

**Minutes of the meeting of the Dee Valley/STW Customer Challenge Group (CCG)**

**Packsaddle, Wrexham**

**13<sup>th</sup> March 2018**

**Members present:**

<i>Chair</i>	Clare Evans
<i>Wrexham County Borough Council</i>	Cllr Marc Jones
<i>CCWater</i>	Lia Moustelou
<i>Montgomeryshire Wildlife Trust</i>	Chris Radford
<i>Natural Resources Wales</i>	Moira Reynolds
<i>Independent Member</i>	Paul Roberts

**In attendance:**

<i>Severn Trent Water (STW)</i>	Heather Thompson (Outcomes Manager) Kay Orsi (PR19 Wales Programme Manager) Ed Eaton (Wales PMO lead) Katherine Harris (PR19 Administrative Assistant)
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**Apologies for absence:**

Cllr Joy Jones (Powys County Council), Paul Southall (National Trust), Angela Davies-Jones (CCWater), Joe Mault (National Farms Union), David Oxley (Independent Member)

STW: Shane Anderson, Vanessa Mallinson and Louise Moir.

**Item 1: Welcome and review of minutes from the previous meeting:**

The Chair welcomed all attendees and all attendees introduced themselves.

The Chair noted that this was the first meeting that there had been representation from Montgomeryshire Wildlife Trust. It was explained to Chris that the purpose of the CCG is to provide independent challenge to the water company, and independent assurance to Ofwat.

Also, the Chair explained that over the past twelve months she has tried to get wider representation on the CCG and that when the merger occurred between STW and DVW quite a few members were lost.

The CCG reviewed the minutes from the meeting on the 23rd January 2018. It was agreed that the company to get any actions circulated as soon as possible from CCG meetings and then send the final draft of the minutes later on.

### **Review of previous actions:**

A review of previous actions took place with amendments, updates and closed actions being taken away by the company.

CCWater updated that their actions were also completed and closed.

### **Item 2: Regulator Updates**

#### **DWI**

The CCG had not received any update from the DWI regarding the performance of the company in Powys and Wrexham. This was despite a reminder email being sent out by the CCG secretariat to Milo Purcell and Sue Penniston. The Chair agreed to contact the DWI again and seek their input in to the process and she would raise the issue at a future CCG Chairs Meeting. The company advised that they had a bi-lateral meeting with the DWI planned on 21<sup>st</sup> March and they would report back as necessary.

#### **CCWater**

CCWater provided an update on latest company performance which covered both positive and negative changes across Waste and Water Services. CCWater asked the company to provide details to explain the changes in performance, as raised by CCWater. CCWater reported that the company has had an increase in written complaints and they would like to understand the reasons behind this.

#### **NRW**

NRW attended the Wales Water Industry Forum and the next iteration of the National Environment Programme (NEP) is planned for the 28<sup>th</sup> March. This will set out the environmental requirements for the plan.

The Chair questioned if this version of the NEP will include the individual projects from the companies and the company confirmed that it will not conclude the company solutions as it is the first stage of agreeing permits and not the solutions to meeting those permits. NRW explained that no concerns with affordability have been raised as yet. If there are issues with affordability then timing will be essential; not whether the items get done but when.

NRW want to continue the working level meetings with the company to discuss the detail behind the programme.

NRW will be feeding their views across all aspects of the plan into the CCG report. The company expressed the usefulness of this as the company are talking to several different departments across NRW and this route provides a common channel to feedback to Ofwat.

### **Item 3: Strategic investment areas**

The Company explained the process they have gone through to understand future challenges and customer views and how these are driving the areas of strategic investment.

A member further asked if there was anything in the plan on preventing sewer flooding and the company confirmed that there is but this is business as usual activity and not part of the strategic investment cases.

The Company said they wanted to focus on three particular areas today because they wish to do further customer research on these and want the CCG to have the opportunity to debate first before the research takes place.

A member **challenged** the company to why these areas are proposed as cost adjustments. The company explained that it is because these are not part of Ofwat's historic cost model and that Hafren Dyfrdwy is going to be extremely difficult for Ofwat to adequately model, due predominantly to the difficulties in modelling the economies of scale and rurality (for waste particularly). Experience at PR14 for the company shows that the models are likely to significantly underestimate the investment required.

A member asked about Board engagement and whether the STW board or the new Hafren Dyfrdwy board would be discussing the cost adjustments. The Company clarified that the latest view is that the licence would be changing from 1<sup>st</sup> July, however it would need to be discussed in the first new board meeting in April due to PR19 timescales. The Chair agreed that this makes sense.

### **Item 4: Lead in drinking water**

A member questioned whether the investment will deliver something that customers want and how it benefits them.

The Company explained that the issue of lead in drinking water is more specific to Wales than England in that it responds to the ambition set out in the Welsh Government Water Strategy for Wales.

After hearing that there is lots of evidence to support the idea of reducing lead in Wales, the Chair **challenged** the company about who should be paying for this (e.g. through water bills, or general taxation). This needs to be brought out through the research with customers who should be advised that it is a customer choice, not a legal requirement. A member agreed that the ambition aligns with the Early Life study in Wrexham.

Also, the Chair **challenged** the company with concerns about their ambition to be 'lead free' in Wales as lead products (such as solder) are still available to use and buy. The company should not risk mis-leading customers that by paying their company for additional measures, Wales could become lead free.

CCwater **challenged** the company 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 (in time to be able to comment).

A member **challenged** the company as to the exact number of houses which are affected by lead. The company responded that the Health Partnership for Wales estimates 25%, however it is more likely to be 55% in our region. In April there will be the conclusion to a survey in Wales (Public

Information) to try and find out how much lead there is but this will be an approximation and the results are not published until October.

The term 'fix on fail' was noted by a member as it would not necessarily be the company 'fixing' the lead, other than on the communication pipe. Again this led to the **challenge** of who will pay being raised by the Chair. A member also expressed his opinion that he would not wish to pay for someone else's pipe to be changed immediately whilst he may have to wait twenty years for his to be changed. The Company acknowledged the reservations and expressed that the first step would be to target the most vulnerable. Competition Law precludes wide scale replacement of customer owned pipes.

The company expressed their desire for more collaborative working to try and work with authorities when they are doing lead pipe replacements and also by targeting customers at the right time in their life when they are ready to receive communication, for example if they have just purchased a house or refurbishing their kitchen.

As well as targeting schools and nurseries and hot spots, part of the plan for 2020-25 is about reducing the costs of replacing communication and customer owned pipes. Changing the economics is equally important because the current cost of this activity is significantly higher than initial indications on customers' willingness to pay.

#### **Item 5: Proposed customer research on asset health and resilience**

The Company explained to the CCG that there would be workshops in Powys and Wrexham to discuss the proposals with customers; both future and current bill payers, as well as teledepths with non household customers.

A discussion began around the use of the term 'Welshness' on slide 42. The Chair questioned what type of Welsh company may be used as a positive comparator. The Chair asked what the objective of the discussion was. The company reminded the CCG of how they keep telling the company that Wales is different, however accepted it might make more sense to ask for views about asset management companies (e.g. gas / electricity / roads / rail).

The company **was challenged** to explain their approach to triangulation and weighting different evidence sources as it was not clear in the compendium.

#### **Item 6: Reservoirs**

The Company explained the two reasons why the reservoir investment is unique: the company has a disproportionate number of reservoirs compared to the industry average and there have been no major refurbishments done since the late 1980s/ early 1990s. The average age of the company reservoir is 120 years. A risk profile has been created by two independent reviews and a material increase in investment is forecast to be needed to comply with the Reservoirs Act.

The Chair questioned if Elan and Vyrnwy were included and it was confirmed that they are not.

A member questioned why this would be of importance for customers. The company responded that firstly it is a statutory requirement (it does protect customers from the risk of a dam failure) but also if a dam does not fail but there are issues noted in the Section 12 annual inspection then it has an impact on the level of resilience. The company explained that it was exceptional due to Ofwat's totex modelling which does not allow for the lumpy nature of this expenditure.

### **Item 7: Catchments and biodiversity**

The company shared that at present there are no step changes in the catchment problems, unlike the reservoirs, just that there are better ways to reduce treatment costs and deliver environmental benefits, and therefore this represents an opportunity. The CCG **challenged** the evidence to justify the catchments as either unique or new to the company.

A discussion occurred about who should pay for biodiversity improvements, in particular in relation to catchment land which supplies water to customers in England, and whether this should be funded through general taxation, or by the customers who benefit from the water supply (ie customers in England).

A member disagreed and stated that Wales as a whole would benefit from increasing biodiversity and that the company have a responsibility under the Environment Act. The company explained that this is what will be tested with customers and the Chair stressed the importance of customers understanding what they would be funding through their water bill.

A member **challenged** the company to explain why biodiversity is a cost adjustment. The Company explained the legal duty to enhance biodiversity in Wales whereas in England the responsibility is only to prevent deterioration. It was also made clear that if no challenge is raised (with the Ofwat modelling approach) then the companies will not receive any money for this activity, and this is why they are proposing a cost adjustment.

The forthcoming stakeholder workshops on 10<sup>th</sup> April were discussed. The CCG suggested also inviting the following organisations: Middle Dee Partnership, Elan Valley Trust (for schemes in Elan Valley), Rivers Trust and local authorities.

### **Item 8: Emerging water plan**

The company set out the proposed PR19 outcomes.

The Chair **challenged** the company with the use of the phrase 'lowest possible bills'. The company clarified this is about delivering efficiently for customers.

The Company explained that they will be discussing these outcomes with customers. A member began a discussion about the testing of the words for the outcomes.

The company showed how they have used driver trees to demonstrate how activities link to the outcomes and the performance commitments. The purpose was to show all of the factors affecting each outcome and also to understand if any of these factors needed to be included as bespoke performance commitments. The Chair commented that this now makes a lot more sense.

At the moment the company have created a holding place performance commitments to ensure customer protection for the cost adjustments. A range of options will be tested with stakeholders and customers.

The company are currently working with the DWI to get a Hafren view of CRI. The Chair **challenged** on how the plan will address issues if they are important for Wrexham but not Powys customers.

The company responded that the research includes separate workshops in both regions as well as representative samples for the quant element. Performance levels will be presented separately if there are differences between the regions.

The Chair and a member **challenged** the company on the research proposal being PCs and ODIs together. Should there be two parts to the research? The Chair thought that the research should be separate as PCs, targets and incentives is a lot to cover.

A member supported the **challenge** by asking how long the workshops will be. The Company explained that it would be two workshops (of 2.5 hours each) and face to face surveys (with 400 customers). The Chair furthered this **challenge** by stating that it would not work to confound a base business plan with an “enhanced plan”.

A member **challenged** the company to explain why they were not allowing customers to express their views on the wording of each PC. The company made it clear that the definition is in some cases mandatory from Ofwat and we would not be able to change these even if customers did have views.

#### **Item 9: Emerging retail plan**

The Chair noted that some of the data on the social tariff slides is for England specifically and so not correct for the company. The Chair wanted the proposed targets explained and why they were chosen. The company responded that there is great difficulty to do this in the present as there is no ‘now’ data. The Chair accepted this but stated that the CCG then finds it difficult to comment as baselines cannot be presented.

The Company explained to the CCG that research would be to see if customers are willing to pay (more than currently) for social tariffs. The questionnaire will be discussed with CCWater and then circulated to the full CCG.

#### **Item 10: AOB**

Dates/location and agenda to be circulated to CCG for extra meeting in April.

**CCG members held a closed session.**