

Northumbrian and Essex and Suffolk Water Forum

Response to the invitation from the CMA for comments

Introduction

In the water industry's price-setting process for 2020 to 2025, Ofwat raised the bar in two very important areas: the amount and quality of customer engagement in the process; and the degree of independent challenge from their Customer Challenge Groups (CCGs), to make sure that the pricing proposals reflect customers' true views and priorities.

Known as the Water Forum, we are the CCG for Northumbrian Water Limited (NWL) and cover its two operating areas, Northumbrian Water (NW) and Essex & Suffolk Water (ESW). We are a balanced blend of industry regulators, subject experts and independent members.

We are independent, with our Chair appointed by the Forum via national advert, all appointments are made by the Forum and supported by an independent author. We have Terms of Reference which set the framework for independent governance.

As the independent CCG for NWL, we were heavily involved in the Price Review 2019 (PR19) process, providing robust challenge to the company as it developed its business plan. **Our challenges are always made from the starting point that we want the company to deliver for its customers and on what they want.**

We wish to emphasise that our role is not to review the Company's Business Plan nor to act as a proxy for the customer voice.

Our role in the creation of the Business Plan

Over the two and a half years leading up to NWL's submission of its Business Plan in 2019, we challenged the company to create a plan that was grounded as much as possible in excellent customer engagement, provided stretch in its targets, was affordable for customers, and would help those who are struggling to pay their bills. During that time, our members were involved in 24 workshops, 11 meetings, 33 engagements with the Board and other NWL team members, as well as site visits and numerous other conversations. Our attendance at customer engagement events gave us first hand experience of what customers said so that we could assess whether the results had been interpreted fairly.

Areas that we did not get involved with

We are very clear about the different strands of our role, as defined in our Terms of Reference (see Appendix 8.5 of our PR19 Water Forum Report). Equally, we are clear that we are neither a second line of regulation nor a higher authority that mediates between regulator and company that comments on the adequacy of the company's plan to meet its regulatory requirements; it is to ask 'was the customer voice heard and acted upon when the decisions were made?' rather than 'was the decision the right one?'

It is not our role to engage in matters of financeability of the business plan, and as such we will not comment on such matters.

Papers submitted to date

This paper builds on papers that we have previously submitted, and which we have made available to the CMA:

- PR19 Water Forum Report – submitted to Ofwat on 3 September 2018.
- Supplementary Report to NWL’s Business Plan resubmission – 1 April 2019
- Water Forums’ Draft Determination response – submitted to Ofwat on 29 August 2019.

The content of this submission is consistent with the statements made in these documents, the inclusion of which illustrate the ‘journey’.

Our ‘in summary’ views on the PR19 process – from a customer-centric viewpoint

- We welcome the significantly higher emphasis on the requirement for customer engagement and involvement during PR19, compared with PR14 – we believe that this led to a plan that, in the round meets the needs of NWL’s customers; a belief that was confirmed by the very high acceptance levels of the plan by customers themselves.
- The customer engagement process was rigorous and engaging, and the Water Forum was involved in shaping 17 of the 25 pieces of research (see section 6 in our PR19 Water Forum Report). The research was carried out in line with the Market Research Society’s code of conduct. We were also heavily involved in shaping the all-important approach to triangulation of the research results, and in scrutinising the Business Plan to ensure it reflected these triangulated views.

Our views on the Final Determination (FD) in relation to our role

Please note we have had the opportunity to hear what NWL included in its Statement of Case to the CMA but we have not had the opportunity to review Ofwat’s response, nor to receive a presentation from the regulator, which has today been offered.

- Engagement: We were pleased to see that the regulator acknowledged the high quality of the company’s customer engagement and the impact it had had on the Business Plan.
- Cost efficiency: We are of course supportive of Ofwat’s drive to improve cost efficiency across the sector – all companies should deliver base efficiency and deliver enhancements efficiently too.
- Delivery of bill reductions, cost efficient, excellent services and future resilience:
 - a. We very much welcomed the unprecedented level of bill reduction for customers that NWL’s business plan offered; and indeed were very pleased that this could have been delivered in addition to significant investment in increasing resilience to the severe weather events that are resulting from climate change. At the engagement events we attended, it was clear that customers were not expecting a bill reduction of the magnitude of 15% that was proposed in the business plan. Indeed we saw from the information presented to us that a majority of those surveyed would have accepted a

10% bill reduction. We illustrate the point with quotes from some of the customer voices:

"I have accepted the plan. The thing I am happiest about is the fact that my bill will be 10% lower. This is really good, especially when my other bills seem to be going up quite a bit"

"Happy that the bills will decrease whilst services will not be effected" [sic]

"It reads as too good to be true doesn't it? What's the catch?"

- b. Allied to cost efficient delivery of excellent service to customers, we provided particularly strong challenge for NWL to develop a longer-term strategy as the context for a cost efficient business plan for the next five years, given the resilience challenge that is faced by climate change and growing populations in both regions where NWL operates, and the growing public concerns on the issue.
- c. Indeed, part of customers' acceptance of the Business Plan relates to environmental improvements and resilience. The impacts of climate change upon water companies and their customers will go beyond the current 5 year programme and so resilience plans put in place that take a 25 year vision and echo Government strategies such as The Climate Change Act 2008: 'A Green Future: Our 25 Year Plan to Improve the Environment', and advice from the UN Conference of Parties (COP (19)) would be more robust. The positive engagement process that we observed NWL undertaking with its customers during PR19 did an excellent job in stimulating debate and understanding of the impact of a number of risks including climate change and we heard positive support for a balanced approach offered by the Business Plan to significantly reduce bills, invest in resilience for the benefit of current and future customers.

"It is great for future generations to know they have safe water"

"Who could complain about lower bills with unrivalled customer service and significant improvements to the environment"

In our response to Ofwat's Draft Determination for NWL, we raised a number of concerns that remain concerns with the FD:

- We maintain our view that implementing the DD would deliver a plan that is different in some fundamental ways from the one that customers gave very strong support for (91%), and that they are expecting to be delivered – particularly in terms of resilience for the future.
- We maintain our view that whilst we welcome Ofwat's focus on reducing bills for customers, the customer research was clear – they accepted a reduction of 15% and a reinvestment of other potential into enhancement projects for increased resilience, including those to proactively reduce flood risk and to secure water supply in the ESW region.

- Customers also said they wanted stable bills.
- Taking the customer's '....what's the catch?' question and applying it to the FD, we remain concerned that short-term bill reductions could lead to higher risk exposure, for example, if asset maintenance budgets are squeezed too far, more unplanned costs and hence longer-term bill increases to customers could emerge. Although regulation penalises a water company for failures that may result from such a squeeze, customers want their supplier to avoid failures that result in an increased risk of raw sewage in their homes.
- It remains the case that NWL's proposed £86m enhancements to proactively reduce flood risk received very strong customer support of 71%. Our view is that these were focused on reducing long-term risk of sewer flooding, rather than driving the shorter-term Internal Sewer Flooding Incidents performance measure for 2020-25. We therefore note that if the FD is upheld, the bespoke PC would have to be removed from the suite of performance commitments, as it is unique to the funded enhancement.
- We take this opportunity to again underline the importance of the two schemes in the ESW region – the Abberton to Hanningfield raw water transfer main investment would address risks beyond those that the Layer Water Treatment Plant investment addresses. The prevention of sewer flooding in the North and the security of water supply (especially in the south) are necessary because of the effects of climate change already being seen in the climate systems of the UK. Therefore, not investing in sewer flooding in the North and water resilience issues in the South now does not, in our view, make sense especially when customers have said they support it. We would suggest that if the investment is not made now, the issues risk becoming more acute by the next Price Control round and could, therefore, be more costly to address, affecting future customers. On a wider point, we would urge the regulatory process to fully embrace climate change and its implications as it does economic issues.

In conclusion

Ofwat mandated an unprecedented level of customer engagement for the preparation of the PR19 business plan, which was very much welcomed by the NWL Water Forum; and was very clear that plans needed to reflect customers' views.

Customer research was clear: 91% of NWL's customers wanted to see a reduction in their bills at a level that also enabled NWL to add resilience for future generations, i.e. a FD that would strike the right balance between lower bills and investment to mitigate the risks associated with climate change. In our view, the Business Plan delivered this.

We have a concern about the potential risk to customers, which we would ask the CMA to explore as part of its deliberations. Put simply, might implementing the FD as it currently stands put customers at greater risk? As we have observed above, past industry experience shows that if costs are squeezed too much then the areas that can suffer are general asset maintenance and climate change resilience, damaging companies' ability to deliver for customers of today and the future.

Ofwat's change to the pay as you go rate is also an issue we would wish the CMA to explore. This change will have the effect of advancing £25m of revenue from future customers, to support NWL to finance the future investment that customers support. From a consumer perspective, current customers recognised and supported paying their fair share of investments for future generations, as they recognise that we all currently benefit from investments made by past generations. There is a danger that advancing revenue in this way could result in customers effectively paying twice; in the current and subsequent price control periods.

It is worth noting that customers have not had the opportunity to understand what the FD means, or could mean, for them, their communities and future generations, nor to express a view.

To end this submission with a contemporary note, we also realise that Covid-19 has brought uncertain times to all. Whilst it is ever-present in our current lives, the Business Plans were developed beforehand, and we have kept our commentary to those plans. We will, of course, watch with interest how the pandemic affects customers and water companies alike.

Next steps

We are pleased to contribute to the CMA process and would be happy to add to the discussions pertinent to our role in the process. We will in any event be reviewing the response of Ofwat to the Statement of Case, and, in due course, the Company's response to that, and will come back to you if we have further points to add. We note however, for the record, that the Water Forum's Environment Agency members are taking a neutral stance on all matters relating to the appeal.