. The company explained to the CCG in detail the reduced effect of a lower WACC on Hafren Dyfrdwy bills than for the average company, coupled with HD's smaller RCV and the effects of Ofwat's modelling on a small company like HD.



The revised bill profiles, agreed by the HD board at its meeting on 31<sup>st</sup> August do represent a relatively significant shift from earlier proposals for bill increases. However **they now present an increase for water-only customers** and this scenario was, of course, **not tested in the previous customer acceptability research**. While the CCG recognises the commitment of the company in reacting to the response of customers, stakeholders and Group members it urges the company to ensure the acceptability testing is **repeated** and **extended to both Powys and Wrexham customers**.



*The CCG welcomes the commitment of the company in reacting to the concern of the CCG and stakeholders and to the low acceptability of the bill profiles by customers.*



*The CCG urges the company to ensure that the repeated acceptability testing is extended to BOTH Powys and Wrexham customers. The research must continue to be quantitative and include bills with inflation.*



*It will be for Ofwat to satisfy itself that the proposals ensure 'no detriment' to any of HD's Welsh customers as a result of the licence change.*

## 9.0 Regulator Input

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<sup>11</sup> Presented at the July 2018 CCG Meeting.

## **Involvement of statutory customer, environmental and water quality regulators in the PR19 process -**

*Consumer Council for Water, Natural Resources Wales,  
Drinking Water Inspectorate*

### **9.1 Securing confidence and assurance**

All the above regulators have been regularly contacted by the CCG in relation to assuring the statutory consumer, environmental drinking water quality aspects of HD's PR19 process. Each have been invited to attend meetings of the CCG as members (CCWater and NRW), technical advisers/experts (DWI). In addition, the Welsh Government has attended CCG meetings as an observer.

All regulators were asked to provide an update on matters of relevance in their subject area to the HD region that may affect the work of the CCG and in general this worked well.

The CCG has greatly benefitted from membership of, and regular attendance by, CCWater and Natural Resources Wales throughout the process and their comments are reflected throughout this report. Whilst there may be areas on which constituent members have sought further reassurance on areas they have most expertise (please refer to the Challenge Log at Appendix C), there have been no areas of significant concern or divergence from the general CCG views throughout the process.

### **9.2 DWI's position at the outset of the PR19 process**

The position of the DWI in relation to the CCG process had been given at the outset; they would be unlikely to attend many meetings of the CCG but would endeavour to provide information on areas of assistance to the CCG. The Chair made contact with the DWI via emails through the PR19 process and met with staff at meetings of the CCG Chairs, Wales Water Industry Forum and the Wales PR19 Forum where current company performance and future proposals were discussed. Any feedback was brought back to a subsequent CCG meeting. HD staff kindly furnished the Chair with all relevant information as presented to bi-lateral meetings between the company and the DWI, to which the Chair was invited.

The role of the DWI in the PR19 process is different to that of PR14: the DWI advised the CCG that they would not form or advise a judgement on the likelihood of draft business plans to meet statutory requirements. They felt it would be inappropriate for them to do so, as they do not feel sighted to sufficient relevant detail of draft business plans, and financial provisions yet to be determined, to form a considered view.

Over and above the business planning process, compliance with statutory obligations is significantly dependent on a company's delivery capacity and competence. The DWI already have in place robust, active and continuing processes for companies to assess and report on unmitigated or partially mitigated risks to their drinking water supplies, and the DWI reviews and acts on that evidence on a continuing basis. The DWI stated that it will not be able to address whether the draft business plans are likely to continue to meet existing statutory obligations in the future. The long-term planning guidance that the DWI issued to companies set out its expectations of the issues that it would expect companies to take account of in their draft business plans.

The DWI further clarified that companies have not been asked to make provision for future statutory obligations that may differ from the existing obligations in the planning for PR19. Any such changes that arise during the AMP7 period (for example, principally from the recast of the Drinking Water Directive) will be addressed when there is clarity about the requirements.

### 9.3 DWI's commentary on HD's current proposals

DWI's statement for inclusion in this report is included at Appendix E and background information to the statement was provided to the CCG in an email from Sue Pennison of the DWI as is reproduced below:

*"Dee Valley Water did not submit any water quality schemes to the Inspectorate for assessment. Companies are required to ensure that their business plans aim to meet all statutory drinking water quality requirements but as the Inspectorate are not sighted to the totality of the final business plan we are unable to provide independent reassurance on this point at this time. We have highlighted that much of the work required to meet water quality requirements will be provided for under maintenance.*

*We are sighted to preliminary plans that have been shared with the CCG and ourselves relating to planned activity in Wales.*

*Severn Trent Water [sic] have reported three key areas of activity for Wales*

- *Working towards a lead free Wales – the programme as described goes further that meeting the statutory requirements for addressing lead in drinking water and proposes a number of activities that the Inspectorate had previously supported, including*
  - o *aiming to identify those most at risk from lead (schools and nurseries),*
  - o *working with other organisations to maximise opportunities for lead removal.*
  - o *Developing understanding of how to prioritise lead pipe replacement and investigate the opportunities for cessation of phosphate dosing.*
- *Catchment management*
  - o *Developing a catchment management programme covering the Upper and Middle Dee catchment alongside United Utilities and the Welsh Dee Trust*
  - o *Identifying cause of increased manganese and blue-green algae risk at impounding reservoirs*
  - o *Carrying out maintenance of upland catchments*
  - o *For the Seven Catchment*
    - § *Managing catchment risk of Cryptosporidium from sheep*
    - § *Implementing changes for biodiversity improvements*
    - § *Working in partnership with Welsh Water*
- *Addressing discolouration*
  - o *Dee Valley have undertaken work to address the input of manganese to the network through improvements at treatment works during previous AMP periods.*
  - o *There is work still to do and DWI is vigilant in this area having open notices for trunk mains cleaning in the legacy zone which is due for completion in 2021 and is currently assessed as being on target."*

The company respects the views of the DWI and references the assurance made by the HD Board that the company's business plan will meet the required statutory obligations.

#### **9.4 Natural Resources Wales Key Issues Paper: Hafren Dyfrdwy (HD) PR19 business plan**

Natural Resources Wales has been closely involved in the work of the CCG at regular meetings and in various task and finish groups. Representatives had provided updates on the progress of the company in preparing its Water Resources Management Plan and more recently in the development of the National Environment Programme. The view of the NRW are reflected in the main body of this report. They have also prepared a Key Issues Paper for the CCG on the HD PR19 Business Plan and this is reproduced at Appendix F.

#### **9.5 Consumer Council for Water Opinion of the HD's Customer Engagement Process**

CCWater is the statutory body representing the interests of household and non-household water and sewerage customers across England and Wales and was represented on the CCG by Angela Davies Jones, Local Consumer Advocate, and the contributions of Lia Moutselou, Senior Policy Manager.

As well as participating in all customer challenge group and other PR19 meetings, CCWater 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:

- CCWater's guidance on Willingness to Pay
- CCWater's guidance on Triangulation
- CCWater's PR19 objectives
- CCWater's expectations on Outcome Delivery Incentive (ODI) Research
- CCWater's expectations on Business Plan Acceptability Research

CCWater's key views on this price setting process have been made through the CCG, its bilateral PR19 engagement as well as with the company and Welsh Government's PR19 Forum. It's opinion on Hafren Dyfrdwy's customer challenge and engagement process is reproduced in full at Appendix G.

# 10.0 Resilience

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The company has discussed resilience with customers in several guises. The Asset Health and Resilience Research specifically explored customers' understanding of water companies' assets, the resilience needed to ensure the safe operability of the assets and service in both water and wastewater services as well as appetite for levels of risk involved the industry.

The company undertook deliberative workshops with HH customers and telephone depth interviews with NHH customers across the region. CCG members also attended some of the workshops as observers. The workshops explored the levels of risk customers are prepared to take, their views on the pace of investment and to understand their willingness to fund better monitoring of assets.

The CCG welcomed the mix of customers that had been included in the project which encompassed current and future bill payers, a mix of age, gender, SEG, household size, and some customers with experience of a service failure. Non household customers included a mix of size, sector and water dependency.

This was an illuminating research project exploring a wide variety of attitudes. The range of options were kept fairly simple – 'maintain current service', 'do more' or 'do less'. Many customers were keen to avoid bill shocks and did not want to store up future high bills. Customers were surprised at how low some of the bill impact were for an increased rate of maintenance, 'do more' option.

***The CCG were pleased to see that the company had sought the views of a range of customers on long terms issues.***





# 11.0 Past Delivery

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## 11.1 Accounting for Past Delivery

A great deal of time and effort was expended by CCG members in considering and discussing the Legacy Alternative project (AMP6) throughout the process. During the course of discussions in the run up to the submission of the PR14 business plan and as part of the then company (DVW)'s desire to secure the CCG's support for the scheme, assurances were clearly given to the CCG that the company would share out-performance savings with customers. DVW made a specific promise to refer the same back to the CCG for discussion upon the mechanism for return towards the end of 2017 (with the completion date for the scheme estimated to be around March 2018), prior to any referral being made to Ofwat.

Regrettably, no such discussion took place. HD has provided an explanation to the CCG using the totex outperformance provisions. This has signalled that extra spend on areas including (but not restricted to) the introduction of a new billing system for the previous DVW area has offset any savings made from the Legacy Alternative scheme. The CCG would view the transitioning of the Severn Trent billing system in to the Wrexham area as a cost of the transfer/acquisition and as such should not be borne by its customers.

***Given the significant savings of adopting the Legacy Alternative project relatively shortly in to AMP6, the CCG's view remains that those efficiencies should have come back to customers in their entirety, or at least, proposals for use of the money should have been discussed and agreed with the CCG. This remains an unresolved challenge to the company who the CCG urges to take a more customer focussed view as opposed to a totex-centric approach.***



# Appendices

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**Appendix A:** Customer Challenge Group Terms of Reference

**Appendix B:** Schedule of CCG Meetings and Key Topics Discussed

**Appendix C:** Chronology of Customer Challenge Group input in to Customer Research

**Appendix D:** HD Board Assurance Statement to the CCG

**Appendix E:** DWI Statement for DVW's Business Plan 2020-2025.

**Appendix F:** NRW's Key Issues Statement for DVW's Business Plan 2020-2025.

**Appendix G:** CCWater's Opinion on the HD PR19 Engagement Process

**Appendix H:** CCG Challenge Log

# Appendix A: Terms of Reference

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## Hafren Dyfrdwy - Customer Challenge Group

### Introduction

Hafren Dyfrdwy is subject to strict regulation covering financial, customer service, water quality and environmental aspects of the business with Regulators and other statutory organisations as follows:

1. Ofwat – Economic regulations, price limits and customer service delivery
2. Consumer Council for Water (CCWater) – Consumer representation & protection
3. Natural Resources Wales (NRW) – Environmental regulation & permits
4. Drinking Water Inspectorate (DWI) – Drinking Water Quality regulations & standards
5. Welsh Government – Government regulation, legislation and policy

Hafren Dyfrdwy differs from all except one of the other water only companies that are regulated by Ofwat in one other respect: as it operates mainly in Wales, it is responsible to the Welsh Government which has devolved powers and which provides strategic direction for water policy in Wales.

### Purpose

Hafren Dyfrdwy 's Customer Challenge Group (CCG) brings together a wide range of organisations and businesses to challenge the Company to develop customer-supported, long-term strategic business plans which will deliver agreed commitments (including meeting statutory quality obligations and outcomes based on customers' priorities) as well as being a good deal for the customer. The CCG will provide ongoing challenge and scrutiny as the Company develops and delivers its business plan and will scrutinise how the Company takes account of consumers' views on issues which may impact on standards of service and the cost of customers' bills.

The CCG is independent of Hafren Dyfrdwy.

### Role of the Group

The role of the Group, in its capacity as a customer group, will be to represent the views of both domestic and business customers by operating independently of Hafren Dyfrdwy to:

1. Lead to a better understanding by all interested parties of the main obligations, issues and priorities in the provision of water by the Company;
2. To scrutinise the delivery and to examine performance against each of the Company's commitments and Outcome Delivery Incentives in its Business Plan;
3. Understand and challenge how particular rewards or penalties are applied;
4. Independently scrutinise, challenge and monitor the effectiveness of the Company's ongoing customer engagement and research plans and to be assured of the quality of the process and its outcomes
5. Independently assess and challenge the Company as it interprets customers' views and decides how to reflect them in its longer-term strategy and business plans;

6. Provide a way to discuss and understand conflicting priorities, through informed and transparent trade-offs, as they arise which will include an understanding of the costs and benefits of any proposals – increasing the consumers’ influence in these negotiations;

Given our current understanding of the methodology for PR19 the CCG is likely to be involved in the development of the next Business Plan for AMP7 (2020-2025) in a similar way to AMP6 (2015-2020) and as such the CCG will:

7. Independently report to Ofwat (alongside the Company’s business plan) regarding the Company’s engagement process in relation to:
  - the effectiveness, or otherwise, of the Company’s engagement with the CCG, customers,
  - stakeholders or 3<sup>rd</sup> parties (to include technical or financial experts) as appropriate;
  - the level of engagement and assurance being proportionate to the materiality of the Company’s business plan proposals;
  - 8. Monitor and challenge the Company and other regulators to consider:
    - phasing delivery or outcomes to maximise the affordability and acceptability of the Company’s overall business plan;
    - the scope, justification and cost-effectiveness of the preferred delivery mechanism;
    - opportunities for innovative or sustainable means of delivering the required or desired outcomes.
9. Scrutinise the Company’s strategy and business plan by considering:
  - whether the Company has actively considered the opportunities for more innovation and sustainable approaches to deliver the required or desired outcomes;
  - whether the plan delivers the required legal outcomes;
  - whether the Company’s longer-term strategy and business plan is an appropriate response to customers’ views;
  - whether the Company’s business plan strikes a reasonable balance between the views of different customers and stakeholders, highlighting any areas where particular segments of current or future customers are likely to have outstanding concerns;
  - whether the Company has explored the range of cost-effective solutions and phased delivery of its various outcomes to maximise acceptability to customers;
  - acceptable to a majority of customers, highlighting any areas of concern.
10. Maintain a Challenge Log of challenges made to the company along with the response received /action taken.

## **Membership of the Customer Challenge Group**

The CCG will be independently chaired with a membership of no more than twelve. The quorum will be three of any of the members including the Chair.

**Members** will be drawn from individuals, representative bodies or interest groups that are active in the area such as:

- Consumer bodies and interest groups
- Business customers / business representatives

- Vulnerable and special needs consumers and/or their representatives
- Environmental interest groups
- Local/public authorities
- Other NGOs, including national bodies where relevant
- The Consumer Council for Water: the statutory consumer body for the water industry in
- England and Wales

**Technical Experts** from Regulators and other bodies may be invited to CCG meetings as necessary to provide supporting information, advice and technical expertise and will include:

- Consumer Council for Water
- Drinking Water Inspectorate
- Natural Resources Wales
- Auditors / Financial Experts
- Ofwat

Members of the Company will normally be in attendance at CCG meetings but will withdraw should the CCG need to deliberate without company representatives. Other Company staff may attend the CCG for particular agenda items where they have relevant responsibility or knowledge.

To maintain consistency of membership there is an expectation that members would hold a position on the Group for 5 years. In exceptional circumstances Group membership could be extended

## **Governance and Meetings**

The framework and frequency of the meetings will be based upon key delivery timeframes and outcomes required by the Company. It is expected that meetings will be scheduled for four times a year. Additional meetings will be arranged as the need arises.

All agendas and papers will normally be circulated at least five working days in advance of the scheduled meeting with a copy of the agenda available on the company's website. Draft minutes will normally be circulated to members within two weeks of the meeting. Once approved the minutes will be placed on the relevant section of the company's website.

## **Conflicts of Interest**

If a member believes that an agenda item might represent a conflict of interest for him or her, this should be raised with the Chair in advance of the meeting. All declared interests will be recorded in the meeting's minutes.



# Appendix B:

| Month     | Agenda topic                             | Items covered                           |
|-----------|------------------------------------------|-----------------------------------------|
| May 2017  | Approach to Welsh License & Implications |                                         |
|           |                                          |                                         |
|           | Approach to PR19 - journey and plan      | English CCG 'Water Forum'               |
|           |                                          | Sub groups                              |
|           |                                          | Vision for Welsh business plan & CCG    |
|           |                                          |                                         |
|           | Customer Research                        | Research approach                       |
|           |                                          | Hard to reach customer group discussion |
|           |                                          |                                         |
|           | In AMP Performance                       |                                         |
|           |                                          |                                         |
|           | ToR review                               |                                         |
|           | Forward agenda                           |                                         |
|           |                                          |                                         |
| June 2017 | Assurance                                | Approach & data quality at STW          |
|           |                                          | Approach for DVW and update on 2016/17  |
|           |                                          |                                         |
|           | In AMP Performance                       | Retail ODIs and social tariffs          |
|           |                                          | Wholesale ODI performance               |
|           |                                          |                                         |
|           | APR update                               |                                         |
|           |                                          |                                         |
|           | Customer Engagement                      | Update on working level conversations   |
|           |                                          |                                         |
|           | Research approach and timeline           | WTP - Systra update                     |
|           |                                          |                                         |
|           | NAV update                               |                                         |
|           |                                          |                                         |
|           | Forward agenda                           |                                         |
|           |                                          |                                         |
| July 2017 | Regulator updates                        | NRW - verbal update                     |
|           |                                          | Welsh Government Policy                 |
|           |                                          |                                         |
|           | Ofwat Methodology                        |                                         |
|           |                                          |                                         |
|           | In AMP Performance                       | DVW APR statement                       |

|                              |                                      |                                                                                           |
|------------------------------|--------------------------------------|-------------------------------------------------------------------------------------------|
|                              |                                      |                                                                                           |
|                              | <b>Strategic Challenges for PR19</b> | Big challenges and UMEs                                                                   |
|                              |                                      | Update on WRMP progress (link to differences to issues faced in England and Wales)        |
| <b>September 2017</b>        | <b>Regulator Updates</b>             | Update from DWI. Cat Osborne, Welsh Gov attended.                                         |
|                              |                                      |                                                                                           |
|                              |                                      |                                                                                           |
|                              |                                      |                                                                                           |
|                              | <b>Customer Engagement</b>           | Customer engagement road map                                                              |
|                              |                                      | Update on WTP research                                                                    |
|                              |                                      | Update on other research in Wales (including approach to vulnerability and affordability) |
|                              |                                      | Plan for future research calls / touchpoints                                              |
|                              |                                      | Outline of the DVW/ Wales Wholesale plan                                                  |
|                              |                                      |                                                                                           |
|                              | <b>Wholesale</b>                     | Update on the strategic investment areas                                                  |
|                              |                                      | Ongoing engagement: forward view of plans to engage with Wales                            |
|                              |                                      | Stakeholder priorities document update                                                    |
|                              |                                      | Update on what we're doing with customers to further promote and update on PR19.          |
|                              |                                      | How does this relate to CCG & the role they can play in this area                         |
|                              | <b>Stakeholder engagement</b>        |                                                                                           |
| <b>November 17 meeting 1</b> | <b>Regulator updates</b>             | Update from DWI                                                                           |
|                              |                                      |                                                                                           |
|                              | <b>PR19: Overall process</b>         | CCG Checklist                                                                             |
|                              |                                      | Forward agendas                                                                           |
|                              |                                      | Agree dates for future meetings                                                           |
|                              |                                      |                                                                                           |
|                              | <b>Customer Engagement</b>           | Progress with WTP                                                                         |
|                              |                                      | Progress with customer needs and social tariffs research                                  |
|                              |                                      | Split of performance commitment between England and Wales                                 |
|                              |                                      |                                                                                           |
|                              | <b>AMP 6 Performance</b>             | Retail                                                                                    |

|                              |                                        |                                                                        |
|------------------------------|----------------------------------------|------------------------------------------------------------------------|
|                              |                                        | The emerging vision and themes of the PR19 plan                        |
|                              |                                        |                                                                        |
|                              | <b>AMP 7 Ambition</b>                  | Feedback from WRMP session                                             |
|                              |                                        |                                                                        |
|                              | <b>Stakeholder engagement</b>          | Forward programme for stakeholder engagement                           |
|                              |                                        |                                                                        |
| <b>November 17 meeting 2</b> | <b>Regulator and CCW updates</b>       | Update from DWI                                                        |
|                              |                                        | Update from CCW (ref action 5.14)                                      |
|                              |                                        | Update on Ofwat engagement                                             |
|                              |                                        | Update from NRW (Moiria Reynolds – ref action 5.02)                    |
|                              |                                        |                                                                        |
|                              | <b>Update on investment plan</b>       | Emerging Waste Water plan                                              |
|                              |                                        |                                                                        |
|                              | <b>Customer engagement (part 1)</b>    | Emerging results from WTP, deliberative research and co-creation event |
|                              |                                        | Social Tariff research update                                          |
|                              |                                        |                                                                        |
|                              | <b>Customer engagement (part 2)</b>    | plans for trade-offs and performance commitment research               |
|                              |                                        | outline framework for triangulation                                    |
|                              |                                        |                                                                        |
|                              | <b>Assurance Framework</b>             |                                                                        |
|                              |                                        |                                                                        |
|                              | <b>Remuneration</b>                    |                                                                        |
|                              |                                        |                                                                        |
| <b>January 2018</b>          | <b>Regulator updates</b>               | Update from DWI                                                        |
|                              |                                        | Update from NRW                                                        |
|                              |                                        | Update on Ofwat methodology                                            |
|                              |                                        |                                                                        |
|                              | <b>Customer engagement Update</b>      | Discuss customer insight compendium and top 3 insights                 |
|                              |                                        | Breakout session – gaps and next steps                                 |
|                              |                                        |                                                                        |
|                              | <b>Update on Affordability</b>         | Emerging plan on affordability                                         |
|                              |                                        | Emerging plan on debt management                                       |
|                              |                                        |                                                                        |
|                              | <b>Update on Service vulnerability</b> | Emerging plan on service vulnerability                                 |
|                              |                                        |                                                                        |
|                              | <b>NAV update</b>                      | Conditions and assumptions of the NAV                                  |
|                              |                                        | Update on process                                                      |
|                              |                                        |                                                                        |

|                   |                                                        |                                                                                |
|-------------------|--------------------------------------------------------|--------------------------------------------------------------------------------|
| <b>March 2018</b> | <b>Regulator updates</b>                               | Update from DWI                                                                |
|                   |                                                        | Update from NRW                                                                |
|                   |                                                        |                                                                                |
|                   | <b>Strategic investment</b>                            | Progress update on strategic investment                                        |
|                   |                                                        | Overview and discussion about stakeholder event                                |
|                   |                                                        | Overview and discussion about proposed research on asset health and resilience |
|                   |                                                        |                                                                                |
|                   | <b>Wholesale – water service emerging plan</b>         | Line of sight between compendium – outcomes – performance commitments          |
|                   |                                                        |                                                                                |
|                   | <b>PC and ODI research</b>                             | Overview of research approach and coverage                                     |
|                   |                                                        | Discussion and challenge                                                       |
|                   |                                                        |                                                                                |
|                   | <b>Emerging retail plan and social tariff research</b> | Compendium updates                                                             |
|                   |                                                        | Social tariff research                                                         |
|                   |                                                        | Performance commitments                                                        |
|                   |                                                        |                                                                                |
| <b>April 2018</b> | <b>Regulator and CCW updates</b>                       | Update from DWI                                                                |
|                   |                                                        | Update from NRW                                                                |
|                   |                                                        | Update from CCW                                                                |
|                   | <b>Waste Wholesale Plan</b>                            | Progress and overview on waste wholes plan to date                             |
|                   |                                                        | Review and discussion on status of challenges and responses                    |
|                   |                                                        |                                                                                |
|                   | <b>May Submission Update</b>                           | Update on our timeline for the may submission                                  |
|                   |                                                        | Summary of the PC submission                                                   |
|                   |                                                        | Feedback on the cost adjustment submission                                     |
|                   |                                                        | Review of relevant challenges and company responses                            |
|                   |                                                        |                                                                                |
|                   | <b>Customer Research Update</b>                        | Verbal update on the research completed over last 2 weeks                      |
|                   |                                                        | Progress update on upcoming research.                                          |
|                   |                                                        |                                                                                |
| <b>May 2018</b>   | <b>Regulator and CCW updates</b>                       | Update from DWI                                                                |
|                   |                                                        |                                                                                |
|                   |                                                        | Findings of social tariff                                                      |

|                  |                                       |                                                                                                                  |
|------------------|---------------------------------------|------------------------------------------------------------------------------------------------------------------|
|                  | <b>Customer Research Update</b>       | Findings from Asset health and PC research                                                                       |
|                  |                                       | Proposal for acceptability and affordability research                                                            |
|                  |                                       | Proposal for how we are going to use this information to inform ODIs                                             |
|                  |                                       |                                                                                                                  |
|                  | <b>Performance commitment targets</b> | Basis of proposed target                                                                                         |
|                  |                                       | Proposed approach to incentives                                                                                  |
|                  |                                       | PC targets in context of plan                                                                                    |
|                  |                                       | Next steps                                                                                                       |
|                  |                                       |                                                                                                                  |
| <b>June 2018</b> | <b>Regulator and CCW updates</b>      | Update from DWI                                                                                                  |
|                  |                                       | Update from NRW                                                                                                  |
|                  |                                       | Update from CCW                                                                                                  |
|                  |                                       |                                                                                                                  |
|                  | <b>Customer Research Update</b>       | Initial findings from PC/ ODI research and AH and resilience                                                     |
|                  |                                       | Initial findings from social tariff research (presented on the day)                                              |
|                  |                                       | Update on acceptability survey based on CCG feedback                                                             |
|                  |                                       |                                                                                                                  |
|                  | <b>Performance commitment targets</b> | Basis of targets (for top 5 priority PCs) document circulated with slide pack                                    |
|                  |                                       | Take comments and challenge on the document                                                                      |
|                  |                                       |                                                                                                                  |
|                  | <b>ODIs</b>                           | Overview of principles                                                                                           |
|                  |                                       | For subset of PCs (interruptions, DWQ complaints, low pressure, internal sewer flooding and pollution incidents) |
|                  |                                       | Explain the targets, deadband, caps and collars                                                                  |
|                  |                                       | Set out the basis (triangulated info) to calculate the ODI rate                                                  |
|                  |                                       | Example scenarios                                                                                                |
|                  |                                       |                                                                                                                  |
|                  | <b>NHH price control</b>              | Set out the service offering and how it compares to rest of the industry                                         |
|                  |                                       | Update on PCs                                                                                                    |
|                  |                                       |                                                                                                                  |
|                  | <b>Completed actions</b>              | Take comments on the action responses included in the annex                                                      |
|                  |                                       |                                                                                                                  |
| <b>July 2018</b> |                                       | Update from DWI                                                                                                  |

|                    |                                        |                                                                                 |
|--------------------|----------------------------------------|---------------------------------------------------------------------------------|
|                    | <b>Regulator and CCW updates</b>       | Update from NRW                                                                 |
|                    |                                        | Update from CCW                                                                 |
|                    |                                        |                                                                                 |
|                    | <b>Update on 2017/18 performance</b>   | Summary of the key messages in the 17/18 APR                                    |
|                    |                                        | Look in detail at leakage                                                       |
|                    |                                        | Ofwat feedback from 16/17                                                       |
|                    |                                        |                                                                                 |
|                    | <b>Draft bill profile for 2020-25</b>  | Overview of the bill impact included in the acceptability research              |
|                    |                                        |                                                                                 |
|                    | <b>Assurance update</b>                | Overview of process                                                             |
|                    |                                        |                                                                                 |
|                    | <b>Customer engagement</b>             | Updated on acceptability testing                                                |
|                    |                                        | Review of actions and challenges                                                |
|                    |                                        | Performance commitments ranked by priority                                      |
|                    |                                        |                                                                                 |
|                    | <b>Performance commitments and ODI</b> | Discuss your feedback on the rationale document                                 |
|                    |                                        | Review of actions and challenges                                                |
|                    |                                        | Look in detail at affordability, supply interruptions, low pressure and leakage |
|                    |                                        | Overview and next steps for CMEX, DMEX, NHH experience                          |
|                    |                                        |                                                                                 |
|                    | <b>Cost Adjustment Claim updates</b>   | How research is shaping the plan                                                |
|                    |                                        | Update on claims –benefits, cost ranges and activity                            |
|                    |                                        | Update on bespoke performance commitments                                       |
|                    |                                        |                                                                                 |
| <b>August 2018</b> | <b>Regulator and CCW updates</b>       | Update from NRW                                                                 |
|                    |                                        | Update from CCW                                                                 |
|                    |                                        | Update from DWI                                                                 |
|                    |                                        |                                                                                 |
|                    | <b>CCG challenges</b>                  | Review of the unresolved areas                                                  |
|                    |                                        | Opportunity to review challenge log                                             |
|                    |                                        | Key challenges that have shaped the HD plan                                     |
|                    |                                        |                                                                                 |
|                    | <b>Ofwat Board Proforma</b>            | Overview of the key messages in plan                                            |
|                    |                                        | Update on bills                                                                 |
|                    |                                        | Supplementary detail on the building blocks in the plan                         |



|  |                                         |                                                           |
|--|-----------------------------------------|-----------------------------------------------------------|
|  |                                         | Opportunity for questions on the Ofwat Board proforma     |
|  |                                         |                                                           |
|  | <b>Plan acceptability results</b>       | Research findings                                         |
|  |                                         | Next steps                                                |
|  |                                         |                                                           |
|  | <b>Final PC targets and any changes</b> | Update on final PC targets and explanation of any changes |
|  |                                         | Opportunity for questions on rationale document           |
|  |                                         |                                                           |
|  | <b>ODI rates</b>                        | Update on ODI rates                                       |
|  |                                         | Overview of ODI scenarios and potential bill impacts      |
|  |                                         |                                                           |
|  | <b>Cost adjustment claims</b>           | Opportunity for questions on business cases               |
|  |                                         |                                                           |
|  | <b>Assurance update</b>                 | Feedback from our external assurance provider             |

# Appendix C:

## Hafren Dyfrdwy Customer Challenge Group – Overview of contribution to the Research Projects

| Research project                 | Fieldwork                    | Pre fieldwork engagement                                                                                                                                                                                                                                                                                                                                                                                                                                | Observed fieldwork                         | Results                                                                                                                                                                                                                 |
|----------------------------------|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>NAV research</b>              | April to May 2017            | 18th May 17 - S attended meeting with BC and LM, discussed design of the project and made some suggestions on improvements particularly for the NHH stage                                                                                                                                                                                                                                                                                               |                                            | Representatives from CCWater Wales and England attended the debrief on 22nd June (Bernard Crump, Tom Taylor, Lia)                                                                                                       |
| <b>Willingness to pay survey</b> | October 2017 to January 2018 | Conference call (6 July 2017) on WTP approach, sample, wider customer insight plan<br>Conference call (3rd August)<br>Discussion at the September CCG meeting<br>Questionnaire circulated to CCG 14th Sep<br>Comments from AJD on 15th Sept<br>Translation shared with AJD on 2nd October<br>Comments from AJD on 2nd and 3rd October and revisions made to translation<br>Feedback from pilot November 1st CCG pack (conference call had been offered) | Audio recordings of interviews sent to AJD | Results presented as part of customer compendium and discussion on ODIs.<br><br>CCG concerned with use of WtP to set ODI rates. This had not been an explicit purpose for the WtP when it was conducted with customers. |

| Research project                                                       | Fieldwork                | Pre fieldwork engagement                                                                                                                                                                                                                                                                                             | Observed fieldwork                                                                                                              | Results                                                                                                                                                |
|------------------------------------------------------------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Customer needs deliberative research and depths and co-creation</b> | October to December 2017 | Approach, objectives presented to the CCG in September meeting pack                                                                                                                                                                                                                                                  | Paul Roberts (Wrexham workshop), Angela Davies-Jones (Newtown workshop)<br>CCG invited to co-creation but no one able to attend | Summary of findings in the November CCG pack including feedback from Angela and Paul                                                                   |
| <b>Customer satisfaction tracker</b>                                   | Jan to Feb 2018          | This is the regular tracker set up by Dee Valley, limited questionnaire changes were made for wave 2                                                                                                                                                                                                                 | n/a                                                                                                                             | Lia attended the debrief of wave 4 (via conference call, 14th March)<br>Summary of presentation sent to CCG and brief summary included in April pack   |
| <b>Helping customers who struggle research and co-creation</b>         | October to December 2017 | Objectives shared in September 17 meeting pack<br>Objectives shared 1st November 17 CCG pack<br>Survey sent to Andy White (CCWater social tariffs expert)                                                                                                                                                            | CCG invited to co-creation but no one was able to attend                                                                        | Summary of results in November CCG pack and some results included in CCG pack (January 2018 in the retail plan section) and in the customer compendium |
| <b>Social tariff cross subsidy</b>                                     | May-18                   | Slides on approach circulated to CCG 5th March<br>Conference call - Survey discussed with CCWater (Andy White and Lia) on 15th March, questionnaire circulated in advance<br>Post call update was sent to Clare on 15th March<br>Revised questionnaire sent to full CCG on 21st March - no further comments received | n/a                                                                                                                             | Presented at meeting at June meeting by DJS and full report circulated afterwards                                                                      |

| Research project                                       | Fieldwork          | Pre fieldwork engagement                                                                                                                                                                                                                                                                              | Observed fieldwork                     | Results                                                                                                                                       |
|--------------------------------------------------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Asset health and resilience</b>                     | Apr-18             | Discussion guide and workshop slides shared 28th March<br>Comments from CCWater (Liz Cotton) on 29th March<br>DJS presented the approach at April meeting and CCG feedback was incorporated into the materials before fieldwork started                                                               | Clare Evans (Newtown workshop)         | Circulated to CCG prior to June meeting and presented at meeting in June by DJS                                                               |
| <b>PCs, investment choices and incentives research</b> | April and May 2018 | Update sent on 19th March including discussion guide for comment (for qualitative research)<br>Stimulus for qualitative research shared 21st March<br>Questionnaire shared 28th March<br>Comments from CCWater (Liz Cotton) on 29th March                                                             | Angela Davies-Jones (Newtown workshop) | Circulated to CCG prior to June meeting and presented at meeting in June by DJS - concerns at cognitive overload and use of WtP               |
| <b>Acceptability research (wave 1)</b>                 | Jun-18             | Initial draft questionnaire circulated for May 23rd meeting<br>Initial comments from CCWater 29th May<br>Further discussion at June CCG meeting<br>Response to CCWater guidance circulated 14th June<br>Revised questionnaire circulated 18th June<br>Conference call with Clare and Lia on 18th June | n/a                                    | Results included and discussed at August CCG meeting.<br><br>Concern at proposed relatively high increase in bills (particularly waste water) |
| <b>Acceptability research (wave 2)</b>                 | Aug-18             | Initial wave 1 results, proposal to do wave 2 and questionnaire circulated on 2nd August                                                                                                                                                                                                              | n/a                                    | CCG unhappy with proposal to re-test Powys customer only.<br>CCG Challenge to ensure acceptability is re-tested in both Powys and Wrexham.    |



# Appendix D: Board Assurance



On behalf of the Hafren Dyfrdwy Board I can confirm that:

- The Board have discussed at length and agreed a **revised bill profile** which will result in a **2.2% increase** in the average combined water and wastewater bill, remaining by far the lowest bills in Wales. This equates to a 2024/25 average combined bill of £299, and water only bill of £173, in real terms (17/18 prices); and a 2024/25 average combined bill of £337, and water only bill of £196, in nominal terms. We have listened carefully to the CCG's concerns, and to our customers in Mid Wales, and revised our proposals as a result of that. I am delighted that 81% of customers in Mid Wales now find our plan acceptable
- We have responded to the CCG, customers and stakeholders feedback and as a result we are now committing to a **15% leakage reduction** in the next five years. You have given us robust challenge on our future performance targets and the stretching targets we have set ourselves we believe, will put us in the top quarter of the industry across 65% of the comparable performance commitments.
- The plan **satisfies the statutory obligations** we have. The assurance framework we presented to the CCG gives us confidence that we have created a high quality business plan that our customers can trust, demonstrating how our Board has challenged and engaged every step of the way. Our third party assurance providers, including Black and Veatch, have provided assurance to the Board on aspects of our business plan, cost adjustments and performance commitments. The Black and Veatch report provided to the Board today confirmed that its assurance supports the Board signing its assurance statement to Ofwat.

As we finalise our submission to Ofwat, I'd like to thank you and the other members of the CCG for their robust challenge over the past 18 months. It's clear in our plan how this has made a significant contribution and delivered a better outcome for our customers.

**Liv Garfield**  
Chief Executive

**31 August 2018**



**Severn Trent Plc, Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ**  
**For SAT-NAV location, use post code CV1 2LU**



# Appendix E: DWI Statement

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## PR19 Drinking Water Inspectorate statement for Dee Valley Water Customer Challenge Group report to Ofwat

### 1 Introduction

- 1.1 The Drinking Water Inspectorate (DWI) is the independent regulator of drinking water quality in England and Wales. We protect public health and maintain confidence in public water supplies by ensuring water companies supply safe clean drinking water that is wholesome, and that they meet all related statutory requirements. Where standards or other requirements are not met, we have statutory powers to require water supply arrangements to be improved.
- 1.2 We publish information about drinking water quality and provide technical advice to the Secretary of State for the Environment, Food & Rural Affairs, and to Welsh Ministers.
- 1.3 For PR19, water companies are expected to ensure that their business plans make provision to meet all their statutory obligations, including the need for public water supplies to be safe, clean and wholesome, and that provision is made for a sustainable level of asset maintenance to maintain public confidence in drinking water quality in the long-term. Ministers summarised these requirements in “The government’s strategic priorities and objectives for Ofwat<sup>1</sup> (Sept 2017)”.
- 1.4 In addition, the Inspectorate set out in our “Guidance Note: Long term planning for the quality of drinking water supplies (September 2017)”<sup>2</sup>. This includes guidance to companies on the regulatory framework for drinking water quality, statutory requirements, the Inspectorate’s role in the Price Review process and our requirements for companies seeking technical support.
- 1.5 It is worth noting the particular emphasis that Ministers placed in their Guidance on the resilience of supply systems, and that the Inspectorate placed on existing duties to manage the introduction of new sources and to plan supply arrangements to protect consumers and ensure no deterioration in the quality of their supplies.

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<sup>1</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/661803/sps-Ofwat-2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/661803/sps-Ofwat-2017.pdf)

<sup>2</sup> <http://www.dwi.gov.uk/stakeholders/guidance-and-codes-of-practice/ltpg.pdf>

- 1.6 The Inspectorate have supported the Company's CCG process throughout the PR19 process being available to discuss any matters relating to drinking water quality.

## 2 Formal drinking water proposals requiring DWI technical support

- 2.1 As with previous periodic reviews, water companies seeking technical support from the Inspectorate must demonstrate the need for each proposal. The case for justification must be accompanied by evidence of the company's options appraisal process to identify the most robust, sustainable and cost-effective solution, with evidence that the preferred solution will adequately address the risk and deliver the required outcome within an appropriate timescale.
- 2.2 Dee Valley Water submitted no formal proposals for drinking water quality to the Inspectorate.
- 2.3 This note will be copied to Dr James Jesic of Severn Trent Water. Any queries arising should be directed to Sue Pennison, Principal Inspector, Drinking Water Inspectorate, at [Sue.Pennison@defra.gsi.gov.uk](mailto:Sue.Pennison@defra.gsi.gov.uk).



Milo Purcell

**Deputy Chief Inspector**  
**Drinking Water Inspectorate**  
Area 1A Nobel House, 17  
Smith Square London  
SW1P 3JR

2 July 2018

# Appendix F: NRW Key Issues

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## **Natural Resources Wales Key Issues Paper: Hafren Dyfrdwy (HD) PR19 business plan**

### **Introduction**

As the principal environmental regulator in Wales, our purpose is both to pursue sustainable management of natural resources (SMNR) in relation to Wales, and apply the principles of SMNR; in the exercise of our functions. The Well-being of Future Generations (Wales) Act 2015 also places a duty on NRW to apply the principle of sustainable development in our work.

Water is a very valuable natural resource. Present and future generations have a strong interest in ensuring that water is managed sustainably to enable healthy lives and high-value economic activities.

Our work includes championing sustainable management of natural resources through our role on the DCWW and Hafren Dyfrdwy CCGs; along with collaborating with companies to develop a costed National Environment Programme (NEP) to meet statutory obligations and national policy priorities across their operations, including water resources, water quality and their section 6 biodiversity and ecosystem resilience duty. We are also a statutory consultee and advisor to the Welsh Government on water company water resources management plans (WRMPs).

### **Sustainable Management of Natural Resources**

We are pleased that Hafren Dyfrdwy have been proactive in engaging stakeholders in the development of their business plan, including workshops focussed on Water Resources Management Plans, biodiversity and lead pipes.

We welcome HD's commitment to deliver its Section 6 Biodiversity Duty and are supportive of their proposals to deliver biodiversity improvements on their estate by working with local wildlife and conservation organisations, as well as making investments to support local tourism and business opportunities.

### **Statutory obligations: National Environment Programme**

We have worked collaboratively with HD to develop a National Environment Programme to meet their statutory obligations and national policy priorities. We are reassured with the company's ambition to deliver all their requirements in AMP7.

### **Measures of success and targets - leakage**

We expect water companies to aim to meet Ofwat's challenge of reducing leakage by 15% by 2025, by taking a company-wide approach across all zones, and to explore the use of innovative approaches to achieve leakage reductions.

### **Water Resources Management Plans**

In the autumn we will advise the Welsh Government on the Statement of Response that sets out how companies have dealt with the representations received on their draft WRMPs.

# **Appendix G: CCWater Opinion**

31 August 2018

Dear Clare

**CCWater's opinion on Hafren Dyfrdwy's customer challenge and engagement process**

This letter summarises some of the views and challenges of the Consumer Council for Water (CCWater) during Hafren Dyfrdwy's (previously Dee Valley's) Price Review 2019 (PR19) 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 the longer term context.

CCWater is represented on Hafren Dyfrdwy's CCG by Angela Davies Jones, 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 customer challenge group, 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 CCWater's key objectives and expectations on behalf of the consumers it represents.

As well as participating in all customer challenge group and other PR19 meetings, CCWater 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](#)
- CCWater's PR19 objectives
- CCWater's expectations on Outcome Delivery Incentive (ODI) Research
- CCWater's expectations on Business Plan Acceptability Research

We are pleased that:

- The company retained a separate CCG for Dee Valley (eventually Hafren Dyfrdwy) committing to a separate business plan for the company it took over and areas covered by Ofwat's license variation decision.
- Despite the limited time and delays presented by the takeover and license variation, the customer challenge process eventually adapted to the tight framework. It has not been an easy journey and challenging discussions have taken place. Together with the customer challenge process, our bilateral engagement has helped move this process closer to the point it should be at the time of the business plan submission. We identify ways in which this could be improved in the final 'lessons learnt' section of this letter.
- The company responded to our challenge to incorporate the Powys area in its considerations and customer engagement throughout the PR19 process. At an early stage we were all vocal about the company needing to develop its understanding of customer views, operational issues and on-going customer feedback within that area in order to provide us a baseline for the development of a Wales-only business plan. This was important to us as the company was planning to apply for a license variation including Powys in the smaller company's operations. Understanding issues to be addressed in Powys was as essential a step in preparing for the licence variation process as it was for PR19 and the drafting of a business plan.



- The company proposed increases in its social tariff numbers. We would have liked its aspirations to have been framed by a developed affordability and vulnerability strategy within which these tariffs will operate.
- The company responded positively to our suggestion to include a Non-Household (NHH) Customer Experience measure as part of its Performance Measures package. 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. We support collaboration between the two companies operating wholly or mainly in Wales on joint a survey.

We have seen a positive response to some of our essential challenges but remain unsure whether it goes far enough to protect the interests of their customers:

- The company responded to our challenge on the unexpected increase of bills by 2025 presented to us in July 2018. On 29 August 2018 the company confirmed a business plan translating to a 2.2% increase in charges in real terms (a reduction from the 6% increase presented in July 2018). However, when inflation is added the company is presenting a 15.2% increase to the average bill by 2025, a figure similar to that presented in July 2018 (16% increase). This increase translates to a £44 impact on average bills between 2020 and 2025. Our view remains that impacts on customer charges should be contained in both geographical areas covered by the company (Wrexham and Powys) at no detriment to the improvement of their services. As there is no evidence of customer acceptability on the revised bill profile we cannot assess customer response to this increase.
- The company accepted the 15% leakage reduction challenge in response to our CCG and bilateral meetings. We are pleased to see this response as CCWater's challenge was based on evidence of an increasing trend on leakage for Dee Valley in the past few years presented in our annual performance report together with a 14% increase in the company's leakage in 2016/17. This trend was confirmed by the company's reviewed PR14 revised leakage ODI performance data presented to CCWater in August 2018 and in the company's Performance Commitment target setting rationale document presented to the CCG. Given that leakage is highly emotive topic for customers and a top priority for the company to address in the analysis of its customer engagement, we think the company's acceptance of a minimum 15% leakage reduction is the right move. A comparative examination of aspirations across the industry will inform any further CCWater representations on whether this reduction is meaningful enough.

### **Bill Profile**

We are pleased that the company responded to our challenge by reducing the bill impact in real terms from 6% to 2.2%. However when inflation is added the proposed bill increase rises to 15.2% and remains of concern to us. In this section we want to outline the fluctuation of bill profiles presented to us in summer 2018. At our meetings with the company in July and August 2018 a bill increase of over 16% (including inflation and 6% in real terms) was proposed<sup>1</sup>. On 2 August 2018 we met with the company and the Welsh Government to state our view that such impact on customers was contradictory to previous commitments made by the company at our March 2018 meeting in public, as well as various CCGs<sup>2</sup>. In response to our challenge the company presented a revised bill profile moderating the impact on customer bills to £7, a 2.5% increase in real terms, at the 15 August CCG. On 29 August the company presented a further revised profile noting a 2.2% increase in real terms, the figures of its bill having been corrected through an assurance process. When inflation is added we note that the impact on bills is close to the levels of the profiles presented to us in July 2018 (15.2% increase including inflation). Our view remains that impacts on customer charges should be contained in both geographical areas covered by the company (Wrexham and Powys) at no detriment to the improvement of their services. The impact of inflation on bills should be taken into account in assessing this impact and we would expect any revised customer research to have presented bill profiles to customers which include inflation when gauging their response.

### **Capping rewards**

<sup>1</sup> Figures presented at 10.07.18 CCG meeting increase from £280 to £326 including CPIH, and £17 increase in real terms (6%).

<sup>2</sup> A reference of dates from CCG meetings where this commitment was made is available on request.

We were clear in our challenge that rewards should be capped to contain the potential impact of outperformance on bills. At the August 2018 CCG the company stated it would not cap its rewards but that the expected impact of potential outperformance on bills would be £1 for each customer per year. We are disappointed that no cap on rewards was introduced. We would like to see the company commit to returning any outperformance payments achieved above this level back to customers.

### **Customer engagement and influence on plan**

After Dee Valley's takeover the CCG reconvened in May 2017 following a four month gap. The hard work of company staff, our team and the CCG was required to fit in most of the essential PR19 engagement within a year. It is important to acknowledge the effort invested to this process by everyone, company representatives and CCG members alike.

Our high level views on customer engagement and research are:

- **Acceptability research:** Our main concern in relation to customer engagement is that no acceptability testing has taken place for the revised bill profile presented to the CCG on 15 August 2018 and revised on 29 August 2018. We are also concerned that on 15 August the company was not planning to repeat acceptability research for the revised bill profile in Wrexham but had planned a Powys survey driven by the low acceptability results of the previous survey<sup>3</sup>. We are concerned that the draft business plan will be submitted to the economic regulator without evidence of customers' views on the revised charges and, most importantly, that no revised engagement is planned for the Wrexham area.
- CCWater shared its acceptability research expectations with the company early on in the process. For the acceptability research which already took place, the company did not include inflation in seeking uninformed views of customers. We would expect the company to follow our good practice guidance in any acceptability research repeated noting inflation at both informed and uninformed stages of its engagement. We are aware that Severn Trent (using the same researcher) asked an uninformed with inflation question to its England only customers - so we don't understand why the same approach was not used in Hafren's area.
- We note that the weighted average acceptability finding on the previous profiles was just over 80% for uninformed household customers and 70% for non-household customers. However, as different bill profiles were presented to the customers of Wrexham and Powys (without and with wastewater charges), we note that the Powys acceptability results were significantly lower. Acceptability in Powys significantly decreased after more information was presented on the bill (65% uninformed acceptability in Powys v. 87% uninformed acceptability in Wrexham dropping to 51% informed acceptability in Powys whilst staying at similar levels for Wrexham).
- **A golden thread and systematic triangulation:** the development of a customer led plan was based on the analysis of evidence through a systematic and methodical framework summarised in the company's research compendium. The company responded positively to our challenges to improve the compendium by integrating customer contact data in their analysis and CCWater customer research. In reading this compendium we were able to see how the company considered the need of customers segments such as vulnerable customers, non-household and future customers.
- **Willingness to Pay (WtP) research:** We shared CCWater's guidance on WtP research with the company for response. We did not receive a detailed response to those recommendations but were assured that our guidance was taken on board. We asked the company not to use WtP valuations to define PC targets.
- **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.

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<sup>3</sup> Lower acceptability figures were observed in Powys areas, which further reduced in the informed part of the survey. probably driven by the inclusion of inflation which gave a more accurate picture of the likely bill to be received by 2025

- **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.

Overall the company agreed to follow most of our recommendations. Unfortunately due to time constraints the company was unable to conduct quantitative research which discussed each PC proposed including the triggers of rewards for each performance measure. We would have liked more quantitative data on ODIs to frame the decisions made by the company in its business plan.

### 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 would like to note our views on some performance commitments which we think merit attention because of the priority customers attach to them:

- **Water Supply interruptions:** PR19 customer research evidences that reducing water supply interruptions is a priority for customers in the company's area. At the CCG we challenged the company to
  - Prioritise the elimination of 12 hours or longer interruptions of water supply. We remain unclear on the company's response on this.
  - Present ambitious targets on water supply interruptions which reflect the good performance of Dee Valley Water. It was explained to us that the target presented by the company was informed by performance on water supply interruptions in the Powys area (higher level of interruptions).
- **Leakage:** We noted our challenge on leakage and the company's response at the beginning of this letter. We note the company's improved response and are very interested in the regulator's view on whether this challenge goes far enough to help improve performance on leakage. As noted by the company's revised data submission Dee Valley had wrongly reported to Ofwat that they had met their leakage target in the past three years so it is important to review performance in this light. However, the data reported to CCWater for our annual industry performance report noted that increase accurately in 2016/17<sup>4</sup>.
- **Customer acceptability of water quality:** CCWater has an understanding of high levels of customer contact on water quality being an ongoing issue in Wales - the level of customer contact in Wales on taste, colour and smell of water is significantly higher than England. The challenging targets at PR14 seemed successfully mobilise improvements in performance, particularly in reducing discolouration which was an issue in Dee Valley's area. CCWater's understanding of the Drinking Water Inspectorate's expectations on this metric is that the target could be more challenging to improve performance in AMP7, but they accept the company has demonstrated sufficient strategic ambition in the long term, and how it can further improve performance in the next AMPs. We consider these on-going high levels of customer contact important evidence demonstrating water quality has remained a key concern over a long period of time - it therefore merits the company's serious attention.
- **Sewer flooding and other wastewater service performance targets:** As the status of the company changed from water only (WoC) to water and sewerage company (WosC) during this customer challenge process, we were all faced with the challenge of identifying the right level of performance

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<sup>4</sup> CCWater (2017) 'Water Water Everywhere' – annual industry comparative performance report on water services, <https://www.cewater.org.uk/wp-content/uploads/2017/12/Water-water-everywhere-Delivering-a-resilient-water-system-2016-17.pdf>

targets against a performance baseline we wanted the company to identify. Sewer flooding avoidance was marked as very important by customers in the company's PR19 engagement, and most of the other wastewater service targets were also marked as important. We have been given assurance by the company that their targets on sewer flooding are ambitious enough to retain upper quartile performance and to maintain stable/improved services for customers in Powys. We would like to however note that our understanding on wastewater services performance within the revised company boundaries is limited - we discussed wastewater service baselines at the latter stages of the CCG process. We would like to ensure that we develop our understanding further in monitoring the various performance commitments in close collaboration with the company through our liaison meetings.

### **Legacy Alternative and ODI outperformance**

Whilst strictly speaking this may not be considered a PR19 issue by the company we would like to note our challenge to them at bilateral meetings and the CCG. From the outset of this process and throughout the transition of company ownership, CCWater has been consistent in asking for transparency and consultation on how savings made through the change in the Legacy ODI will benefit customers.

During the course of such discussions and as part of the then company's (Dee Valley) desire to secure the CCG's support for the revised scheme, assurances were given that the company would share out-performance savings with customers. Dee Valley made a promise to refer back to the CCG for discussion upon the mechanism for return towards the end of 2017 (with the completion date for the scheme estimated to be around March 2018), prior to a referral being made to Ofwat. Regrettably, no such discussion took place, with the company (HD) deciding to expend the savings on a new IT/billing system.

Whilst we understand the regulatory parameters defining that only a percentage of the savings (outperformance) would be shared with customers we are very disappointed that:

- The new ownership did not honour the previous management's commitments to consider how full benefits would be returned to customers in consultation to the CCG, as promised. We believe this was at the company's discretion.
- Instead of using these rewards in the 'truing up' process to benefit customers, the savings have already been used for IT improvements - costs which we would have expected the company to factor in its transition/license variation 'budget' anyway. Despite our ongoing challenges this decision was made without discussion with CCWater and the CCG, and we don't feel the best interests of customers were taken into account.

Such lack of communication is disappointing in that it constitutes a breach of the verbal assurances given and calls into question the *raison d'être* of the CCG process.

### **Other issues**

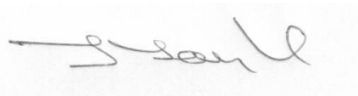
- **Board assurance:** We would like to note that no board assurance on the plan proposals was presented to the CCG at the time this letter was written. We acknowledge that the company employed external assurance processes but we did not have any engagement with Hafren Dyfrdwy/Severn Trent Board non-executive members in this customer challenge process.
- **Long term vision:** Whilst we have noted that some performance commitment aspirations for this period were framed by strategic targets for improvement in the long-term (e.g. customer acceptability), we wanted to note that no long-term vision and strategy framed the development of this plan.
- **Special cost factors:** CCWater also challenged on the company's special cost factors (or cost exclusions) asking for evidence that these proposals are supported by customers and can help deliver demonstrable benefits to them. One of our key challenges on the proposals related to whether some

of the regulatory drivers justified the inclusion of some schemes on this list. We are pleased to see that Welsh Language plan costs were removed from the list. The company summarised customer views against each one of their special cost factor submissions demonstrating they considered how their assessment sits alongside customer views gathered in the PR19 process. We are keen to see the regulator's response to the proposed special costs.

- **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:
  - The timely commencement of discussions is essential to an effective customer challenge process that truly engages all members. We think the delay in Severn Trent's continuing support of a separate CCG for the company was unnecessary.
  - Challenges such as the ones relating to customer segmentation and customer research sample representativeness of the company's area should have been taken on board earlier on. Whilst we acknowledge budgetary constraints it would have been impossible to build an evidence base without understanding the views of the new company customer profile and the issues relating to their area. A quicker acceptance of the challenge could have sped up the research programme which was considerably late for this company.
  - We really value the private sessions introduced to CCG meetings at the latter part of the process. 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.
  - The sharing of large volumes of data, just a couple of days before CCG meetings has been an obstacle to effective challenge throughout the CCG process. We requested that additional time to help us make better informed representations and challenges was given and that our additional challenges following CCG meetings were recorded. Without this additional time to consider often contradictory information no CCG member could have been able to deliver their challenge role effectively. This must be addressed 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](mailto:tom.taylor@ccwater.org.uk), [lia.moutselou@ccwater.org.uk](mailto:lia.moutselou@ccwater.org.uk)).

Sincerely



Tom Taylor FCCA FCPFA FCMI FloD FHFMA

CCWater Wales Committee Chair

[tom.taylor@ccwater.org.uk](mailto:tom.taylor@ccwater.org.uk)

07811282686



# Appendix H: Challenge Log

| Theme                       | Date Raised | Number | Severn Trent Owner | Consolidated challenge                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Ref to Ofwat guidance (ToR, Aide Memoire and Final methodology)                                                                                                                                                                                                                                                                                                | Company response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------|-------------|--------|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Customer insights/ research | 24/05/2017  | C-01   | Heather Thompson   | Is the company being sufficiently innovative and effective at engaging hard to reach customers? Including:<br>-utilising the most appropriate techniques?<br>- learning from leaders in customer insights or best practice?                                                                                                                                                                                                                                                                                                                                                                                                                            | ToR and Methodology section 1.4, 2.1, 2.3, 2.4, section 3 (appendix 14)<br><br>Aide Memoire - Table 2<br>Point 2 Customer engagement<br>Point 3 Engagement with business retailers<br>Point 7a ODIs<br>Point 9 Resilience planning principles<br>Point 10 Securing cost efficiency - need to invest<br>Point 14 The initial assessment of business plans (IAP) | We have targeted rural communities in Wales, and in particular those in which the Welsh language is more prevalent.<br>Our quant research has used either face to face or telephone methods meaning that no digitally disenfranchised customers are prevented from taking part.<br>As part of our "helping customers who struggle" research we used the index of multiple deprivation to target areas in which our target audience might be living.<br>We have made all our quant research available in the Welsh language.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 24/05/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 24/05/2017  | C-02   | Heather Thompson   | Has the company applied the principles of good engagement, specifically:<br>- ensuring sample sizes are appropriate?<br>- ensuring a representative range of customer demographics have been included in the research (specific challenge was made about whether a sufficient number of younger customers were present at the Wrexham deliberative event)<br>- ensuring that engagement is equal and balanced between Powys and Wrexham (specifically the CCG challenged that to date STW has not satisfactorily engaged with stakeholders on the water resources aspects of the plan in Powys).<br>- ensuring sufficient coverage of minority groups. |                                                                                                                                                                                                                                                                                                                                                                | We have made sure that our quant sample sizes are appropriate (and proportionate to the size of the company's customer base)<br>Our qual research recruited a broadly representative audience, and we have shared the profile of the audience who came to our customer needs workshops with the CCG (following their challenge)<br>Engagement has been balanced overall between Powys and Wrexham regions (albeit there may be some small logistical differences between the two regions)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 27/06/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 23/05/2018  |        |                    | The company were challenged to ensure the acceptability research is representative of its customer base                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                | We will set quotas to ensure that the sample is representative of our customer base, including socio-economic group, age, gender and metered / unmetered, and weight the data if necessary.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 12/04/2018  |        |                    | The Chair challenged that STW would need to go back and carry out separate ODI research to understand the values and priorities for customers for an enhanced plan.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                | We have talked to customers about ODIs through our research (PCs, ODIs and investment choices), both in our qualitative workshops (to understand their views on the concept) and in the quantitative research.<br>Within the quantitative research we asked customer both about the concept (in the context of a £8 bill impact on the combined bill / £4 on a single service bill). We also asked customers which performance areas would they prioritise for outperformance (in the context of going beyond the base plan targets that they had seen and the company earning an outperformance payment for doing so).<br>In the acceptability research we presented customers with the ODI range (on the 2025 bill in nominal terms) and asked whether this is acceptable. We also told them about a likely scenario, in which the company earns an outperformance payment in some areas of service, and a penalty in others and whether that was acceptable.<br>We have not specifically asked customers about an "enhanced plan" because our base plan has stretching performance targets to deliver the improvements customers want and our plan is to deliver these. |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 13/06/2018  |        |                    | The Chair challenged the company to explain how it is possible to gauge acceptability when customers were only presented with one option. The Chair revisited the previous challenge around no choice in the acceptability research and challenged that without conversation there is no robustness for acceptability as no choice for anything else.                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                | In designing our research we took into account the Ofwat methodology, and in particular the fact that "stretching performance commitment levels will not cost customers more money in itself". We presented customers will an explanation of each performance commitment, comparative information, current and future performance. We explored their views on these proposed targets in both qualitative research and also in our face to face survey. We clarified to customers that they would not be paying more through their bill for this level of performance. Customers had the option of finding the commitment not acceptable (and we probed the reasons why) and also not expressing an opinion.<br>Our leakage target was changed as a result of stakeholder, and customer feedback.                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 24/05/2017  | C-03   | Heather Thompson   | Has the company taken all practical steps to ensure that research is available in the medium of Welsh for those that want it and that all translations are of a high quality, being sensitive to variations in regional dialects? Specifically the initial proposed WTP survey was not available in Welsh.                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                | Aide memoire<br>Table 2<br>Point 2 Customer Engagement<br>Point 3 Engagement with business retailers<br>Point 14 The initial assessment of business plans (IAP)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | The WTP survey (our first research project) has been translated into Welsh and we shared the draft with the CCG for comments. A member of the CCG commended the translation and noted that it was appropriate bearing in mind the range of dialects in the region.<br>It was noted that only 2 customers opted to take part in Welsh, despite specifically changing our sampling approach following CCG challenge and targeting Welsh speaking communities (in fact the two customers that opted to take it in Welsh did not live in these villages). We also used bilingual interviewers throughout the WTP research, and asked them to greet customers in Welsh and make sure the Welsh option was proactively offered.<br>All subsequent quant research has been made available in the Welsh language. |
|                             | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 13/09/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 27/06/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                             | 23/05/2018  | C-04   | Heather Thompson   | To what extent has the company reviewed and sought to understand differences in the WTP results between its and the neighbouring companies results.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                | Aide memoire<br>Table 2<br>Point 4 Affordability<br>Point 5 Vulnerability<br>Point 12 Bill Profiles                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | We have participated in an industry wide comparison project to obtain (anonymous) valuations for other companies. Given the relative size of HD compared to other companies comparing WTP values is not straightforward. We have also in our valuation triangulation exercise compared the WTP values to PR14 valuations for Dee Valley and carried out high level checks compared to other company results.                                                                                                                                                                                                                                                                                                                                                                                              |
|                             |             |        |                    | CCWater and the chair challenged that the willingness to pay research should not be used to inform ODI rates.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                | Aide memoire<br>Tables 2<br>Point 4 Affordability<br>Point 5 Vulnerability<br>Point 12 Bill Profiles                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | We have followed the Ofwat methodology which references WTP data as part of a rich evidence base being used to set ODI rates.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

| Theme | Date Raised | Number | Severn Trent Owner | Consolidated challenge                                                                                                                                                                                                                                                                                                                                                                                                                                         | Ref to Ofwat guidance (ToR, Aide Memoire and Final methodology)                                                                                 | Company response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------|-------------|--------|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|       | 20/07/2017  | C-05   | Heather Thompson   | Can the company demonstrate that they are asking the right questions and providing sufficient context about current performance to allow customers to make informed comments? Specifically where there are significant differences in the levels of service provided in one area compared to another, how are the differing views being captured.                                                                                                              | ToR and methodology section 3.2 (& appendix 14)<br><br>Aide memoire<br>Table 2: Point 13a Accounting for past delivery                          | Customers are often unaware of current service levels for their company, as well as how their company compares to others.<br>In the WTP survey, and in particular for Powys, we used data for Powys, not the whole Severn Trent company region and the service attributes included were bespoke for the Powys survey (i.e not the same as those presented in England WTP) - for example we did not ask about drought resilience in Powys following the CCG challenge that this was not relevant for the audience in Wales. We also where possible included reference to comparative information (based on consistent definitions and industry data from CCWater) so customers could see how we compare.<br>In the research on PC targets we also highlighted to customers where there are differences in performance between Powys and Wrexham, and included comparative information so they could make informed decisions on the proposed targets.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|       | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       | 13/09/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       | 20/07/2017  | C-06   | Heather Thompson   | Is the company doing enough to understand the views of business (NHH) customers? Especially given the change that Powys NHH customers will see as they exit from Retail competition.                                                                                                                                                                                                                                                                           | Aide Memoire - Table 2<br>Point 3 Engagement with business retailers                                                                            | We are doing this proportionately within our research programme and in particular as part of the workshops with NHH customers we have done in 2018 as part of the asset health and resilience project, and PCs, ODIs, and investment choices. We have also captured the views of NHH in the WTP and PCs and ODIs research (on wholesale services), and customer tracker. We have also reviewed previous research, e.g. the NAV project, CCWater research on the NAV and other sources of insight in order to inform our NHH plan. We have also benchmarked the services we offer compared to retailers in the open market and DCWW.<br>We have explored in our research how customers in Powys feel about no longer being eligible for competition, and will continue to do this through our tracker.<br>We have talked to Welsh Water about how we monitor NHH customers going forward, and developed a bespoke PC to track their satisfaction with services.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|       | 23/01/2018  | C-17   | Heather Thompson   | Has the company provided the evidence that customers support ODIs and reminded the company that separate ODI research was expected                                                                                                                                                                                                                                                                                                                             | Aide Memoire<br>Table 2<br>Point 7a Consulting customers on ODIs                                                                                | Following analysis of the results of the PCs, ODIs and investment choices research, and discussion with the CCG over the likely bill impact of ODIs we have agreed not to carry out separate research. In the design of ODIs we are following the Ofwat methodology and have not discussed finer elements of ODI design with customers.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|       | 15/08/2018  | C-34   | Heather Thompson   | The CCG challenged why the acceptability research is not being repeated in Wrexham where the bill increase has also changed (from 1% to 2.5%), especially given the previous discussions on treating the regions equally                                                                                                                                                                                                                                       | Aide Memoire - Table 2<br>Point 2 Customer engagement                                                                                           | We have not repeated the acceptability research in Wrexham for a number of reasons:<br>1) acceptability results for a 1% increase over the AMP were positive, with 86% finding the plan acceptable. We anticipate that a majority of customers would find the 2.5% increase acceptable.<br>2) there was not sufficient time between submission and the confirmation of the bill profile to commission research in both regions, across the full customer base.<br>3) the plan for Wrexham will not be changed off the back of any new results, so this did not feel like a proportionate use of customers' money<br>4) we have been treating the regions equally in the design of our research - this isn't a new project, just a quick re-run of a part of the original research, so we do not feel we need to do this again in Wrexham just to "treat" customers equally.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|       |             |        |                    | CCWater challenged the company to explain how they were taking into account the acceptability results (in the round) and provide a paragraph for the CCG report                                                                                                                                                                                                                                                                                                |                                                                                                                                                 | We are aware that the bill profile in Wrexham has changed following the initial round of research, in which 86% of customers found the proposal acceptable. We know that we cannot attribute this result with the validity we would have liked, and we will be transparent about this with Ofwat. We are analysing the results of the Gabor Grainger part of the survey to see if we can use these to provide confidence that a majority of customers would still be happy with the revised proposal.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|       |             | C-41   |                    | Have the company ensured engagement material was specific to the bill and performance in each region?                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                 | We have ensured that engagement material was specific to each region, especially where there is divergence in performance between the former Dee Valley and Severn Trent areas.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       |             |        |                    | Have the company consulted customers on both the bill in real and nominal terms?                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       |             |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                | We have included an informed acceptability question in both real and nominal terms, and used simple language to explain inflation to customers. |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       | 01/11/2017  | C-07   | Heather Thompson   | Has the company applied appropriate balance/ weighting between insights gathered from different techniques and sources? (specifically has the company made appropriate use of peripheral voices)?<br>Is the approach being used to draw conclusions from multiple sources statistically sound, appropriate and proportionate.<br>DVW to explain their approach to triangulation and weighting different evidence sources as it was not clear in the compendium | Table 1<br>Point 6 Using multiple data sources ("triangulation")                                                                                | Our insight programme has enabled us to develop a rounded view of our customers and this evidence has underpinned the development of our outcomes, our plans for the next five years, and our performance commitments and targets. Ofwat expects companies to cross check and sense check evidence, drawing on a range of techniques and sources. We have triangulated the evidence for each outcome, as well as provided the details for each evidence source (including objectives, sample, new insight and validation of existing knowledge) and presented this to the CCG in the rationale for PCs document (Appendix 2 of our plan) and the customer insight "compendium" (Appendix 1).<br>In synthesising the evidence for each outcome we have considered the extent to which customers regard the service area as a priority for improvement, which informs the level of stretch we are proposing in our performance commitment. We have formed a view on whether an area of service is of "low importance", "important" or "very important" based on the sources of evidence presented for each outcome. In assessing the relative priority we note that there are a few performance measures which we have not consulted customers on – satisfactory sludge disposal is an example. Where the measure is directly customer facing we have inferred that the performance commitment would be important to customers, otherwise we have assumed it is of low importance. |
|       | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       | 13/03/2018  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

| Theme                               | Date Raised | Number | Severn Trent Owner | Consolidated challenge                                                                                                                                                                                                                                                                                                | Ref to Ofwat guidance (ToR, Aide Memoire and Final methodology)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Company response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
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| Customer research to shape the plan | 01/11/2017  | C-08   | Kay Orsi/Lou Moir  | When establishing performance commitments (and levels):<br>-Has the company appropriately involved customers in the development of measures by which they will measure future service                                                                                                                                 | methodology section 2 (appendix 2), section 4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Our proposed suite of measures are informed from the synthesis of all our research which reveals the aspects of service customers care and are concerned about. We have also taken into account other sources of data, such as insight from our customer facing employees, performance data and complaints data.<br>In the PCs, ODIs and investment choices research we have consulted customers on how proposed performance commitments, the targets and our main outcomes.                                                                                                                                                                               |
|                                     |             |        |                    | Has the company made sufficient and appropriate effort to understand repeat failures and the worst served customers?                                                                                                                                                                                                  | Aide Memoire<br>Table 1: Point 3 - Stretching performance commitment levels<br>Table 1: Point 6 - Using multiple data sources ("triangulation")<br>Table 1: Point 7 - Setting initial service levels (2019-20) for PCs<br>Table 2:<br>NEW: Point 2 Customer Engagement<br>Point 3 Engagement with business retailers<br>Point 4 Affordability<br>Point 5 Vulnerability<br>Point 5b Vulnerability Bespoke PC<br>Point 6 (all of) Performance commitments<br>Point 7a Consulting customers on ODIs<br>Point 7f ODIs for asset health PCs<br>Point 9a & b Resilience planning and Operational Resilience<br>Point 10 Securing cost efficiency<br>Point 14 The initial assessment of business plans | Where our data allows us to do this we have set targets which include assumptions about reducing repeat failures. This is the case for properties receiving low pressure, internal sewer flooding and pollution incidents. Through the improvements we are making to the real time data collection we can develop plans to extend this approach across all service areas.                                                                                                                                                                                                                                                                                  |
|                                     | 20/07/2017  |        |                    | Has the company sufficiently sought to present comparative performance when seeking customer views?                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | In both the valuation research, PCs research and acceptability research we have presented customers with comparative information in order to give context to their decisions. Feedback from the research shows that customers do consider this in making decisions, as well as the impact of service failure on themselves / their community.                                                                                                                                                                                                                                                                                                              |
|                                     | 13/09/2017  |        |                    | Has the company considered more appropriate performance commitments that linked to impacts/outputs - especially on affordability and vulnerability                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | We have developed a PC measure to track effectiveness of our financial support offerings for customers in vulnerable circumstances.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|                                     | 13/09/2017  |        |                    | How will the company hold itself to account for both operational measures (where it has full control) and customer contributory measures (where customers need to have clearly signed up to these measures)?                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Our suite of performance commitments through which we hold ourselves to account include both ones for which we have operational control, and also ones in which customer behaviour is a contributing factor (for example sewer blockages and PCC).                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                     | 23/01/2018  | C-18   | Heather Thompson   | In reference to the "helping customers who struggle" research can the Company confirm where some of the conclusions/findings have come from if not all the research has been concluded. The company need to present the detail and make clearer the links between the research, the findings and resultant proposals. | Aide memoire<br>Table 2<br>Point 2 Customer engagement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | We have shared the full report with the CCG and spent more time explaining the findings of the "helping customers who struggle" research, how they fed in to the co-creation event and how we have used the insight to determine our future proposals for supporting customers in vulnerable circumstances.                                                                                                                                                                                                                                                                                                                                                |
|                                     | 13/03/2018  | C-25   | Heather Thompson   | The company are challenge on whether the research proposal being PCs and ODIs together, is to much for customers to take in at one research session                                                                                                                                                                   | Aide memoire<br>Table 2<br>Point 2 Customer engagement<br>Point 6a General approach to PCs<br>Point 7a Consulting customers on ODIs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | We feel that covering these two topics as to separate projects would not be particularly efficient, proportionate use of customers' money and there are also natural links between the two topics. For example in the research we asked customers about the proposed targets in the base plan, and then asked which of these are priority areas for outperformance (in the context of ODIs). Although we covered a range of topics in the workshops and survey we invited the research agency to the CCG to give the members confidence that customers had engaged with the material, that the survey was not too long and the results could be relied on. |
|                                     |             | C-42   | Heather Thompson   | The company should ensure that comparative data is used and clearly displayed when testing performance commitments with customers.                                                                                                                                                                                    | Aide memoire<br>Table 2<br>Point 2 Customer engagement<br>Point 6a General approach to PCs<br>Point 7a Consulting customers on ODIs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | We included comparative data in our initial willingness to pay and subsequent choices research                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                     |             |        |                    | The company should be using comparative data for forecast UQ in 2024-25 on all measures.                                                                                                                                                                                                                              | Aide memoire<br>Table 2<br>Point 2 Customer engagement<br>Point 6a General approach to PCs<br>Point 7a Consulting customers on ODIs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Following publication of all companies' Annual Performance Reports (APR) we updated our analysis of forecast UQ to reflect the latest data for the three comparative measures (internal flooding, supply interruptions and pollution). We reported back to the CCG on our findings.<br>We cannot estimate with a high degree of confidence the forecast UQ for all measures as we are not sighted on other company plans. Wherever possible we have extrapolated the historical performance trend out to 2024-25 to generate an estimate. This is set out in full in appendix 2                                                                            |
|                                     |             |        |                    | The company should ensure targets addresses worst served customers (not just average).                                                                                                                                                                                                                                | Aide memoire<br>Table 2<br>Point 2 Customer engagement<br>Point 6a General approach to PCs<br>Point 7a Consulting customers on ODIs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Where our data allows us to do this we have set targets which include assumptions about reducing repeat failures. This is the case for properties receiving low pressure, internal sewer flooding and pollution incidents. Through the improvements we are making to the real time data collection we can develop plans to extend this approach across all service areas.                                                                                                                                                                                                                                                                                  |
|                                     |             |        |                    | The performance forecast for 2019-20 (which is where improvement is being measured from) should be based on recent actuals not final determination (FD) where performance is better than the FD. A specific example of this is pollution incidents.                                                                   | Aide memoire<br>Table 2<br>Point 2 Customer engagement<br>Point 6a General approach to PCs<br>Point 7a Consulting customers on ODIs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | In some cases we had used the FD as the forecast values for 2018-19 and 2019-20. In cases where actual performance suggests forecast would be lower/ better than the FD then we have replaced our estimate to reflect the more likely actuals.                                                                                                                                                                                                                                                                                                                                                                                                             |

| Theme                                          | Date Raised | Number | Severn Trent Owner | Consolidated challenge                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Ref to Ofwat guidance (ToR, Aide Memoire and Final methodology)                                                                                                                                                                                                                     | Company response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
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| Helping vulnerable customers and affordability | 24/05/2017  | C-09   | Heather Thompson   | Has the company appropriately engaged with customers to understand the needs of those in vulnerable circumstances - using suitable methods and learning from others. Also is the research building a deeper understanding (specifically how has the initial research shaped the social tariffs co-creation event)?                                                                                                                                                                                                                                                                                                                                                                                | Methodology 3.1, 3.4 and 3.5, 3.9, 3.11<br><br>Aide Memoir:<br>Table 1: Point 1 Affordability<br>Table 1: Point 2 Vulnerability<br>Table 2<br>Point 4 Affordability<br>Point 5 Vulnerability<br>Point 14 The initial assessment of business plans – affordability and vulnerability | We have engaged with customers in vulnerable circumstances in a range of projects, but mainly the customer needs research and the "helping customers who struggle" research. Samples of these customer groups are also included in all other research and their results have been segmented where possible.<br>In the <b>customer needs project</b> we have engaged with customers in vulnerable circumstances (financial and health and wellbeing) through in home depth interviews (as part of the customer needs project). We selected in home depths as these customers might be unable to attend the larger deliberative workshops, or might not have their voices heard in a group setting.<br>We also spoke with customers potentially struggling to pay as part of the <b>"helping customers who struggle" research</b> (which included both telephone interviews and a co-creation event in Wrexham). This research has helped us build a deeper understanding of this customer base including the circumstances which might lead them to struggle with their bills, feedback on how we deal with customers in debt with their water bill, and appeal of the social tariff for those not on it. We used the index of multiple deprivation to target customers who might be in difficult circumstances and not on the tariff. The initial research shaped the co-creation event, although we also tested ideas that our Care and Assistance team had come up with, based on their daily interactions with customers.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|                                                | 29/11/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                                                | 29/11/2017  | C-10   | Heather Thompson   | Insufficient social tariff research has been done with customers in Powys and their views are likely to have been under represented.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                     | There was some misunderstanding in the CCG about the role of the quantitative research for this project (the "helping customers who struggle" research) compared to the co-creation event which was held in Wrexham.<br>In the quantitative research a sufficient number of telephone interviews have taken place in Powys (as well as in Wrexham), and this is what has predominantly shaped the proposals for the future social tariff. Insight from the co-creation event is to some extent a further testing rather than the entire foundation of the plan for improving our support for these customers.<br>The sample for the cross subsidy research has been split equally between Wrexham and Powys. Therefore we do not feel that customers in Powys have been underrepresented in the research.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                                |             |        |                    | The customer needs deliberative event in Powys was a much smaller (fewer customers) and shorter (less time) event                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                     | Initially we accept there were some minor differences in our engagement between Powys and Wrexham (e.g. workshop duration in one region compared to the other), however since this challenge was raised we have rectified that and all subsequent engagement has been equal.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|                                                |             |        |                    | The tariffs in Powys, Wrexham and across Severn Trent are different and the issues that this may create cannot be understood if we don't reach out to all customer groups. One important specific difference is debt management given the different bill levels and currently different scheme offerings.                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                     | Throughout the research we have ensured we are specific with customers about their bill level. We do however have a mixed customer base, especially in Powys where some customers receive a single service water or wastewater bill, and some have a combined bill. Some receive their other service from DCWW, others have private supplies / cess pits / septic tanks. Customer numbers for some groups are also small so it can be hard reaching out to all groups in research. Nonetheless we have strived to do this, designing for example the social tariffs cross subsidy research and the acceptability research to be inclusive of single served customers.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|                                                |             |        |                    | In general the members feel that rural poverty is a hidden problem more generally and this exasperates it.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                     | Our research tells us that rural customers in Powys have high levels of satisfaction with their service, despite in qualitative research some mentioning that Powys can be a forgotten part of Wales. Customers in our workshops were pleased we were talking about services local to them (rather than Severn Trent wide services).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|                                                |             |        |                    | Members were concerned that the views of Powys customers specifically on the WRMP, which had been assessed as part of an England and Wales meeting did not respect the difference in approach that the licence change would require.                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                     | As a result of the challenge a separate stakeholder workshop has taken place to focus on the WRMP in Powys, this took place on the 11/04.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                                | 13/09/2017  | C-11   | Lou Moir           | Is the company effectively assessing and addressing affordability?<br>Specifically:<br>- Does the company understand how effective the current offerings are (e.g. uptake on schemes, barriers to getting on a tariff)? and how is the company using that knowledge to inform the future offerings?<br>- Is the company effectively engaging with and helping customers who have affordability issues but are avoiding getting into debt? Thereby recognising that how they help customers avoid debt is not the same as managing it sensitively once it has occurred.<br>- Is the company being sufficiently innovative in its method for monitoring effectiveness of any social tariff schemes? |                                                                                                                                                                                                                                                                                     | 1. With the introduction of our new Welsh Business we have increased the support available to our vulnerable customers from a 30% reduction up to 90% reduction off the average household bill. We have also extended the scheme to more customers by amending the qualifying criteria; this is now based on disposable income rather than the total household income. This will ensure we're targeting the customers who are really struggling, getting the right customers on the scheme and making their bills even more affordable.<br>The Here2Help scheme was introduced in 2016. In the schemes first year the uptake was low, since then the numbers have almost trebled and after the new Here2Help Scheme was implemented on 1st April 18 there has been an increase of approximately 10%. One of the main barriers to the scheme was eligibility (which was skewing towards low income without taking into account outgoings). The changes to criteria mean the scheme is more inclusive. Awareness was also a barrier as a lot of customers didn't know about the scheme – again with the launch of our new business we will be promoting H2H and other schemes to raise awareness. We are now tracking our customers that are reapplying on to the scheme, looking for any drop in numbers or customers that haven't reapplied and proactively contacting them to see if we can help. We're also ensuring that no customers will be disadvantaged by the change in boundary or scheme changes for example; If a customer was eligible for the 30% discount in previous years and on the new scheme they're only entitled to 20% we will honour the original 30% discount<br>2. We engage with our customers through community events, awareness sessions with local advisors/ support workers and community agents so they can signpost customers onto our schemes. We have emphasis on preventing debt and ensure the customer is on the right scheme form the outset i.e. free meter installations for customers on a high RV, water efficiency and ensuring the right payment options are offered.<br>3. We think the PC on the effectiveness of our support is innovative. In addition to this PC we are looking to introduce a survey to our customers once they have come off a scheme to help us understand how effective they found it – for example, Did the tariff help you manage your finances more? Did the scheme have a positive impact on your finances? Has the scheme made a difference to your situation in a positive way? There is no historical data in Dee Valley around this but as per point 2, we have now started to look at this and will be capturing our findings and sharing these with CCW as part of our liaison meetings where we discuss performance in this area. |
|                                                |             |        |                    | How do the offerings vary between Wrexham and Powys and have both sets of customers been engaged to inform the future offerings?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                     | Prior to 1st April 2018 there were some differences between the schemes operating in Powys and Wrexham but these have been aligned (as discussed in the challenge above). In terms of the current offering we have engaged with both sets of customers through the "helping customers who struggle" research. We have also engaged equally with both sets of customers in our social tariff cross subsidy research to inform future offerings.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|                                                | 01/11/2017  |        |                    | To what extent are we engaging in the Welsh language? Why hasn't the Company considered conducting some of the research through the medium of Welsh?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                     | The WTP survey (our first research project) has been translated into Welsh and we shared the draft with the CCG for comments. A member of the CCG commended the translation and noted that it was appropriate bearing in mind the range of dialects in the region.<br>It was noted that only 2 customers opted to take part in Welsh, despite specifically changing our sampling approach following CCG challenge and targeting Welsh speaking communities (in fact the two customers that opted to take it in Welsh did not live in these villages). We also used bilingual interviewers throughout the WTP research, and asked them to great customers in Welsh and make sure the Welsh option was proactively offered.<br>All subsequent quant research has been made available in the Welsh language.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                                | 23/01/2018  | C-19   | Lou Moir           | The company needs to ensure that reciprocal social tariff matching was taking place between STW/DVW and DCWW as the CCG had previously been told this is already happening                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Aide memoire<br>Tables 2<br>Point 4 Affordability<br>Point 5 Vulnerability                                                                                                                                                                                                          | This has been agreed with DCWW - from 1st July it will be automated but currently it's a manual process within the team. DCWW are in agreement that we should work more collaboratively to support our vulnerable customers and to make getting support seamless.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                                                | 23/01/2018  | C-20   | Lou Moir           | The company needs to advise how any bad debt to be written off is handled                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | n/a                                                                                                                                                                                                                                                                                 | When the business plan is set for the AMP it includes an assumption for bad debt (for STW for AMP6 it's 2.7%, for DVW its 2.5%). This is then built into the tariffs for customers' bills. If we outperform on this the business benefits as we're collecting more money, if we do worse then it is to our cost.<br>The new payment matching scheme proposed in our AMP7 support offering is supposed to help reduce write offs as it's offered to people who would not have paid us and their debt would have been written off anyway – so it's reducing the amount of write off and getting a payment we wouldn't have got before.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

| Theme | Date Raised | Number | Severn Trent Owner | Consolidated challenge                                                                                                                                                                                                                                                                                                                                                                                                                                              | Ref to Ofwat guidance (ToR, Aide Memoire and Final methodology)                                                                                                                                                                                 | Company response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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|       | 23/05/2018  | C-28   | Lou Moir           | The CCG challenged the company to explain the why its affordability PC is set as a percentage of the customers who are struggling to pay and how to ensure that there was an incentive to continue to identify all of the customers who need support.                                                                                                                                                                                                               | Aide memoire<br>Tables 2<br>Point 4 Affordability<br>Point 5 Vulnerability<br>Point 12 Bill Profiles<br>Point 14 The initial assessment of business plans (IAP) - Affordability/Vulnerability                                                   | This performance commitment is similar to the Severn Trent PR14 performance commitment (R-B1) (applicable to our customers in Powys) but has been revised to include a more robust estimation of the total number of customers struggling to pay and so that it includes all tailored support schemes. It is also represented as a percentage rather than a number. This will make it easier for customers to understand the degree to which we are helping all of the customers who find bills unaffordable. We will continue to monitor the percentage of customers who find our bill unaffordable through our tracker research.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|       | 10/07/2018  | C-33   | Lou Moir/Kay Orsi  | The CCG challenged the company to explain what effect the inability to pay of some struggling to pay customers might have on other customers.                                                                                                                                                                                                                                                                                                                       | Aide memoire<br>Tables 2<br>Point 4 Affordability<br>Point 5 Vulnerability<br>Point 12 Bill Profiles<br>Point 14 The initial assessment of business plans (IAP) - Affordability/Vulnerability                                                   | From our research we know that some customers find their bill unaffordable. We believe that water should be affordable for all, and in order to ensure we are delivering the lowest possible bills for customers we focus on four key activities:<br>1) optimising our costs through targeted investment and ensuring our costs are efficient;<br>2) making it easy for customers to pay;<br>3) using our levers to balance bills in the short and long run; and<br>4) ensuring our bills are fair by spreading costs across all eligible customers (reducing bad debt and tackling voids).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       | 24/05/2017  | C-12   | Kay Orsi           | The company hasn't done enough to demonstrate to the CCG that they understand the relative performance for the new Wales licence area and the key areas where improvement is necessary. Specifically:<br>- Showing differences between Wrexham and Powys<br>- Understanding hotspots of poor performance<br>- Understanding where repeat failures occur<br>- How effective and extensive mitigation efforts are (e.g. to prevent sewer misuse or water efficiency). | ToR and methodology section 3.2 (& appendix 14)                                                                                                                                                                                                 | We have covered as part of documenting the rationale for each performance commitment (Appendix 2 in our plan).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|       | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|       | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|       | 13/09/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|       | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|       | 23/05/2018  |        |                    | CCWater challenged the company as to why external sewer flooding is not a PC when it's a known issue throughout Wales                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                 | The company responded that DWMP will track external sewer flooding and a catchment approach would be broader. The models for sewerage mapping and hydraulics for areas is a much more effective way of targeting this issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       | 23/05/2018  |        |                    | The PC target for internal sewer flooding given that the repeat incidents represents a substantial proportion (50%) of Powys 'other causes' internal sewer flooding events. The company has been asked to look at a target of 0 repeats.                                                                                                                                                                                                                            | Aide memoire<br>Table 2: Point 16 Clear expectations on asset health outcomes<br>Table 2: Point 24 High quality plan – Accounting for past delivery                                                                                             | We have analysed this data and presented it to the CCG, including in the rationale for the PC document (Appendix 2). We have found that of the eight properties who suffered repeat flooding only two of them could have been prevented - through better workmanship or a proactive cleansing programme. We have calculated our forecast upper quartile positions using the previous six years' historic data, adjusted to reflect new reporting methodologies, and fitting a trend line up to 2024-25. Allowing for uncertainty, this is likely to result in a target of between four and six. We originally proposed a target of five as being representative of the mid-point. Following challenge from the CCG about the number of repeat incidents that make up the total numbers we have reconsidered the target and consider a target of 23 over the five year period (represents c4.5 incidents per year) to be an appropriate balance of risk. The majority of the repeat incidents are not within our control, so a target that expected complete removal of repeat incidents would not be a fair balance of risk. |
|       | 23/05/2018  |        |                    | The company was challenged for a lower target of total internal sewer flooding incidents that represents the future estimates of upper quartile (not current given all companies will be looking to improve this performance in AMP7                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | In response to CCG challenge about the number of repeats we have revised our target and consider that target of 23 over the 5 year period to be an appropriate balance of risk. This is set at the top (best) end of the UQ range for 2024/45.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|       | 13/06/2018  |        |                    | Paul <u>challenged</u> that in 2025 the company ought to be expecting to be targeting internal sewer flooding at 4 or better.                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                 | In response to CCG challenge about the number of repeats we have revised our target and consider that target of 23 over the 5 year period to be an appropriate balance of risk. This is set at the top (best) end of the UQ range for 2024/45.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|       | 13/06/2018  |        |                    | Moir <u>challenged</u> the company as 7 pollution incidents would be holding it flat and expects to see a lower number.                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                 | In the PC rationale document we have explained why we consider our target to be an improvement, appropriate and stretching.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|       | 24/05/2017  | C-13   | Lou Moir           | Has the company done enough to understand the customer service expectations. Specifically:<br>- the preference about local telephone numbers<br>- dual language requirements<br>- ease of understanding of information and bills<br>- differences between rural and urban customers                                                                                                                                                                                 | Aide Memoire<br>Table 1<br>Point 4: Vulnerability and hard to reach customers                                                                                                                                                                   | We have insight from customers on the customer service they expect through our customer tracker, our discussions with customers as part of the license change, from the insight gathered from customer facing employees and through our other research projects. As a result of this feedback the number for customers to contact us when in arrears has been made local and the COSC number is now a free number for all customers. We are fully committed to treating Welsh and English languages on an equal basis, and we know this is something that our customers value. Through our research we have tried to understand difference between our customers, for example how many use the internet on the regular basis and the reasons why they might not do so.                                                                                                                                                                                                                                                                                                                                                       |
|       | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|       | 20/07/2017  |        |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|       | 12/04/2018  | C-29   | Kay Orsi           | The CCG challenged whether the investment choices, and in particular the do more options, were explained to customers in the context of an increase in the base bill or through an ODI.                                                                                                                                                                                                                                                                             | Aide Memoire<br>Table 2<br>Point 7a Customer engagement on ODIs<br>Point 7c Setting ODI rates<br>Point 7g Enhanced ODI outperformance payments and underperformance penalties<br>Point 14 The initial assessment of business plans (IAP) - ODIs | We explained that in this research we wanted to understand customer views on our plan, including what the balance of investment areas is that they really care about. ODIs, if relevant, would come after this, once we have established the priorities for the plan itself.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |



| Theme                                                          | Date Raised | Number | Severn Trent Owner      | Consolidated challenge                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Ref to Ofwat guidance (ToR, Aide Memoire and Final methodology)                                                                                                                     | Company response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| Improving service (Including Performance commitments and ODIs) | 12/04/2018  | C-30   | Lou Moir                | The Chair challenged STW to explain what the outcome is for the customer education PC, rather than just focusing on input measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Aide Memoire<br>Table 2<br>Point 6a General approach to PCs<br>Point 6f Bespoke PCs<br>Point 6i Transparency of PCs<br>Point 14 The initial assessment of business plans (IAP) -PCs | <p>We are proposing a performance commitment relating to our education programme, using a measure which is bespoke to us. We play an essential role in our communities and believe we can further contribute by engaging with the next generation of water users at primary school because they will be at an age when there is a higher propensity for us to embed behaviours for a lifetime. They can also have a huge influence of the rest of their households based on taking home the lessons they learn at school. This approach has been strongly backed by our customers, who are really passionate about the value of education.</p> <p>We will be offering our new educational programme to every primary school in our patch. Our target is to get 3,986 people to change their behaviour as a result of this intervention. (For this Performance Commitment "a change in behaviour" has been defined as: 1 person making a behaviour change commitment to live by against one of our three core messages (as defined above), after a minimum 30 minute face-to-face engagement session that utilises comprehensive sets of teaching and learning support materials aligned to the principles in the UKWIR guidance.)</p>                                                                                                                                                                                                                          |
|                                                                | 23/05/2018  |        |                         | The company to justify why the PC on education should be linked to a reward if customers reduce their water usage following education.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                     | We have an outcome based measure for education - this means we are measuring the effectiveness of behaviour change following our new programme. The ODI for customer education is based on the marginal cost of delivery - this is intended to fund the additional activity if the company go beyond the target which is outcome based, thus providing an incentive to do more effective engagement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                                                                | 23/05/2018  |        |                         | The company was challenged to provide the evidence for customer supported voids being reward only.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                     | <p>We're improving overall affordability and reducing our average bill by targeting household and non-household void properties. These are properties connected to our network that receive water and wastewater services from us, but are not charged. As our total revenues are fixed, the remainder of our bill-paying customers are paying extra to subsidise these non-paying customers. By reducing voids, we can spread the cost of services across a wider customer base, thereby reducing bills.</p> <p>To help provide a stronger incentive to reduce voids, whilst ensuring any activity helps reduce average customer bills, we have introduced a new performance commitment and ODI for bringing household and non-household voids into charge. This ODI helps to offset the dis-incentive that currently exists for bringing voids into charge, due to the application of the wholesale revenue cap and the high rate of bad debt associated with voids.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|                                                                | 13/06/2018  | C-32   | Kay Orsi/Kristinn Mason | The chair challenged that deadbands were not so wide that is enabled the company to continue to perform at the current level and not achieve the % improvement that the target implies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                     | <p>In response to Ofwat's methodology we've developed a simplified framework for deadbands that reflects Ofwat's concerns. This means that deadbands would only be proposed on a limited basis, and only where there is a case for doing so. We are proposing deadbands for mains bursts and treatment works compliance.</p> <p>Mains bursts is at risk of undue effect from random variation in exogenous factors. This is particularly notable when we take account of Hafren Dyfrdwy's relatively small size. Mains bursts will have a penalty and reward deadband. Ofwat has not set any performance expectations for mains bursts (they have not specified that all companies should be targeting performance equivalent to upper quartile performance). We are including a deadband to reflect the well-known variability in this measure caused by typical changes in weather. Our historical performance (between 2011-12 and 2017-18) shows that +/- 13% around the target is appropriate. Based on the PR19 target this deadband would mean that we would have been in penalty for one of the nine years and reward for one. For treatment works compliance, a penalty-only deadband will apply. If performance drops below that level, then penalties will apply on an incremental basis. We have set the penalty only deadband at 97.9% to reflect the fact that a single treatment works failure would result in a compliance score of 97.9%.</p> |
|                                                                |             |        |                         | In addition to the £1 p/a ODI impact for the average bill, the CCG wanted to see the figures for the 85th and 15th percentile bill.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                     | We have provided information showing the ODI impact on the average measured and unmeasured single and combined bills. At this stage in the price review process we are talking about average bills, rather than tariff setting.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                                                |             |        |                         | The CCG were aware that customers had not been consulted on the mechanism to be used by HD when applying any incentives or penalties. As such members suggested that HD would need to fully justify any proposals made in relation to caps and collars/ deadbands/other                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                     | We have followed the Ofwat methodology in terms of ODI design and discussed this with the CCG rather than customers. We discussed with the CCG whether it was proportionate to commission additional research on the ODI design and we agreed this was not necessary, particularly given the likely impact on bills.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                                                                |             | C-35   | Kay Orsi                | The CCG challenged the company to provide an update (via CCWater if necessary but circulated to the wider CCG) to account for the increase in water billing complaints and other issues that had seen the company's relative performance deteriorate significantly.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                     | This will be picked up as part of the quarterly liaison meetings that CCWater have with the company.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                                                                |             |        | Kay Orsi                | The CCG were very surprised and concerned that the draft bill profiles were indicating a relatively significant increase in customer bills when the indications up to that point was that they would be decreasing. The CCG challenged the company to demonstrate to the CCG the breakdown of the bill, in particular the percentage of the bill which relate to the cost adjustment claims. The CCG asked for clear assurance that the Company's statement that customers would not be worse off as a result of the licence change was being maintained as they could not see how this was possible given the draft bill profiles that had been provided. The potential additional cost of ODIs was even more concerning as they would be on top of a much increased bill. |                                                                                                                                                                                     | We also found in our initial acceptability research that customers in Powys did not support the proposed bill. We have responded to this challenge from customers and the CCG by making some changes to our bills profiles, and spent time discussing with CCWater and the Welsh Government how we are meeting the conditions of the licence change.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                                                                |             |        |                         | In the PC target setting document the company to continue to make clear which PCs Ofwat want UQ on and how that compares to what customers want.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                                                |             |        |                         | The CCG would benefit from rationale as to why each incentive has been chosen as the company are not asking customers but it has been decided. The company to tell the story of the incentive types to justify why they have been chosen within the PC target rationale document and circulate by 29th June.                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                                                |             |        |                         | The company to share the basis for all of the 2024/2025 PC targets to demonstrate they are stretching and reflective of what customers want.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |



| Theme                                   | Date Raised | Number | Severn Trent Owner         | Consolidated challenge                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Ref to Ofwat guidance (ToR, Aide Memoire and Final methodology)                                                                               | Company response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------|-------------|--------|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                         |             | C-36   | Kay Orsi                   | <p>The company to share the mapping of all PCs to illustrate the balance across the plan.</p> <p>Whilst the CCG acknowledged there had been a mixed response to leakage between Wrexham and Powys, and it welcomed the work ST had done on quantifying the challenge for reducing leakage in the HD area, it challenged the company to provide a full justification as to why it was not aiming for Ofwat's 15% leakage reduction target (or at least a figure closer to that) using customer research data and costs where possible.</p>                                                                                                                                                              |                                                                                                                                               | The reasoning has been detailed in the PC rational documentation (Appendix 2 of our plan)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|                                         |             | C-38   | Kay Orsi                   | <p>The CCG wished to receive written confirmation from company that the triggering of all rewards would not entail an increase of more than £1.00 p/a (x5 years) per average bill. Assurance had been verbally given to the CCG by the company at the last but one CCG meeting but had not been included in the minutes.</p> <p>The CCG requested confirmation from the company that the £30m turnover figure quoted by them relates to the Wrexham and Powys area. The CCG also wanted clarification from the company that the £1m maximum potential rewards figure quoted by the company is correct.</p> <p>In addition to the £1 p/a ODI impact for the average bill, the CCG wanted to see the</p> |                                                                                                                                               | At the August CCG meeting we presented further information on the ODIs, including likely scenarios of outperformance and underperformance, including the impact on bills.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|                                         |             | C-39   | Kay Orsi                   | CCG challenged the ongoing concerns with our comparative performance on drinking water complaints. They also challenged why we could not achieve performance equal to industry upper quartile                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                               | We set out the evidence including the study we have commissioned at group level to understand the evidence to support the hypothesis that surface water source in the west of the UK is more prone to manganese and therefore DWQ complaints. They also welcomed the analysis that we have done to attempt to forecast future UQ and frontier for the western companies so that the target could be as stretching as possible given the characteristics of our water sources. The report on water composition across the UK is included in appendix 10.                                                                                                                                                                                                                                                                        |
|                                         |             | C-40   | Kay Orsi                   | The CCG also challenged the supply interruptions target. They reviewed our evidence and long term plan to work towards the industry upper quartile, which they welcomed, but they challenged us to go further in the next five years.                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                               | We carried out an extensive review of all of our historical interruptions performance and shared the following key findings with the CCG, which showed that by improving our processes and installing additional monitoring equipment we could improve performance by 27%. We applied this improvement to the proposed target, resulting in the commitment to reduce interruptions to eight minutes per property.                                                                                                                                                                                                                                                                                                                                                                                                              |
|                                         |             |        |                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Integration effectiveness               | 27/06/2017  | C-14   | Lou Moir/Kay Orsi          | <p>Is the company doing enough to ensure a smooth transition from DVW to STW? Specifically:</p> <ul style="list-style-type: none"> <li>- Ensuring all of the information that resides within the Dee Valley teams is being appropriately captured.</li> <li>- Will the call centre have the capacity to take calls in Welsh?</li> </ul>                                                                                                                                                                                                                                                                                                                                                                | n/a                                                                                                                                           | We responded that as part of the integration process it was adopting an approach that would help ensure knowledge and information is not lost. We have also brought Travel Live Wales on board to take calls in Welsh.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                         | 27/06/2017  |        |                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                         | 20/07/2017  |        |                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Meeting wider policy ambitions in Wales | 20/07/2017  | C-15   | Vanessa Mallinson/Kay Orsi | <p>Can the company demonstrate that the engagement and plan development addresses the wider policy ambition and specific legislation in Wales?</p> <p>Have (and are) stakeholders being appropriately consulted on the plan.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | ToR<br>Methodology section 3.2 and appendix 1                                                                                                 | Our plan sets out how we are responding to policy ambition and Welsh legislation. In terms of stakeholder engagement we have had several meetings with CCWater, NRW and Welsh Government to keep them up to speed with the developments of our plan. We have also conducted wider stakeholder workshops, for example on water resources, lead in drinking water, catchment management and supporting vulnerable customers. The outputs from these discussions have informed the plan in a number of ways.                                                                                                                                                                                                                                                                                                                      |
|                                         | 20/07/2017  |        |                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                         | 20/07/2017  |        |                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                         | 20/07/2017  |        |                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                         | 13/09/2017  |        |                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                         | 29/11/2017  | C-27   | Kay Orsi                   | How will costs be shared between England and Wales where National Environment Programme investment benefits both sets of customers?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Aide Memoire<br>Table 2<br>Point 8a Securing confidence and assurance (NRW wider expectations)<br>Aide memoire                                | There is one obligation contained within NRW's NEP3 that has been included at the request of the Environment Agency. This relates to a proposed new Urban Wastewater Treatment Directive sensitive area designation in England. The discharge from Welshpool STW has been determined to meet UWWTD criteria for inclusion in this new English designation. Whilst the obligation is placed upon a Hafren Dyfrdwy sewage works, the outcome from the improvement is entirely related to an issue on the English side of the border. As such, the cost of the improvement work has been included within Severn Trent's business plan. As this is an 'Amber' status, uncertain obligation, this scheme is also covered by Severn Trent's customer protection mechanism. There is no cost exposure to customers of Hafren Dyfrdwy. |
| Bill levels                             | 29/11/2017  | C-16   | Shane Anderson/Kay Orsi    | Differential bill impacts:<br>Is STW sufficiently exposing differences in bill level and corresponding service to customers in Powys and Wrexham? Is this being made sufficiently clear in the research?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Aide Memoire<br>Table 2<br>Point 4 Affordability<br>Point 5 Vulnerability<br>Point 12 Bill Profiles                                           | In the research we have presented customers with average bills (current / future) that are specific to their region. As we have discussed performance commitments with customers we have ensured that bespoke data for each region was provided, particularly when there is a large performance differential. We also provided customers with comparative information so they could see how their service compares to other companies.                                                                                                                                                                                                                                                                                                                                                                                         |
|                                         | 13/03/2018  | C-21   | Kay Orsi                   | The company are challenged about who should be paying for the investment towards a lead free Wales                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | We have responsibility for the water quality at the customers' tap. We are including a performance commitment in our plan which starts to tackle the issue of lead in drinking water, an action which our customers support. This is part of a longer term strategy towards reducing lead in Wales.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|                                         |             |        |                            | Concerns about DVW ambition to be 'lead free' Wales as lead products (such as solder) are still available to use and buy. The company should not risk miss-leading customers that by paying their company for additional measures, Wales could become lead free.                                                                                                                                                                                                                                                                                                                                                                                                                                       | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | We have not used the term "lead free" with customers - we have presented customers with simple and engaging information on lead in drinking water and our proposed options (incorporating feedback from the CCG) in order to inform them of the issue before getting their more informed opinions on what we should do.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

| Theme            | Date Raised | Number | Severn Trent Owner        | Consolidated challenge                                                                                                                                                                                                                                                                   | Ref to Ofwat guidance (ToR, Aide Memoire and Final methodology)                                                                               | Company response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|------------------|-------------|--------|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cost Adjustments |             |        |                           | DVW to explain how they will engage customers on reductions in lead in a way which doesn't lead customers as it is not Government legislation. The CCG want to see stimulus material for both stakeholder and customer research workshops                                                | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | We have shared stimulus material with the CCG (for the asset health and resilience workshops) and discussed this with the CCG and with the research agency on 12 April. Several improvements were made to the stimulus material following the feedback from the CCG. Customers engaged well with the material in the workshops and we subsequently also used the improved material in the PC and ODI research.                                                                                                                                                                                                                                                                                                                                                                                                                               |
|                  | 13/03/2018  | C-23   | Kay Orsi                  | The company need to show the evidence to justify why catchments was being considered as a potential cost adjustment                                                                                                                                                                      | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | This was being considered as a cost adjustment as the requirement is not sufficiently covered by Ofwat's totex models                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|                  | 13/03/2018  | C-24   | Kay Orsi                  | The company discussed the measurement of the CRI and shared that it will not be tested with customers as this is a compliance measure. STW are currently working with the DWI to get a Hafren view of CRI.                                                                               | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | Whilst we have not discussed CRI specifically with customers we can infer their relative priority from our rich evidence base of customer insight. Water quality always emerges as a top concern, and a fundamental expectation of our service, although customers do not necessarily distinguish between compliance / whether the water is safe to drink and aesthetics. Company performance and future target for CRI were presented to the CCG.                                                                                                                                                                                                                                                                                                                                                                                           |
|                  | 13/03/2018  | C-26   | Heather Thompson          | STW to explain why they were not allowing customers to express their views on the wording of each PC                                                                                                                                                                                     | Aide Memoire<br>Table 2<br>Point 6a General approach to PCs<br>Point 14 The initial assessment of business plans (IAP) - PCs                  | Customers were consulted about PCs but we didn't test the language per se. Instead we tested the concepts of the PC definitions rather than the in-depth regulatory jargon. We did test the outcomes language with customers and this lead to the wording changing on the Thriving communities outcomes as a result of this feedback. A high proportion of the PC definitions are common and the Ofwat definitions were used. The language was also changed on the WFD measure to make it more customer friendly.                                                                                                                                                                                                                                                                                                                            |
|                  | 12/04/2018  | C-31   | Kay Orsi                  | The Chair challenged STW to explain why Hectares of land managed by biodiversity should be a cost adjustment for the next AMP as improving biodiversity is not just a five year project                                                                                                  | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | It was explained that it depends how Ofwat model it, it also explained that the company have a biodiversity commitment in this AMP which is not a special cost factor but is reasonably modest and it is massively bigger in the next AMP but again it is not a special cost as it's on a relative scale. It was again reinforced that Ofwat's scale variables do not work for such a large geographical area with few customers. The model also does not map to specific circumstances and the company are trying to work out what the reasons are. Other than this obligation, which is new because of the Environment Act, and is tangible, the rest will just be a fight over the models as nothing else is different in any way. This is the only thing in the company's waste plan which has any characteristics of being new or lumpy |
|                  | 12/04/2018  |        | Kay Orsi                  | A member (Paul) challenged STW to explain if the amount of SSSI land which is being managed is being asked for as a cost adjustment and extra money if it cannot be measured.                                                                                                            | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | This special cost factor case and performance commitment relates to all our land holdings (100km2) not just the 58% of which forms part of Berwyn SSSI                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|                  | 12/04/2018  |        | Kay Orsi                  | The water from Vyrnwy goes to UU customers in England so shouldn't they contribute as well?                                                                                                                                                                                              |                                                                                                                                               | United Utilities customers will benefit from improved water quality and more storage in the natural environment. We have discussed the issue with them and they are willing to contribute £50k.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|                  | 12/04/2018  |        | Kay Orsi                  | A member (Paul) challenged the fact that there could be a reduction in customer's bills (albeit a small one) if STW did nothing and therefore challenged the principle of asking customers to forego an increase for a "good idea" for which measurable outputs are not being presented. | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | We believe we presented customers with sufficient information in Performance Commitment and Outcome Delivery Incentive Research on which to make an informed decision. The information used was based on the Vyrnwy Heritage Lottery Fund project which has detailed outputs specified.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|                  | 12/04/2018  | C-37   | Kay Orsi/Heather Thompson | STW to explain the customer benefits on the key driver table for cost adjustments                                                                                                                                                                                                        | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | Customer views and benefits for each cost adjustment claim have been set out clearly for the CCG and in the business cases. The full research outputs (reports) have also been shared and discussed with the CCG.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|                  |             | C-43   | Kay Orsi                  | The CCG challenged are we working collaboratively with NRW?                                                                                                                                                                                                                              | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | We have worked collaboratively with NRW on the development of NEP3. They have been very supportive of our open approach.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|                  |             |        |                           | The CCG challenged Can we defer investment                                                                                                                                                                                                                                               | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | We have given careful consideration to deferring investment and have agreed with NRW that one potential WFD improvement be excluded from NEP3 as there is currently insufficient evidence to support intervention. Given the 2027 deadline on WFD, coupled with anticipated investment in AMP8 arising from some AMP7 CSO investigations, we consider that further deferrals will create undue pressure on customer bills in AMP8.                                                                                                                                                                                                                                                                                                                                                                                                           |
|                  |             |        |                           | The CCG challenges Are we sure the people who benefit from the improvements are the ones paying                                                                                                                                                                                          | Aide Memoire<br>Table 2<br>Point 10 Securing cost efficiency - need for investment<br>Point 14 The initial assessment of business plans (IAP) | Given the cross border nature of the river Severn catchment, we have given this careful consideration. One project included in the Hafren Dyfrdwy NEP will be paid for by Severn Trent Water customers as the measure is included at the request of the EA to deliver an environmental outcome in England.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |