

Wessex Water Partnership

Report on Wessex Water's response to Ofwat's initial assessment of the company's 2020-2025 Business Plan

Scope

This report provides the views of the Wessex Water Partnership (the Partnership) on Wessex Water's response to Ofwat's initial assessment of the company's 2020-2025 Business Plan. This initial assessment by Ofwat is known as the IAP.

Ofwat has asked the Partnership to submit a short and focused report covering any aspects of the company's' IAP response that it considers requires comment on the quality and influence of related customer engagement.

The Partnership reported to Ofwat on Wessex Water's 2020-2025 Business Plan when it was first submitted in September 2018. The Partnership's views expressed in September 2018 remain valid unless stated in this report.

The Partnership's IAP review process

The Partnership and its sub-groups have met four times with Wessex Water since the IAP was published at the end of January 2019. The scope of each meeting was as follows:

Meeting	Date	Scope
Customer Research Sub-Group (CRSG)	21.02.19	Review of Wessex Water's proposed additional customer engagement activities
Main Partnership	21.02.19	IAP overview and discussion
Performance Commitment and Investment Sub-Group (PCISG)	12.03.19	Customer engagement update Review of Wessex Water's response to IAP questions on Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs)
Main Partnership	28.03.19	Teleconference to discuss and agree the Partnership's response to the IAP

Wessex Water provided the Partnership with:

- Details of the IAP
- Comparative and publicly-available IAP information on other companies' business plans
- The scope and approach to its additional customer engagement and the proposed research materials

- Its proposed response to the IAP questions
- Initial results of the additional customer engagement

At each meeting the Partnership had the opportunity to review and challenge this information. The Partnership welcomed this and received full co-operation from the company throughout the process.

The Partnership reviewed the IAP questions to determine which were relevant to its terms of reference and its opinions reported to Ofwat September 2018. In broad terms this included issues and activities related to customer engagement, PCs and ODIs, customer service and customer bills. The Partnership was also keen to understand the materiality of the impact on customers of Wessex Water's response to the IAP questions.

This report provides the Partnership's views on the Wessex Water's response to those IAP questions which the Partnership considers have an impact on customers, as set out above, and which modify its opinions reported to Ofwat in September 2018. All other views remain as reported at that time.

Additional customer engagement

In the IAP Ofwat suggested Wessex Water undertake additional customer engagement in two areas:

- Bill profiles post 2025
- PCs and ODIs – more evidence is required that the overall package of incentives is supported by customers and that there is also support for the use and/or size of some individual PCs and ODIs

Ofwat also required that the additional customer engagement should be in line with social research best practice and be assured by the Partnership.

Bill profiles post 2025

In 2018 the Partnership challenged Wessex Water over how it presents its bill profiles to customers, now and in the future, and how it consulted its customers on this. It requested information on the proposed long-term bill profiles, which the company supplied. Wessex Water did not consult its customers on longer term bill profiles at that time and is not proposing to do so. The reasons for this are explained in Wessex Water's response to the IAP and the Partnership has reviewed and challenged these. The Partnership found Wessex Water's position to be reasonable

The Partnership wanted to be sure Wessex Water's decision not to consult on longer term bills was in the best interests of customers. To do this the Partnership looked again at the previous customer engagement results and is confident that customers preferred smooth bill profiles and notes that Wessex Water is promising this. The Partnership wants the company to focus research on items that are proportionate and will make a difference to customers and, given the limited timescale for the IAP response, it is doubtful whether sufficiently high-quality research could have been undertaken on longer-term bill profiles. Additionally Wessex Water's Business Plan has no large investment

project that could impinge on bill profiles in the longer term. However, the Partnership considered Wessex Water could look at adding some research questions about bills post 2025 to its tracker survey in the longer term and understands that it is considering this. It also suggested that Wessex Water review academic research into how people consider future costs.

Additional PC and ODI research

In its report to Ofwat in September 2018, the Partnership stated that while Wessex Water had been both thorough and innovative in its customer engagement, it might have done more on testing views relating to specific PCs and ODIs. In particular the Partnership noted that customers weren't consulted on the formulation and acceptability of individual PC service targets or the level of stretch associated with them, but they were asked how much they would be willing to pay for incremental improvements in service. Qualitative customer research on the concept of incentives, on outperformance and/or underperformance payments, on the company's categorisation of its ODIs, the general levels of stretch in the service targets and the general level of performance payments was undertaken but the engagement didn't cover the incentive amounts for each financial ODI.

The Partnership is pleased to see that Ofwat is now requiring Wessex Water to undertake more engagement on PCs and ODIs and it welcomes the company's decision to do this.

Wessex Water has set out the scope of its additional PC and ODI engagement in its response to the IAP. The Partnership has had the opportunity to review and challenge this and to satisfy itself that it reflects an appropriate response to the IAP questions. The Partnership suggested some improvements to the research materials to aid understanding by participants and Wessex Water took these suggestions on board.

Wessex Water's IAP response to Ofwat provides some early findings from this additional engagement. These were made available to the Partnership on 29th March and Wessex Water will be reflecting on them and incorporating them into its business plan in due course. The Partnership hasn't had time to review the research findings in detail but will do so in time for its response to Ofwat's Draft Determination due later this year.

Event Risk Index research

Ofwat requires more evidence of customer support for potential outperformance payments associated with Wessex Water's proposed Event Risk Index (ERI) PC and ODI. Wessex Water didn't test the ERI incentive explicitly in its customer engagement for the Business Plan. The Partnership has noted that Wessex Water is an industry outlier in proposing potential outperformance payments for the ERI. It has challenged the company that ERI performance may be seen by customers as something the company should be achieving without incentives.

In response to the IAP challenge, Wessex Water is undertaking additional research into its ERI ODI in two stages; qualitative research in March 2019 involving four focus groups, each with eight customers; and, if the initial qualitative stage does not provide sufficient and meaningful results, quantitative research using an online survey with 500 participants, the design of which will be

informed by the results of qualitative stage. The Partnership would encourage the company to undertake the quantitative research, regardless of the outcome of the qualitative stage.

The Partnership welcomes this additional customer engagement. It has had the opportunity to review and comment on the proposed research material for the qualitative stage and satisfied itself that it was appropriate for the purpose. It will also review the quantitative research methodology when it becomes available.

Wessex Water's IAP response to Ofwat provides some early findings from the qualitative research on the ERI. These were made available to the Partnership on 22th March. The Partnership hasn't had time to review the research findings in detail but will do so in time for its response to Ofwat's Draft Determination due later this year.

Performance Commitments and Outcome Delivery Incentives

In the IAP, Ofwat has raised questions and posed challenges on some of Wessex Water's PCs and ODIs proposed in its 2020-2025 Business Plan submitted in September 2018. While Ofwat has accepted many of the company's PC and ODI proposals, it is challenging the degree of stretch, the level of outperformance payments and the evidence of customer support on others. The Partnership notes that several of the IAP challenges on PC targets arise from Ofwat's benchmarking of performance across the industry and its assessment and imposition of the resulting upper quartile performance levels. These targets supersede the company's forecasts made when the business plans were submitted.

The Partnership is pleased to see that many of the IAP questions and challenges relate to issues it raised in its report to Ofwat on the company's Business Plan. This included the Partnership's views on the degree and scope of Wessex Water's customer engagement on PCs and ODIs. The Partnership welcomes the company's decision to do more research in these areas.

The Partnership has reviewed and challenged each of Wessex Water's responses to the IAP PC and ODI related questions and challenges. It did this to understand the impact (and the materiality of the impact) on customer service and bills of any resulting changes to PC definitions, service levels and incentive types and amounts. It also considered whether any changes materially contradicted customers' views and acceptability expressed for the original Business Plan submission.

The Partnership notes that there were no IAP questions raised on 16 PCs (and the related ODIs) and Wessex Water's proposals remain as originally submitted. The Partnership reviewed its original assessments and comments on these PCs and ODIs and confirms its opinions on them remain as reported to Ofwat in September 2018.

Wessex Water has modified 16 of its originally-proposed PCs and ODIs in the light of the IAP questions and challenges. Several changes to service levels and incentive types and rates arise from the cross-company benchmarking undertaken by Ofwat as part of the IAP. Most of these changes result in more stretching service level targets for the company to achieve and the Partnership welcomes that Ofwat is challenging the company to do more for its customers. Conversely some

targets are now less ambitious and some incentives less rewarding or penalising. The Partnership recognises this is due to the methodology used by Ofwat for the IAP. While it is disappointed by the reduced stretch of the new targets, it understands the methodological reasons for this.

Overall the Partnership is satisfied that none of the changes to service targets contradict the customer evidence obtained for the Business Plan or have a material impact on customer bills. However, while the research does cover enhanced incentives, it does not cover the concept of them and that customers will not be informed explicitly what they are and how they have been calculated. The Partnership understands and accepts the difficulties in consulting on enhanced incentives.

Particular changes to PC and ODI include:

- The introduction of an additional PC and ODI associated with Value for Money to satisfy the IAP requirement on all companies to adopt such a commitment. The Partnership welcomes this as Wessex Water has a similar PC is currently in place and its continuation is in customers' interests.
- Taste and odour has been added to the PC relating to water quality appearance. The Partnership notes that these additional parameters are reflected in PCs elsewhere in the industry and should aid the continued achievement of high drinking water quality compliance.
- In its business plan Wessex Water has proposed a PC service target for the reduction of category 1 to 3 wastewater pollution incidents of 25%. Ofwat has challenged this, proposing a lower target of 15% and the EA has informed the Partnership that it has written to Ofwat to ask the reason for this. This is contrary to the EA's WISER guidance which sets an objective for companies to each reduce their pollution incidents by at least 40% compared to 2016. The change represents a less stretching target for Wessex Water, however, the Partnership welcomes the company's assurance that its aim is never to pollute and to continue to be an environmental leader in the industry.
- The conversion of the PC related to the number of customers added to the Priority Services Register (PSR) to an industry-wide common measure (with two components) and the imposition of a more stretching target relating to the percentage of customers on the PSR. The Partnership agrees this will be of benefit to service provided to the company's vulnerable customers.

The company has also provided, at Ofwat's request, clarification or additional information on a further nine PCs and associated ODIs. The clarifications and additional information cover the definitions of PCs, the timing of service improvements and the rationale for the type of incentive chosen. Ofwat has also called for additional customer evidence of support for some of the PCs and incentive levels. The Partnership has reviewed the company's responses which, in all nine cases, provide further justification of the previously-proposed PCs, service levels, ODI types and incentive rates. In some cases the company is challenging the IAP. From its work on the Business Plan up to submission last September, the Partnership considers Wessex Water's IAP response aligns materially with the customer engagement results obtained for the Business Plan. However, it is willing to consider more information from Ofwat on the customer benefits of its IAP challenges on these nine PCs and ODIs and suggests such information is provided in Ofwat's Draft Determination.

Board assurance

The Partnership requested sight of the assurance statement relating to financial resilience and the protection of customers' interests the Board of Wessex Water approved for inclusion with the company's response to the IAP. The Partnership did this to obtain comfort that the company's IAP response is financeable, that customers would not be bearing any additional financial risk resulting from it and that the company remains financially resilient in the long term. The company provided the Partnership with the Board's assurance statement which confirmed these aspects.

Summary and Conclusions

The Partnership has reviewed Wessex Water's response to the IAP in line with Ofwat's requirements of it. Its review focused on the scope and quality of the additional customer engagement the company is undertaking. It also reviewed the materiality of the impact of the company's IAP response on future levels of customer service and on future bills.

The Partnership reported to Ofwat on Wessex Water's 2020-2025 Business Plan when it was first submitted in September 2018. This report should be read in conjunction with the September 2018 submission.

The Partnership welcomes the additional research Wessex Water is undertaking on PCs and ODIs in response to the IAP because it had highlighted to Ofwat the limitations of the earlier research into these aspects of the Business Plan. The Partnership reviewed the scope and materials used for the additional customer engagement and found them to be appropriate and robust.

The new research has only recently been completed in some cases and is ongoing in others. Whilst Wessex Water has included some preliminary results with its IAP response, it, and the Partnership, will be reviewing them in detail for possible use in a revised Business Plan to be submitted in response to Ofwat's post Draft Determination later this year.

Many of the IAP questions and challenges related to Wessex Water's proposed PCs, service levels, ODI types and incentive rates. The Partnership has reviewed these IAP questions and the company's responses to them.

The Partnership welcomes that Ofwat has challenged the company to do more for its customers in some cases and that Wessex Water will be doing this.

Some targets are now less ambitious and some incentives less rewarding or penalising as a result of the IAP. The Partnership recognises this is due to the methodology used by Ofwat for the IAP and, while it is disappointed by the reduced stretch of the new targets, it understands the reasons behind this.

Overall the Partnership is satisfied that none of the changes to service targets or ODI rates contradict the customer evidence obtained for the Business Plan or have a material impact on customer bills or on protecting customers in vulnerable circumstances.

Wessex Water has provided further information to justify its original PC and ODI proposals and is challenging the IAP in some cases. The Partnership considers this additional information is consistent in material respects with the company's research undertaken for the Business Plan. However, the Partnership is willing to consider more information from Ofwat on the customer benefits of the IAP issues on the PCs and ODIs which the company is not accepting and suggests such information is provided in Ofwat's Draft Determination.