

Minutes of Meeting

Customer Forum Meeting 7th April 2016

Room G:1, Livingstone House, Chadwick Street, Leeds, LS10 1LJ

Attendees:

Andrea Cook	Chair
Gill Gibbons	Secretary
Nici Pickering	Citizens Advice Bureau (CAB)
Joanne Volpe	Age UK
Janine Shackleton	Consumer Council for Water
Melissa Lockwood	Environment Agency (EA)
Dave Merrett	Independent Member
Wendy Kimpton	Yorkshire Water (Acting Head of Regulation)

Apologies:

Adrian McDonald	Independent Member
Alistair Maltby	The Rivers Trust
Ruth Reaney	Natural England
Adrian Kennedy	Yorkshire Water (Director of Regulation)
Nicole Buckingham	Yorkshire Water (Regulatory Project Manager)

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1) Welcome

- a) The Chair welcomed Forum members to the meeting.
- b) The Chair welcomed a member representative from the Citizens Advice Bureau in Rotherham who would be replacing a previous member of the Forum. The new member has a background in marketing/campaign work, sustainability and working with customers. Introductions were then made around the table from all of those present.
- c) The Chair confirmed that a formal induction will be made by both the Chair and the company as soon as possible, to include both new members of the Forum and any potential new Forum members that it was hoped would be able to join the Forum in the not too distant future.
- c) Apologies were received from the Director of Regulation, an independent member, a representative of the River Trust and the representative from Natural England.

ACTION 1: Chair and company to arrange a formal induction for new Forum members

2) Review and Agree Minutes/Actions of the Last Meeting

- a) The review of the Minutes and Actions from the last meeting were deferred to the next scheduled meeting on 26th May 2016.

Current Performance Review:

3) Price Re-opener Overview / Update

- a) The company provided an overview on the Price Re-opener 2016, the basic premise of which is that, from April 2017, 1.2 million businesses and other non-household (NHH) water supply customers, mainly in England, will be allowed to choose their preferred supplier of water and wastewater retail services. For clarity, other NHH include such establishments as hospitals, farms, council buildings, halls of residences etc. This change was lobbied for by large companies that usually have multiple sites in different areas of the country. The reasoning for this was so that such companies could be billed by one supplier at one rate.
- b)
- c) In April 2015, the NHH retail price controls were set as part of the usual five year price review; the NHH price control covers a two year period, up to April 2017. Ofwat has suggested that there would be advantages in reviewing these arrangements before the market opens in April 2017.
- d) Since April 2015, the re-opener has been subject to two consultation processes; November 2015 and March 2016. Both of these consultations consider the scope and timeline of the re-opener; November was for gathering views from the water industry and March for reviewing the preferred options.
- e) This change will only apply to England and large use customers in Wales and the Forum questioned how this would affect those companies who provide services to customers crossing borders into Wales and Scotland. It was confirmed that guidance was currently being drawn up around eligibility and this is ongoing.
- f) The company confirmed that the company as a wholesaler is not competing, however, there will be an 'arm' of the company's parent company that will compete for NHH retail customers. There has already been an appointment of the company's Head of Non Household Customers and a contract has been set up between the company and the Non Household business. The Non Household business can compete for customers outside of the region.
- g) The company confirmed that all incumbents are being offered the choice to exit from the retail market under the proposed new regulatory arrangements, but they would have to apply to the Secretary of State to transfer their NHH retail customers to another retailer. Checks would then ensue to ensure these customers were appropriately protected, however, the ability to do this will not happen until 1st April 2017.
- h) The company reiterated that all potential retailers will be going through extensive checks and some water companies have retail 'arms' already, but it isn't yet clear whether the big retailers (ie, Tesco, M&S etc) want to be part of this; the general feeling was that if a competitive market is introduced for the household market then there may be more interest from larger retailers.

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- i) The cost of introducing NHH competition is being funded by NHH customers, in line with the final determination. Any variance to these costs, eg if the costs exceed the costs allowed in the final determination, then the additional cost is borne by the company
- j) Ofwat has appointed one company to create a market operator to oversee this project, namely Market Operations Systems Ltd (MOSL). This company is creating the systems that will allow all wholesalers (ie, water companies) and retailers to interface with each other.
- k) In the Price Review at 2014, water companies prepared their suggested tariffs for NHH, creating tariffs which are fair for customers which would also comply within the Competition Act. Ofwat and the water companies have been reviewing these suggested tariffs to ensure they still believe they are correct, based on further cost information from 2015/16. The company is happy that their suggested tariff is straight-forward and simple and easy to understand. It confirmed that for the water element of the tariff it had four bands, compared to some companies that had lots of differing bands.
- l) Ofwat has determined that there are to be 'default' tariffs and incumbent companies have to offer these to customers, whilst future retailers can offer what they deem to be reasonable.
- m) The Forum felt that Ofwat doesn't have a proper understanding of customer views in regards to competitive markets, with past experience within the energy sector showing that people are not particularly motivated in transferring to different companies. The company suggested that there could be some movement with large business customers but, because water bills in general are smaller than energy, it was felt that smaller companies may not be as likely to think like the larger companies. It was also confirmed that NHH customers had been classified into either 'micro' or 'other'; micro being 10 employees or less. These micro customers would get more protection than the others and there would be no impact if the micro customers chose not to move suppliers.
- n) The Forum asked how much the retail element would be within a NHH bill. Whilst the company didn't have the figures for the meeting, it said it would respond to Forum members accordingly.

ACTION 2: Company to respond to Forum to show what percentage of a NHH bill is currently the retail element

- o) Within the second consultation, Ofwat had listened to the views of companies but re-confirmed its current position. Whilst it looked at the evidence from retailers regarding profit margins being too low, it confirmed its belief that the 2.5% margin remained appropriate and that this would encourage the market; it confirmed that it did not intend to adjust the overall level of NHH retail costs but would allow a re-allocation of costs within the control; it wants to seek views regarding simplifying default tariffs for larger sites; opportunities exist to look at tariff bands and retail costs; and the price control will be set for three years to align with the existing price controls, which brings this back into line with five year period, up to 2020.
- p) The main area of interest and a key action for the Forum is that companies must provide and publish evidence that they are engaging with their customers. However, the timetable set by Ofwat for the consultation period means that the company has to respond to Ofwat's consultation on method and data table requirements for the review by 19th April 2016. The Chair confirmed she would draft for the company to submit with its response.

ACTION 3: Chair to draft a response for the company to submit with its own response to Ofwat's draft statement on method and data table

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- q) On 19th May 2016, Ofwat will confirm its statement on method and data table requirements for the review. Companies then have to submit any changes to their cost and margin allocations, together with the data tables and supporting evidence, by 20th July 2016. These should be consistent with audited regulatory accounts 2015/16 and regulatory reports.
- r) The Forum requested that the company present its current proposals for its customer engagement plan at the next meeting on 26th May 2016. The Forum would like to see the company 'raise its game' in regard to customer consultations and be an exemplar.

ACTION 4: Company to present its customer engagement plans at the next Forum meeting, scheduled for 26th May 2016

- s) The Forum asked whether the company had a risk assessment for the implications of market reform. The company confirmed it had set up a NHH Retail Board (which is chaired by the Head of Regulation) and this Board consistently reviews its risk register and programme plan. The Chair confirmed that whilst the Forum didn't need to see any commercially confidential detail, it would like to understand any concerns that could impact on the company.

ACTION 5: Company to share with the Forum any concerns/risks it feels could impact on it due to the opening of the market

- t) It was felt that the biggest concern was for small business customers, hence the company wanted to ensure tariffs were geared to help these customers. It also suggested that even though the Non Household company would be the service provider, it wanted to ensure it maintained the company ethos in treating these customers with the same care and attention it had always done .
- u) Another major risk for all companies was the potential for failure to comply with the Competition Act. With the split between NHH and wholesale areas, there has to be NO overlap between the two areas within the company. That means staff who would have been liaising and working together for the last 25 years to ensure a seamless service, are now having to split and ensure there is no conflict of interest. The company confirmed it is currently seeking external advice in this area.
- v) The Forum suggested a big consequence of the markets would be on water efficiency and asked whether there had been any allowance made in regard to water demand and income, ie less demand for water would mean less income. The company confirmed that whilst income played a small part, it would be good for water reduction and saving on natural resources.
- w) CCWater highlighted that Ofwat had not yet provided a proposal for a cohesive complaint procedure for NHH (micro businesses). Currently it appeared that companies will decided the complaints process, with each company having its own different procedures, however, if a multi-site company wants to complain it would prefer one process rather than having to complain to varying companies. It confirmed this was currently being raised with MOSL and Ofwat and CCWater is pushing for answers in regard to this. The Forum agreed that it was keen for the company to continue to have a well-coordinated complaints strategy going forward.

ACTION 6: Company to propose a consistent complaints strategy for all companies for the NHH going forward

- x) It was suggested that Ofwat believes if the NHH market works correctly, they would be no need for economic regulation. The issue of disconnections was discussed, but the company confirmed that any decisions on disconnections would still remain with the wholesaler rather than the retailer. If the retailer wanted a NHH disconnection to take place, it would have to apply to the wholesaler. However, in the cases such as Hospitals, these are covered by present laws regarding disconnections and would remain so.

Looking Ahead:

4) Water 2020 Consultation Response

- a) The company presented an overview of Water 2020, an Ofwat consultation looking at the challenges faced by the water industry and the proposed changes, including the regulatory framework for wholesale markets and the 2019 Price Review, and the company's response to the consultation.
- b) The consultation sets out Ofwat's preferred approach for the design of the future regulatory framework for the water industry. It consolidates the original Water 2020 consultation, which is a response to the 'Water for Life' paper published by DEFRA and reiterates the challenges faced by the industry, namely water quality, increased water scarcity, improved environment, financial pressures due to the new water quality requirements, increasing population (especially in water-scarce areas) and changes in climate/weather.
- c) Ofwat believes that if it carries on trying to solve issues as it has in the past, this would mean increased bills for customers, in turn leading to further issues around affordability. Therefore, it has created the Water 2020 programme, with inputs from the water industry through the 'market place for ideas', to encourage debate and seek solutions to resolve issues, and enable a better understanding of customer priorities, which hopefully will avoid significant increases in bills. The tools suggested by Ofwat are: a greater use of markets, more collaboration between companies and also third party organisations, different ways of procuring goods/services and better customer engagement, particularly looking at how best to engage with customers to share ideas etc.
- d) With regard to water resources, Ofwat wants the companies to look at markets to address new needs, ie looking outside their company boundaries for water required to service customers (eg procuring from other companies, abstraction licences etc).
- e) Ofwat also wants companies to make more use of sludge as a product (sludge is the by-product at the end of sewage treatment) and encourage a sludge trading market. Sludge is currently used by the company at some of its wastewater treatment works to generate on-site electricity, therefore off-setting the cost to treat the sludge on site.
- f) The company gave an example of 75% of sludge treated at a site being sent straight to digesters. If a company then required more sludge treatment then they could put this request out to a market, as it could potentially be cheaper to purchase additional sludge rather than build new treatment works. The additional 25% of sludge would be made up from smaller sites located in villages etc, which could potentially be diverted direct to a works in the vicinity; this would then free up additional capacity.
- g) A discussion then took place on the suggestion that there appeared to be a conflict of interest between companies collaborating and trading, whilst there is an increased emphasis on competition.
- h) The company confirmed that water companies have their own supply of water (under licence), but a company needs to have confidence that, when signing over any 'additional capacity' water to another company, that it still retains enough water supply for the demands of its own customers. The Forum highlighted that this touched on a discussion at the previous meeting on the drawing-down of reservoirs at times of flooding.

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- i) To enable the creation of these two markets (water resource and sludge), Ofwat would put in place six binding price controls; water resources, water networks plus (distribution/treatment), Non-Household retail, Household retail, wastewater networks plus (sewage collection and treatment) and sludge. If these price controls were set as binding controls, there would be NO ability to adjust costs between controls based on new or better information.
- j) Regulatory Capital Value (RCV) would be protected up to 2020, ie this would be rewarded as set out in the Price Review in 2014.
- k) Retail Price Index (RPI) is currently used for setting customer bills. However, Ofwat is now proposing using a 50:50 ratio between RPI and CPI (Consumer Price Index).
- l) In response to the above, the company looked at three questions:
 - Will the proposal benefit our customers?
 - Will the proposal support stakeholder confidence and continue to attract a low cost of capital?
 - Is the proposal the most straightforward way to achieve the objective?
- m) In regard to customer engagement, the company said it fully supported the approach and objectives. This will be expanded on at the next meeting as an agenda item, as referred to earlier in previous meetings.
- n) Formation of the markets – the company supports markets where they are in the best interests of customers but wants the market design to be simple and cost effective.
- o) Binding vs non-binding price controls – the company stressed it did not support the ‘binding’ price controls as there would be administration costs involved and is not necessary to the effective operations of markets. Work carried out by the company indicates that if the sludge market design required inputs on all Wastewater Treatment Works and Sludge Treatment Centres every year, alongside setting up binding price controls and a water resource market, this could lead to substantial set up costs, whereas a simpler sludge market design, alongside non-binding price controls and water sludge market, would cost significantly less and achieve the same outcomes – active markets and clarity on cost allocations.
- p) RCV allocation – the company believes that it is not necessary to allocate RCV to the new markets in the value chain to allow markets to operate; allocating the RCV adds additional costs and complications that are unnecessary.
- q) CPI/RPI indexation – whilst the company agree with this in principal, it would like further clarification before stating the appropriate proportions of RPI and CPI to be allocated. It would not support agreeing to a 50:50 split at this stage and suggested it needs more time to understand CPI debt markets, changes to existing financial structures, the size of the environmental programme, the size of the resilience challenges and any impact on customer bills.
- r) Overall, the company supports the direction of travel, however, it does not want to see an over-complication of the markets, leading to unnecessary costs and risking the low cost of capital through undermining investor confidence.

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- u) The Forum reiterated its position on customer engagement and stressed the need for the design of the markets to show benefits for customers, and did not want the company to lose access to a lower cost of capital, which could have a detrimental effect on prices.
- v) The Forum also highlighted that there didn't appear to be any significant commentary on the potential implications for vulnerable customers, notwithstanding that the water industry does not have the same pre-payment and disconnection issues that are present in the energy sector. The Forum asked what role it would fulfil in PR19 in this regard. The Chair said she would hope that the Forum would continue to make representation for vulnerable and low income customers and they should be part of any scenario planning within future research.

5) Look Forward

- a) The Chair suggested that time was required for thinking through subjects, without an over reliance on the restrictions of Ofwat timetables.
- b) The Forum reiterated that at the next meeting it would like to see an agenda item on the company's planned customer engagement and research undertakings, with identification of locations, to help shape the programme.
- c) The company suggested that it should provide a Re-opener update on customer engagement. It would also provide a high-level suggestions regarding PR19, ie objectives, roles and responsibilities
- d) The Chair also confirmed that United Utilities had a Small Businesses Federation (SBF) representative, who may have the potential to cover the Yorkshire Customer Forum role. However, there was a suggestion that there could potentially be a conflict of interest should the SBF set up as a retailer in the long-term. The Chair would liaise with the company's Director of Regulation to discuss this.

ACTION 7: Chair and Director of Regulation to liaise with regard to membership from the Small Business Federation and others to fill current vacancies

- e) CCWater highlighted they have regular meetings with its Business Customers Group. It confirmed that Thames Water currently engage with larger companies about what competition could mean going forward. A number of consultants attend these meetings and there is nervousness around the impact of the proposals for competition on their work. CCWater will provide feedback on these meetings at the next Forum meeting.

ACTION 8: CCWater to present an update on its regular Business Customers Group meetings at the next meeting, scheduled for 26th May 2016

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6) Date of Next Meetings

a) Thursday, 26th May 2016

Venue: Rooms G2/G3, Livingstone House, Chadwick Street, Leeds, LS10 1LJ

ACTION 9: Forum Secretary to distribute interim list of actions prior to the detailed minutes being circulated

ACTION 10: Forum Secretary to draft and circulate minutes to members

The meeting closed at 12:15pm

Summary of Actions : 12th February 2015

No	Action	Comment
4	Forum members to put forward any suggestions for new members direct to the Forum Secretary asap	
7	Chair to formally 'stand-down' any members unable to remain on the Forum	

Summary of Actions : 11th June 2015

No	Action	Comment
7	Meeting Venues: Forum to review meeting venues from June 2016 onwards	Agenda Item: AOB 26/05/16

Summary of Actions : 17th September 2015

No	Action	Comment
23	Social Tariff & Customer Support Update: Company / Forum Secretary to organise a Forum group site visit to its Contact Centre in Bradford Q: Is this to organise now or wait until full complement of members?	

Summary of Actions : 17th December 2015

No	Action	Comment
2	<p>Other Updates: Company to forward The Rivers Trust contact details to the Local Council & Drainage Board, so they can be included within the ongoing relationship to benefit Hull</p> <p>Post Meeting Update: Forum Secretary forwarded suggested contact details for both Hull City Council and Hull Internal Drainage Board on 19/05/16</p>	COMPLETE
5	Ongoing Engagement: Company to present results of digital segmentation research to Customer Forum at a future meeting	To discuss as part of Customer Engagement agenda item: 26/05/16
6	Ongoing Engagement: Company to hold individual telecon with Forum members in regard to any challenges the Forum think may present going forward	To discuss as part of Customer Engagement agenda item: 26/05/16
8	Look Forward: Company to update the Forum on the Water 2020 response at the next meeting	COMPLETE
10	Look Forward: Company to brief the Forum on any outcomes/impacts to customers on the PR19 Timetable, at the next meeting	To discuss as part of Customer Engagement agenda item: 26/05/16

Summary of Actions : 17th March 2016

No	Action	Comment
1	Welcome: Chair and CAB to liaise in regard to identifying a replacement representative	COMPLETE
2	<p>Welcome: Chair and company to discuss representation from Pennine Prospects</p> <p>Post Meeting Update: Forum Secretary passed Pennine Prospects contact name / details to Chair (13/05/16)</p>	
3	<p>Welcome: An Independent Member to provide the Chair with the East Riding Councillor's details to approach as a Forum member</p> <p>Post Meeting Update: Forum Secretary passed East Riding Councillor's contact name/details to Chair (18/05/16)</p>	
4	Welcome: Chair to contact CBI to enquire about a replacement representative	
5	Minutes of Last Meeting: Forum Secretary to amend Minutes and remove Age UK as attending the meeting	COMPLETE
6	Performance Update – Christmas Flooding: Company to provide copy of any executive summary in relation to the internal incident review of the Christmas floods 2015	
7	Performance Update - Hull: Company to provide a summary of press cuttings (positive and negative) in relation to both the issues at Hull and the Christmas flooding event	Ongoing – this will be circulated for the meeting 26/05/16

Summary of Actions : 17th March 2016 (Continued)

No	Action	Comment
8	<p><u>Performance Commitments Update – Drinking Water Quality</u>: Company to investigate whether the industry liaises with Trading Standards in regards to cheaper branded taps and the issues these cause with nickel leaching into the water</p> <p>Post Meeting Update: Forum Secretary liaising with relevant colleagues to ascertain (19/05/16)</p>	
9	<p><u>Penalties & Rewards Update</u>: Chair to raise whether a Forum statement should sit in parallel to the Annual Report with Ofwat and other CCG Chairs</p>	
10	<p><u>Penalties & Rewards Update</u>: Company to present options on the presentation of a Forum statement to sit alongside the Annual Report at the meeting convened for 7th April</p> <p>Post Meeting Update: Company to liaise with Chair to explain current situation with Annual Report(s)</p>	
11	<p><u>Company Monitoring Framework</u>: Company to incorporate a glossary of terms into the ‘Draft Assurance Plan: A Consultation’ document</p>	<p>COMPLETE (shown on company website)</p>
12	<p><u>Vulnerability</u>: Chair to forward copies of Wessex Water literature on Vulnerability to Forum members and the company</p>	
13	<p><u>Date of Next Meeting</u>: Forum Secretary to cancel the scheduled meeting on 12th May from diaries</p>	<p>COMPLETE</p>
14	<p><u>Minutes of Meeting</u>: Forum Secretary to distribute interim list of actions prior to the detailed minutes being circulated</p>	<p>COMPLETE: circulated 05/04/16</p>
15	<p><u>Minutes of Meeting</u>: Forum Secretary to draft and circulate minutes to members</p>	<p>COMPLETE: Circulated 05/05/16</p>

Summary of Actions : 7th April 2016

No	Action	Comment
1	<p><u>Welcome</u>: Chair and company to arrange a formal induction for new Forum members</p>	
2	<p><u>Price Re-opener Overview / Update</u>: Company to respond to Forum to show what percentage of a NHH bill is currently the retail element</p> <p>Post Meeting Update: Company confirm the percentage as being 5%</p>	<p>COMPLETE</p>
3	<p><u>Price Re-opener Overview / Update</u>: Chair to draft a response for the company to submit with its own response to Ofwat’s draft statement on method and data table</p>	

Summary of Actions : 7th April 2016 (continued)

No	Action	Comment
4	Price Re-opener Overview / Update: Company to present its customer engagement plans at the next Forum meeting, scheduled for 26 th May 2016	To discuss as part of Customer Engagement agenda item: 26/05/16
5	Price Re-opener Overview / Update: Company to share with the Forum any concerns/risks it feels could impact on it due to the opening of the market	Briefing document to be circulated on 26/05/16
6	Price Re-opener Overview / Update: Company to propose a consistent complaints strategy for all companies for the Non-Household going forward	Ongoing
7	Look Forward: Chair and Director of Regulation to liaise with regard to membership from the Small Business Federation and others to fill current vacancies	
8	Look Forward: CCWater to present an update on its regular Business Customers Group meetings at the next meeting, scheduled for 26 th May 2016	
9	Minutes of Meeting: Forum Secretary to distribute interim list of actions prior to the detailed minutes being circulated	Complete: circulated 05/05/16
10	Minutes of Meeting: Forum Secretary to draft and circulate minutes to members	Complete: Circulated 05/05/16