
19 MARCH 2019

THE GREAT NORTHERN HOTEL, PETERBOROUGH

MEETING NOTES

PRESENT:

Chair: Jim Dixon

Vice Chair: Melanie Laws

For Customer Council for Water (CCW): Bernard Crump

For Environment Agency: Roger Martin

For Natural England: Hannah Campbell and Stephen Rothera

For the Environment theme: Richard Powell (Independent)

For the Communities theme: Mary Coyle (Independent) and Lesley Crisp (Citizens Advice)

For the Customer theme: Robert Light (CCW)

For Economic Impact theme: Sarah Glendinning (CBI) and Steve Grebby (CCW)

For National Farmers Union: James Copeland

Water Forums Independent Author: Sarah Young

For NWL Board: Margaret Fay (Independent Non-executive Director)

For the Company: Heidi Mottram, Louise Hunter, Claire Sharp, Richard Warneford, Elaine Erskine, Jude Huffee, Ross Smith and Gareth Barrett

Ros Shedden (Water Forum Secretary)

NOTES AND ACTIONS

1. Welcome and apologies

Jim Dixon (JD) welcomed members to the meeting and introduced the new Environment Agency (EA) member, Roger Martin (RM) who was standing in for Melissa Lockwood.

JD said the aims of the meeting were to receive a sub-groups update from Richard Powell (RP), engage with the Company on its views on Ofwat's Initial Assessment of Business Plans (IABP) and then to work on the Forums' Supplementary Report.

Members noted that they had no interests to declare.

Apologies had been received from Gerry Croall, Jo Curry, Iain Dunnett, Anna Martin, Bhupendra Mistry, Fiona Morris, Professor Mark Reed, Melissa Lockwood, Joseph Surtees, Caroline Taylor and John Torlesse.

2. Notes and actions from the last meeting

Members asked for one minor correction and then agreed the 27 November 2018 meeting notes.

3. Pre-meeting

Members had been supplied with the following meeting papers:

- Notes and actions of last meeting – 27 November 2018
- Drinking water quality sub-group meeting notes – 22 January 2019

- CEO update
- Regulatory update
- Customer engagement and participation update

Members deliberated on the papers they had received and prepared for discussion with the Company.

Members noted that since Ofwat's publication, the Board through its Sub-Group (BSG), had been heavily engaged with the process. The BSG had been involved in numerous meetings – at its last meeting it had gone through every point, including through all of the customer engagement. The BSG's next meeting was on 21 March 2019 when there would be a clear steer.

Members noted that any major changes to the plan on 21 March could mean it would be difficult to comment, because of the regulator not allowing CCGs to submit its report after the Company had made its final submission.

4. Environment and Drinking Water Quality Sub-Groups update

Drinking Water Quality Sub-Group

Members had been supplied with the presentation and notes from the Drinking Water Quality Sub-Group meeting (22 January 2019).

RP, Chair of Drinking Water Quality sub-group, said the meeting had been really good. Members had received a comprehensive update on where the Company stood with regard to drinking water quality issues, as well as on the Company's desire and drive for continuous improvement.

The Company had also briefed members on two issues:

DWI technical audits outcome

The Company had been audited four times by the DWI, three of the audits had been determined as 'unsatisfactory'. The Company was addressing the issues, and had agreed that the members of the Water Quality Sub-Group would visit the treatment works on fact-finding sessions to understand the issues and see the progress. All members were welcome to take part in this. Dates would be offered by the Company from April 2019 onwards (Action Company).

South Moor Service Reservoir – DWI prosecution

The Company had been prosecuted by the DWI for an event where it, and its contractor, had not followed procedures. Margaret Fay (MF) said the Company took full responsibility for the event.

Members noted that they would like to understand more on the Company's, and the wider industry's relationships with contractors. See Confidence and assurance (Section 5.4) below.

Environment Sub-Group

RP said the Environment sub-group activities were largely on hold until the Periodic Review was settled, although some progress had been made. Members had met with the Company and had drawn up list of potential Sub-Group members.

Members noted that the Business Plan had included costs for the substitution of the pesticide Metaldehyde, for another product. Metaldehyde use was due to be banned by the Government. They were awaiting information on what would happen to the £3m in this project. They needed clarity and their working assumption was that this money was no longer needed (Action Company).

5. Company and Forums reflect on Ofwat's Initial Assessment of Business Plans (IABP)

JD congratulated the Company on its recent Times Best Companies Award, and then asked Heidi Mottram (HM) to give the Company's view on Ofwat's IABP.

HM said the Company was disappointed. It had, through conversations with customers and Forums, submitted, she considered, an excellent plan.

Members noted that:

- no plan was judged as exceptional – there was speculation that a bar had been set for 'exceptional' that no company could jump over. If this were true, was that wise?;
- the three fast-tracked companies were closest to Ofwat's cost modelling;
- the industry was expecting a clear focus by the regulator on what customers had said they wanted to see delivered (through extensive consultation), but the impression being given was that there was an emphasis on the regulator's financial modelling; and
- potentially, this had cost/benefit implications for the whole periodic review process, where a great deal of effort had been put in by all companies and CCGs to understanding customers' needs and priorities and putting them at the heart of the business planning process.

HM said a main focus was on Ofwat's treatment of enhancements. All companies were making a big push towards increased resilience. What appeared to be various forms of push back from the regulator seemed to be common across the industry. Companies needed to have strategic conversations with the EA and Natural England (NE), with whom they were working in partnership.

With regard to its sewer flooding enhancement plans, HM said the issue of tackling the impact of climate change was central and this proposal had this driver at its heart. The plan proposals needed to be clarified accordingly. The weather/rainfall in the north east area had been significantly different in recent years. Other companies, United Utilities, Yorkshire and possibly Wales ('Wet Companies'), had similar weather patterns and had suffered similar flooding performance issues. Richard Warneford (RW) said he had met with Ofwat on 18 March 2019 to inform it on what the Company intended to do, and he had signalled that the Company needed extra time to prepare more evidence. The revised sewer flooding submission would then be submitted 1 June 2019. EA and NE members said they were fully supportive of the Company's approach; NWL was leading the industry on flood prevention. Members noted that the EA could not write a letter of support for the Company but could provide evidence and be a supportive voice through the Forums.

Members noted that the Company's 'Smart Networks' approach was to enable the use of its sewerage networks in a smart way; it would be able to move waste water around. The Company felt that there was a way forward as it was an important initiative.

RW said the Company would provide a summary of its sewer flooding performance commitment and its changes to its plan (Action Company).

5.1 Securing cost efficiency

Members had been supplied with the 7 March Financial Sub-group meeting paper and notes.

Base costs

With regard to base costs members noted:

- in its base costs modelling, Ofwat had used sewage pumping station data, which it had not previously used for modelling and the Company had confidence-graded as low;
- for the re-submission, the Company had carried out a huge assessment and provided better data to Ofwat;

- Ofwat had indicated that it would accept and use this corrected data and with regard to 'corrected' base costs, the Company would then be close to where it wanted to be; and
- would now be back 'in the pack' with other companies.

Members also noted that the change to the Company's base costs could be large enough to affect other companies' positions and so it would be important to see what stance the regulator took on this. Members asked to see the actual efficiency numbers (Action Company).

Enhancement costs

With regard to enhancement costs Ofwat had allowed 40% less than the Company had said it needed.

Enhancement opex

Members noted that some of the loss was because Ofwat had placed opex costs associated with enhancements into company's base costs.

NWL's enhancement opex was predominantly associated with future project studies. The Company's consultant, Reckon, had found that other companies, which had submitted this type of expenditure as capex, had been successful. Therefore, the Company expected this to be resolved by treating study costs expenditure as capex.

Enhancement capex

Members noted that, broadly, Ofwat's cost model did not accommodate the rainfall variation that the industry was subject to. The Company's proposal to determine 'wet' and 'dry' companies – giving appropriate additional evidence – was good. It should have a strong case. However, if it was not successful it would have to rely more on its base costs and this could be a risk to long-term maintenance. Members would want to understand more about this.

Members also noted that the Company was putting the best case it could. It was noted that the ultimate appeal was to the Competition and Markets Authority (CMA).

HM advised that the Company was taking what it considered to be a logical and rational approach to its submission.

Members asked if the Company was responding to Ofwat's Advised Actions. It was keen to support a number of things (eg bio-resource trades, collaboration and partnerships). RW said yes the Company was responding to everything – it would provide information on these (Action Company).

Regarding the 1 June 2019 submission – members noted that the Company had not yet considered whether there would be any further customer engagement related to this. Company to consider this and get back to the Forums (Action Company).

Ambition for water poverty

Members noted that, to the Company, Water Poverty had always been much more than the Social Tariffs and was a really important vision, a nationally important goal.

Members noted that when companies asked their customers about their willingness to support social tariffs, the outcome was consistently a higher amount than that proposed. For this element of customer engagement, possibly an industry approach should be taken (Action CCWater).

5.2 Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs)

Members noted that the IABP process was moving at pace and:

- the proposed changes to PCs and ODIs would be better for customers than the levels they had already agreed to; and
- there was currently not enough time to go back to customers on individual PCs but those conversations would be had.

With regard to sewer flooding members supported the move to national benchmarks, as this will drive even better customer outcomes. They noted NWL's one caveat - because it believes in the 'wet company' approach to modelling, there ought to be a special factor for 'wet companies'. This was something the Company was discussing with other 'wet companies'.

With regard to the enhanced ODI multiplier members noted that this was area of contention:

- Ofwat was using the multiplier to encourage companies to innovate and push ahead on performance – this in turn would drive up industry performance;
- increased reward would pay companies to take the risk;
- the Company had strong customer support for its proposed multiplier; however
- members would nevertheless challenge – on the grounds that it was unfair to ask one company's customers to pay for industry-wide improvements (Challenge).

With regard to Ofwat's pollutions ODI challenge – members noted that the Company had decided to take the upper quartile but stated it would still aim for zero pollutions. However, members referenced their original customer-research-based challenge on this (see Water Forums Report page 50 Challenge #75) and said they would still challenge the Company and Ofwat (Challenge continuation).

5.3 Securing confidence and assurance

Members noted that, at this point of the process, the Company was unable to share its position on Ofwat's requirements for Board assurance, as these were being considered at the Board Sub-Group meeting on 21 March 2019. It would be shared thereafter (Action Company).

With regard to confidence and assurance in the tight timelines, members asked if lessons had been learned from previous issues, and whether the Company could be certain that data errors would not occur.

HM said that the Company had a number of robust processes in place to provide assurance, including the Executive Leadership Team ensuring that there was a strong, consistent thread through the plan, and utilising the services of PA Consulting which was carrying out thorough scrutiny. The Company's data was usually very strong and a full review had been conducted to correct any issues and assure things for the future.

Contractor management

With regard to the DWI Prosecution item in the Drinking Water Quality Group feedback (see item 4 above and paper 4.0) – members said that they would like to understand more about the issue of contractor failure, and in particular what actions can be taken to address any failings either at a corporate or an individual level. If the issues were at either level (or both), could action be taken to address such issues to prevent them reoccurring elsewhere in the industry? Members asked the Company to explain how the industry addressed this.

HM explained that after the particular incident affecting NWL, the Company and the contractor had taken action to educate, explain and advise the industry as a whole on the issue, to share experience and to seek to ensure that the issue did not reoccur. This was generally how the industry worked – in an open and transparent way.

With regard to the general hypothetical role of individuals in such events, the Company undertook to look at the issue.

5.4 The longer-term

Water resources

With regard to the speech made by EA Chief Executive, Sir James Bevan, on 19 March 2019 – members reflected on one of the main issues he had raised, the future pressures on national water resources (see Appendix 1). They drew the link between this and Ofwat's approach to PR19 which seemed disjointed with the Government's environmental strategy.

HM said that what was about to happen was encouraging. For example, the new CEO of Ofwat, Rachel Fletcher (RF), was clearly looking to the future, and was developing a 'vision' which, she had indicated, was centred on Ofwat, EA and NE working together. They had formed a group which was working on this and other issues.

CCWater members said that RF had attended the CCWater Board meeting and confirmed that this had started. There was £360m to be spent across the AMP7 plans. A new Water Resources North Group had been set up – although NWL was yet to be tied into this process. Future plans needed to be robust and actioned by all partners.

Members felt that clarity was needed on water resources groups in respect of the following:

- terms of reference - what they would deliver;
- impact on bills and customer needs; and
- who was leading - Defra, Ofwat or EA?

HM said she very much supported the idea of a national water resources management plan. What RF was doing would have traction – because it was funded. She was not sure that Ofwat would lead – but it would be good to have Ofwat in the room.

Members noted that the Forums needed to understand this in more detail. HM said she was to be going to a water industry CEO Roundtable Workshop with RF on 27 March 2019 – she would update members on this after the meeting (Action Company and Action Forums).

Brexit

Members asked the Company on the status of its Brexit preparations.

RW said the Company had been working on this for several months – its biggest consideration was around chemicals and it was prepared on this. Water companies and their suppliers were in a good place – they had been stockpiling chemicals on their sites and the situation was being monitored continually in real time. Also, two exercises had been carried out and the outcomes of these had been satisfactory.

With regard to equipment spares, members noted that these would not be a problem as water companies generally held supplies.

6. Supplementary Report

Members worked with their Author on their Report, they noted that their timescales were tight – they agreed the following deadlines:

- members to provide remaining missing information to Sarah Young (SY) by Thursday 20 March 2019 – earlier if possible;
- Draft Report (next version) – to be provided to members by Friday 21 March 2019;
- the Company to provide information on Board Sub-Group views and any changes to the proposals plan to members and SY by Friday 21 March 2019;
- members to provide final text to SY by 27 March 2019; and
- SY to provide Final Draft Report for members review by 29 March 2019.

Note: The Forums working assumption was that the final Board sign-off on 29 March 2019 would be largely an assurance matter, with no major changes at that late stage. This was, however, an assumption and the Forums were disappointed that Ofwat had not been minded to grant CCGs additional time to consider the final company submission.

Following the meeting, members broke the meeting to resume in camera. Members held their meeting review in this session. A summary of this review, this is in Appendix 1.

CHALLENGES ADDED TO CHALLENGE LOG
With regard to the enhanced ODI multiplier, the Water Forums challenged the Company's stance on the grounds that it was unfair to ask NWL's customers to pay for industry-wide improvements.
With regard to Ofwat's pollutions ODI challenge – members noted that the Company would take the upper quartile but stated it would still aim for zero pollutions. However, members referenced their original challenge on this (see Water Forums Report page 50 Challenge #75) and said they would still challenge the Company and Ofwat.