

# Wednesday 21st March

10:00-15:30

Suite 46, Principality Stadium, Cardiff, CF10 1NS



## Attendees:

Lee Gonzalez (CC Water), Lia Moutselo (CC Water), Natalie Hall (NRW), Dimitri Xenias (Cardiff University), Duncan McCombie (Yes Energy Solutions), Paul Harries (WG), Louise Jackson (DCWW), Peter Davies (Chair), Richard Garner-Williams, Craig Anderson, Bethan Harvey (Secretariat)  
DCWW: Alun Shurmer, Daniel Davies, Mike Davis

Apologies: Steve Ormerod (Cardiff University)

PD welcomed and apologised for weather disruption to previous planned sessions.

This meeting is structured in two elements:

1. Bills research conclusions – paper circulated
2. A workshop on targeting setting for the measures of success

## 1. Bills Research

Mike Davis presented the discussion paper including a confidential introductory slide on proposed Bill structure. Key themes from the discussion:

**Striking the balance** between bills for customers, improving service delivery now and in the future and the financial resilience of the company based on the evidence from the customer research undertaken over the previous 2 years.

The CCG has a key role in ensuring that the balance truly reflects the customer evidence base.

**Affordability** for a customer base where average incomes are lower than the rest of the UK, yet have a water bill above the industry average and where the customers are concerned about the future income levels, with 42% saying that paying the bill is a “stretch.”

The CCG needs to ensure that affordability issues are front and centre of the business plan. This is also the context for the strategy for social tariffs and customers in vulnerable circumstances. Specific points were raised by CC Water in respect to how the impact of inflation was built into the research.

**Reduction in the Cost of capital** and savings arising will be passed through to customers in the form of lower bills.

**Efficiency savings** are critical to ensure the next business plan period delivers affordable bills as well as the service improvements expected by customers.

The CCG will need to be aware of the proposed efficiency savings to monitor against any impact on customers.

**Future Customers** need to be considered in the context of the Wellbeing of Future Generations Act with the importance of the long term view against the delivery of Welsh Water 2050.

The CCG needs to continually challenge DCWW to ensure delivery against the long term plans. The CCG needs to consider the balance between the costs incurred by current and future customers also ensuring that investment levels in the business plan deliver sufficient progress against the ambitions

set out in WW2050. DCWW have the highest credit rating of any company in the utilities sector which is key to financial sustainability, so critical for future customers that the credit rating is protected.

**Transparency** is critical to maintaining trust of customers.

CCG stressed the importance of the work needed to inform customers on how their bill is constructed and that the impacts of investments are clearly communicated.

**In summary** the CCG were supportive of the conclusions and proposed approach set out in the discussion paper, particularly welcoming the annex references to the customer evidence base from the PR19 research. The CCG will further scrutinise the evidence base to ensure customer views are truly reflected as the detail of the plan is developed from this outline.

(NB – a correction to research sources listed in the appendix was noted by DX)

## **2. Measures of Success and target setting workshop**

### **Customer Driven Targets**

Daniel Davies introduced the workshop setting out the Ofwat guidance on setting stretching targets. The CCG has a key role in ensuring that the company is setting stretching targets, based on customer views captured through robust research.

Daniel then presented the detailed working of the target setting approach for measures of success which are high priorities for customers – water supply interruptions, leakage, internal sewer flooding, pollution incidents, customer acceptability of water quality and external sewer flooding.

The process was based on a cost benefit analysis setting a price control process for water companies to establish the socially optimal combination of service performance levels across the various measures of water company service quality, by analysing the marginal costs and benefits of service quality improvements.

The process draws on the Willingness to Pay research, Performance Commitment research, historical performance data, benchmarking across the sector and other evidence from customer research sources. This generated performance target range within which judgements can be made on what represents a stretching target.

The aim was to provide the CCG with an understanding of the target setting process to be applied to all the relevant measures of success, so as to equip the CCG in its role of ensuring the company is setting stretch targets.

The presentation pack is available at: <https://trello.com/c/SYR7J6cm/37-march-21st-2018-stretching-targets-workshop>

### **Key themes from workshop discussions**

- Important for CCG to review evidence base for each MOS (Measures of Success) including taking into account weighting given to informed and uninformed elements of research findings.
- The importance of taking into account the range of data sources and not to have an over reliance of the Willingness to Pay research.
- The definition of upper quartile – that this makes more sense to be based on upper quartile of customers served as opposed to upper quartile of companies.

- Cost benefit analysis is a useful reference point but isn't the only driver and important to consider consequential social and environmental costs.
- There are instances where it may be appropriate for the company to decide "it is the right thing to do - despite the fact that on the whole customers do not support further investment for worst served customers, as a company we think it's right that we improve this service for our customers".
- Clarity needed on compliance requirements against environmental regulation.
- Importance of transparency and communication with customers to understand targets and trade-offs.
- The proposed approach to leakage with focus on support for reducing customer-side leakage.
- Importance of innovation in doing things differently to make a step change across measures of success.
- Key role for customer behaviour change in achieving change – expectation that customers become part of the solution.
- Impact of changing context over the next 5 years – increased severe weather events.

### **Specific Measure of Success (MOS) targets**

**Measure of Success 04 – Water supply interruptions** – the company performance is below the industry average due to length of pipes per customer and age of pipes. A target of reduction from 12 minutes per customer to 8 minutes over the period is proposed – which would be in the upper quartile if measured by customers served but well below company upper quartile measure. The company believes the customer evidence does not support increasing this target given the significant additional costs involved.

**Measure of Success 05 – Leakage** – represents a measure of millions of litres lost per day between treatment works and customer tap. Ofwat has set a 15% reduction target and is a high priority for customers. Leakage measures vary per property / per km and represent estimates. The economic level of leakage is the "efficient" level of leakage, at which the marginal cost of reducing leakage further is equal to the marginal benefit in terms of saved costs and environmental and social benefits. There is qualitative evidence that customers understand this and do not want to pay above this level. The company has shown biggest level of reduction in the industry in the last few years. Comparative performance depends on the measure used – per household or per km. The target is a reduction from 163 to 143 ml per day reduction to be delivered through focus on reducing customer-side leakage which has the potential of offering multiple benefits in terms of customer engagement.

**Measure of Success 07 Sewer Flooding Internal** - The number of internal flooding incidents per year and identified by Ofwat as one of four measures for which no reason why companies should not target upper quartile performance. Currently 225 properties flooded per year. The company have delivered significant improvement in last few years and is currently ahead of industry upper quartile. The plan is to track upper quartile and reduce property numbers to 203

**Measure of Success 08 Pollution Incidents** - Category 1 – 3 pollution incidents, as reported to the Environment Agency and Natural Resources Wales. The measure used is actual performance although UQ is calculated based on per 1,000km of sewer and identified by Ofwat as one of four measures for which no reason why companies should not target upper quartile performance. There are important consequential costs in that reduction in incidents could give rise to wider benefits to

customers outside DCWW supply area (i.e. visitors to Wales). The cost benefit analysis suggests target range of 72 to 103 incidents from projected 112 in 2019/20. Proposed target is reduction to 90 incidents based on WTP data, upper quartile performance.

**Measure of Success C1 Customer Acceptability of Water Quality** - the number of customer contacts per 1,000 of population relating to issues such as discolouration and water taste and smell. The CBA suggests a range of 1.9 to 2.2 from projected 2.4 in 2019/20. DCWW lag behind the rest of the industry on this measure with upper quartile 0.90 per customer and DWI want to see significant improvement. Industry leaders on this measure do not face the same operational environment. The main reason for customer contacts is discoloured water caused by a combination of soft water, manganese in water sources and a high proportion of cast iron mains.

#### **Not covered at meeting**

**Measure of Success C3 External Sewer Flooding** - The number of external sewer flooding incidents. Including flooding within the curtilage of a building normally used for residential, public, community and business purposes. The company is currently investing in this measure and estimate 2019/20 performance will be 4184. The CBA range suggests a range of 4300 to 3600 with 3800 set as a target.

#### **Follow up to workshop**

DCWW to circulate information pack on target setting for remaining MOS to be considered at the private meeting of the CCG scheduled for April 19<sup>th</sup>.

CCG to provide a response on targets for measures of success following that meeting.