

Anglian Water 13J. AIDE MEMOIRE ANALYSIS V7



Aide Memoire – how we have answered each requirement in our customer engagement and submission

M = Main CEF, V&A = Vulnerability and Affordability, S&R = Sustainability and Resilience, H = Hartlepool, E = Economic

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Reference	Group	Anglian's response to the requirement
1. CCG role	Customer challenge groups (CCGs) will provide independent challenge to companies and provide independent assurance to us on the quality of a company's customer engagement; and the degree to which this is reflected in its business plan.	n/a	n/a	n/a	Delivering Water 2020: Our final methodology for the 2019 price review (the "Final Methodology") - Executive summary and chapters 2, 13 and 14. May 2016 Customer Engagement Policy Statement and Expectations for PR19 (the "Customer Engagement Policy Statement")		N.A.
2. Customer engagement	Customer engagement will be a central part of the initial assessment of business plans. Customer engagement also provides essential evidence for companies' proposals in their business plans. In assessing the customer engagement test, we will take into account evidence including, but not limited to, evidence from its CCG.	✓	✓	✓	Final Methodology - Chapter 2 (whole)	M	All customer engagement work is summarised in the synthesis report. The report highlights engagements which include Hartlepool customers and non-household customers.
3. Engagement with business retailers	We consider wholesalers should engage with business retailers as part of the customer engagement process to learn about their views and the views of their customers.			✓	Final Methodology - Chapter 2 (page 29)	M	Retailers are included as a customer class in the consultation on the outline plan. Evidence was provided in the form of minutes of meetings and incorporated into the synthesis report.
4. Affordability	Companies are required to provide robust evidence in their business plans on how their approaches have, and will, deliver affordability for current customers, future customers, and those struggling, or at risk of struggling, to pay. This includes	✓	✓	✓	Final Methodology - Chapter 3 (page 8) and Appendix 1 for more detail.	V&A H	Our affordability approach is included in our regulatory submission. We have consulted with customers on the affordability of our outline plan, and we have worked with Experian to

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	<p>evidence on the customer engagement they have carried out on their approaches, how well the company understands what affordability looks like for its customers, and the customer support for the approach they have taken.</p> <p>Our assessment on affordability will be supported by evidence provided by companies, the independent reports from CCGs, and evidence from other expert organisations.</p>						understand affordability at a granular level across our region.
5. Vulnerability	<p>In our February 2016 Vulnerability focus report we said that we would encourage CCGs to use the report as a base on which to challenge companies and their business plans when considering both customer service excellence and their companies' approaches to addressing vulnerability.</p> <p>In assessing the vulnerability test, we will take into account evidence that the company's approach to vulnerability is targeted, efficient and effective, including evidence from the independent CCG report.</p>	✓	✓	✓	Final Methodology Appendix 1	V&A H	<p>Our approach to vulnerability is included in the plan and has been developed with input from the Vulnerability and Affordability panel.</p> <p>Our vulnerability strategy and ODI have been tested with customers in the Online Community, in the ICS research and with customers in vulnerable circumstances through targeted focus groups.</p>
5b. Vulnerability: bespoke performance commitment	<p>We are requiring companies to include at least one bespoke performance commitment for addressing vulnerability in their business plans, after engaging with customers and taking on board challenges from their CCGs.</p>	✓	✓	✓	Final Methodology – Chapter 3	V&A H	<p>We have included two vulnerability performance commitments in our outline plan, one is a quantitative measure of customers on our Priority Services Register, the other is a panel assessment of performance across all the vulnerability-targeted services we are proposing.</p> <p>We have engaged with customers on this through activities in the Online Community, the acceptability research, the ODI research and vulnerability focus groups.</p>

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6. Performance commitments							
6a. General approach to performance commitments	CCGs will challenge companies on their approaches to setting performance commitments including how well they reflect customers' views and how stretching they are. Our assessment will include focussing on the CCG report.	✓	✓	✓	Final Methodology – Chapter 4 (pages 45 and 53) and Appendix 2 (page 50)	E	<p>Our general approach is in line with Ofwat's guidance. We have engaged extensively with customers on their priorities, the appropriate shortlist of performance commitments, the level of stretch in our performance commitment levels, how customers value service improvements and the overall range of ODIs they are prepared to accept on their bills.</p> <p>We have followed Ofwat's guidance and considered the following approaches to setting performance commitment levels for each performance commitment where relevant:</p> <ul style="list-style-type: none"> • Cost benefit analysis • Comparative information • Historic information • Minimum improvement • Maximum level attainable • Expert judgement
6b. Setting stretching performance commitments	Our approach to setting stretching performance commitment levels for PR19 is that companies should: engage with their customers on their performance commitment levels; and challenge the level of stretch in their performance commitments with their customers, CCGs and other stakeholders.	✓	✓	✓	Final Methodology – Appendix 2 (page 50)	E	We have tested the stretch in our performance commitment levels through multiple engagements with customers. We undertook qualitative engagement through our online community, where customers could provide comments and ask questions about our proposals. We undertook quantitative engagement through acceptability testing with over 1,600 household customers on our performance commitment levels. We also tested customer support for our proposed frontier shifting performance

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							commitment level for leakage through the 'Be the boss' game.
6c. Using multiple data sources for performance commitment levels ("triangulation")	Companies will need to engage with their customers on the factors they take into account and will then need to explain how they have balanced these factors when setting their performance commitment levels using multiple data sources. The role of CCGs will be important in assuring how companies have engaged with their customers on this issue.	✓	✓	✓	Final Methodology - Appendix 2 (page 53)	E	<p>We have followed Ofwat's guidance and considered the following approaches to setting performance commitment levels for each performance commitment where relevant:</p> <ul style="list-style-type: none"> • Cost benefit analysis • Comparative information • Historic information • Minimum improvement • Maximum level attainable • Expert judgement <p>Customer views on the appropriateness of performance commitment levels are vitally important. On average for each performance commitment 70% of household and 79% of non-household customers thought the performance commitment levels were stretching . Specific views on each performance commitment are summarised by measure in the main business plan document.</p>
6d. Setting initial service levels (2019-20) for performance commitments	At PR19 we expect companies to forecast appropriate initial service levels for 2019-20, and for these to influence the level of their performance commitments. CCGs will challenge companies on their forecasts for 2019-20, as well as their performance commitment levels.		✓	✓	Final Methodology - Appendix 2 (page 50)	E	To set initial levels of service, we have forward forecast our recent performance or relied on our strategies for ODI performance in AMP6 (e.g. for leakage we are aiming to strongly outperform our regulatory target). Our engagement with customers on our proposed performance commitment levels included information on our current performance, our expected position in 2019-20 and our proposed

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							performance commitment level.
6e. Common performance commitments	We expect companies to have four common performance commitments on asset health: mains bursts, unplanned outages, sewer collapses and treatment works compliance. This will enable customers, CCGs and us to compare performance and challenge companies about their proposed levels for these commitments.		✓	✓	Final Methodology – Chapter 4 (page 50)	E	We include the four common asset health performance commitments in our suite.
6f. Bespoke performance commitments	Companies have the freedom to engage widely with their customers and local stakeholders, to propose bespoke performance commitments that reflect their customers' particular preferences. There should be no, or very few, exemptions included in the definitions of bespoke performance commitments and any exemptions need to be well justified and supported by customers.			✓	Final methodology – Appendix 2 (page 30)	E	We have undertaken extensive engagement with customer to understand their priorities (through engagement on the SDS and PR19 business plan) and explicitly on the acceptability of the bespoke performance commitments we are proposing. We have not included any exemptions in our bespoke performance commitments.
6g. Abstraction Incentive Mechanism (AIM)	It is for companies to propose their AIM incentives, following engagement with their local stakeholders, and assurance from the CCG. Companies should identify suitable sites in liaison with the Environment Agency or Natural Resources Wales and provide evidence of their engagement.	✓	✓	✓	Final methodology – Appendix 2 (page 34)	S&R	We have engaged with the EA on our site selection methodology. We have updated our methodology to show the sites included and shared it with the EA for comment. We have selected four sites as being suitable for the AIM in AMP7 (an increase from two in AMP6).
6h. Leakage performance commitments	We expect companies to explain how their five-year performance commitment levels and long-term projections for leakage take into account the views of their customers (with CCG assurance on how those views have been taken into account) and local stakeholders. Companies can make the case for leakage reductions that do not achieve our challenges above where they can provide robust evidence and a strong rationale for this. For example, that a company is already a frontier performer or has		✓	✓	Final Methodology – Chapter 4 (page 55) and Appendix 2 (page 66)	S&R	Significant customer engagement has been undertaken on leakage through the development of the PR19 business plan and the WRMP. As the frontier company for leakage, we are proposing that our performance commitment level is based on a 15% reduction in the forecast upper quartile in 2019/20. Our long term ambition in our WRMP is to continue to reduce leakage, remaining the frontier company and

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	strong customer support not to reduce leakage to this extent.						ensuring the east of England is resilient to the risk of drought. Through our 'Be the boss' engagement tool, 78% of over 5,000 customers supported our proposal to continue to shift the frontier and are prepared to accept the bill impact associated with enhanced rewards for this. In our acceptability research on our proposed performance commitment levels, 79% of customers considered that our proposed performance commitment level was stretching.
6i. Transparency of performance commitments	We require companies to explain in their business plans, how they will disseminate their performance information during the 2020-2025 period to customers, CCGs and other stakeholders.		✓	✓	Final Methodology – Appendix 2 (page 38)	M	We will continue to follow our approach adopted for AMP6 with the use of a performance dashboard on our website, monthly internal reporting, and regular reporting to the CEF. We believe this reflects current best practice in the industry.
6j. Scheme-specific performance commitments	A company should engage with its customers and CCGs on any scheme-specific performance commitments, as part of its engagement process on all its performance commitments.		✓	✓	Final Methodology – Appendix 2 (page 41)		We are not proposing any scheme specific performance commitments. We considered a performance commitment for our planned smart metering rollout, but as the delivery of our leakage and per capita consumption performance commitments are underpinned by this rollout they will act as a strong delivery incentive.
7. Outcome delivery incentives (ODIs)							
7a. Consulting customers on ODIs	We expect companies to develop their ODIs in consultation with their customers. CCGs will challenge companies on how well their proposed ODI outperformance and underperformance payment rates reflect a suitably wide range of evidence on their customers' preferences.	✓	✓	✓	Final Methodology - Chapter 4 (page 57) and Appendix 2 (pages 76 and 96)	E	Customers have a key shaping factor of our ODIs. Primarily through the bottom up application of societal valuations and through customer views on the appropriate RoRE range of ODIs. Specific research on customer views on

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	<p>Companies can propose outperformance payment caps and underperformance penalty collars on individual ODIs, if supported by their customer engagement.</p> <p>Our approach allows for a company to propose a reputational-only ODI, if the company provides convincing evidence that this is appropriate. This includes evidence from its customer engagement or that a performance commitment is not well suited to a financial ODI.</p>						<p>the RoRE range was undertaken. We have used evidence from customers to set incentive unit rates, bounded by evidence from customers on the appropriate range of incentives.</p> <p>We have engaged extensively with customers to understand how they value different levels of service through our societal valuations work. These valuations were subject to rigorous challenge, triangulation and peer review. This extensive engagement has directly informed our ODIs, as these valuations for the basis for the incentive rates. There has been extensive engagement with the CEF on the wide range of sources that have informed these values.</p> <p>We have tested customer views on caps and collars in a number of ways. This has been done in the second round of acceptability research on the short list of measures. 74% supported caps in principle. Customers involved in the ODI research with ICS strongly supported caps and collars on individual measures. There is strong support from customers to manage total bill volatility from ODIs.</p> <p>We are only proposing reputational ODIs in a few areas. This is generally due to the performance commitment not being well suited to a financial ODI (e.g. carbon or natural capital). Generally these performance commitments are not ranked highly by customers in terms of importance. Examples include the carbon</p>

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							performance commitments and the void properties performance commitments..
7b. In-period ODIs	Companies would need to justify, with evidence, why in-period ODIs are not in customers' interests, including why future customers should pay for/benefit from incentives related to the service performance affecting current customers. The evidence should include customer research and views of the CCG.		✓	✓	Final Methodology - Chapter 4 (page 61) and Appendix 2 (page 81)	E	All of the ODIs are in period, with the exception of bathing waters. We explored this issue with customers during interviews with Accent interviews. Customers agreed that the 4 year average nature of beach categorisation and the influence of third parties on performance mean end of period is most appropriate..
7c. Setting ODI rates	CCGs will challenge companies on how well their proposed ODI outperformance and underperformance payment rates reflect a suitably wide range of evidence on their customers' preference. Companies can base their ODI outperformance and underperformance payment rates on the existing formulas, but amended, so that companies can use alternative customer valuations instead of only marginal stated preference WTP. Companies can use other customer evidence to propose changes to the ODI outperformance and underperformance payment rates calculated according to the existing formulas, provided the changes are well justified.		✓	✓	Final Methodology - Appendix 2 (page 90)	E	Our incentive rates are based on our societal valuations. There has been extensive engagement with the CEF on the wide range of sources that have informed these values. This includes a wider range of evidence than just stated preference WTP. The macro range of incentives will be bounded based on customer evidence on the appropriate RoRE range of incentives. We have gathered additional evidence from customers on incentives for asset health. For several of asset health measures we have used this evidence to increase the penalty rate.
7d. The overall size of a company's ODIs (the RoRE range)	We expect companies to develop their ODIs in consultation with their customers, and obtain customer support for the overall range of possible bill impacts from ODIs (referred to as the RORE range in the PR19 methodology). We expect companies to propose approaches to protecting customers in case their ODI payments turn out to be much higher than their expected RoRE ranges for ODIs.		✓	✓	Final Methodology - Chapter 4 (page 60)	E	We have engaged with customers on the appropriate scale of incentives (the RoRE range). There is strong support from customers to manage total bill volatility from ODIs and the use of caps and collars. Using this feedback from customers will allow us to set caps and collars on the ODIs to ensure they do not exceed this RoRE range. This a key way that customers have shaped our ODI

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							proposals and business plan.
7e. ODIs for resilience performance commitments	Companies should only propose financial ODIs related to resilience performance commitments if they reflect the particular resilience challenges facing them, are supported by evidence and by their customers and do not involve ODI outperformance payments that overlap with funding received through the cost allowances.			✓	Final Methodology - Chapter 4 (page 49)	S&R	The single supply ODI is financial. This reflects our significant challenge of making the east of England resilient to drought. There is limited overlap with other ODIs other than interruptions to supply. However these ODIs are driven by separate customer valuations so there is no overlap of the benefit to customers..
7f. ODIs for asset health performance commitments	<p>Companies should engage with their customers and CCGs on how their asset health metrics protect current and future customers and the environment.</p> <p>Companies should explain to their customers, CCGs and Ofwat the size of their asset health underperformance penalties (and any outperformance payments), and how they relate to their past performance and the asset health challenges they face.</p> <p>Companies can only propose outperformance payments for asset health performance commitments if they can show there are benefits for customers and their proposals reflect evidence of customer preferences.</p>		✓	✓	Final Methodology - Appendix 2 (page 27 - box)	S&R E	<p>We have engaged with customers on our proposed asset health performance commitments. We have also sought customer views on the appropriate scale of asset health incentives.</p> <p>Based on the feedback from our ODI research with ICS, we will be proposing that 50% of our total ODIs will sit against asset health measures. This equates to roughly 1 % of RoRE.</p> <p>We will be proposing outperformance payments for two asset health performance commitments – low pressure and external sewer flooding. These performance commitments are categorised by Ofwat as relating to asset health but also directly reflect the service customers receive. These performance commitments have outperformance at AMP6 and for external sewer flooding, evidence from customers shows that this is one of the most important performance commitments.</p>

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7g. Enhanced ODI outperformance payments and underperformance penalties	The enhanced outperformance and underperformance payments are only appropriate for the common performance commitments, which are based on comparable data. This is so that customers, CCGs and Ofwat can be more certain that the enhanced outperformance threshold truly represents frontier-shifting performance.		✓	✓	Final Methodology - Appendix 2 (page 84)		<p>In our ODI research with ICS, 70% of customers agreed that there should be enhanced incentives for leakage, with only 6% disagreeing. Customer acceptability of the scale of enhanced reward for leakage tested was tested through the 'Be the boss' engagement. 78% of customers support our proposals for frontier shifting leakage performance and were prepared to accept the associated enhanced reward bill impact.</p> <p>The use of enhanced incentives for leakage couple with our view of possible outturn performance results in scale of incentive that remains within the RoRE range customers have selected..</p>
8. Securing confidence and assurance	<p>This section repeats CCG's main role: it is also important that CCG reports highlight areas of challenge and disagreement, including how the company has responded to challenges and any areas of outstanding disagreement.</p> <p>The Environment Agency, Natural England and Natural Resources Wales have also set out wider expectations for companies, as have the UK and Welsh Governments through their strategic policy statements. We expect companies to take these into account when developing their business plans and outcomes, and to implement them when they are in customers' interests and have customer support.</p>	✓	✓	✓	Final Methodology – Chapter 13 (pages 220 and 229)		The CEF report contains sections setting out the position of each of the Regulators, which is supportive.
8b. Corporate and financial structures	We have introduced a new IAP test to require assurance from company Boards that their business plan will enable customers' trust and confidence through high levels of transparency and engagement with customers on issues such as its corporate and financial structures.			✓	Final Methodology – Chapter 13 (page 217)	M	We have included a statement in our Board Assurance Statement around the measures we have taken, and the changes we have made, in response to the new test. We carried out an activity with our online community on the

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							recent changes we have made, and we gained very positive reactions to the actions we have taken. These findings are included in the Synthesis Report.
9. Resilience planning principles	Principle 3: Customer engagement. Assessments of resilience should be informed by engagement with customers, to help companies understand their customers' expectations on levels of service. This will also help companies understand their customers' appetite for risk and how customer behaviour, in matters such as water efficiency, might influence approaches to resilience.		✓	✓	Final Methodology – Appendix 4 (pages 11 and 17)	S&R	This requirement is covered by the H2OMG engagement in August 2017, and the Willingness To Pay work and in particular the second stage water resources study which includes service levels. Results are incorporated in the Synthesis report.
9b. Operational resilience	The company will need to demonstrate the incremental improvement of the proposed investment, that it considered a range of options, and that the proposed solution delivers outcomes that reflect customers' priorities, identified through customer engagement.			✓	Final Methodology – Appendix 4 (pages 6 and 17)	S&R	We have included a section on resilience in our business plan. Customer evidence supporting this is in the synthesis report.
10. Securing cost efficiency - need for investment	In relation to cost adjustment claims: Where appropriate, is there evidence – assured by the customer challenge group (CCG) – that customers support the project? Best option for customers: <ul style="list-style-type: none"> Does the proposal deliver outcomes that reflect customers' priorities, identified through customer engagement? Is there CCG assurance that the company has engaged with customers on the project and this engagement been taken account of? Is there persuasive evidence that the proposed solution represents the best value for customers in the long term, including evidence from customer engagement? 	✓	✓	✓	Final Methodology – Appendix 11 (page 14 - Box 2 Evidence to support cost adjustment claims)	E	We are submitting three cost adjustment claims after feedback from the 3 May submission. Two relate to leakage and we have extensive evidence in the synthesis report from previous engagement showing customers support leakage control. The third is sludge transport, we carried out an activity in our online community in July 2018, and our customers were very pleased to hear about the benefits of recycling sludge into power and Nutri-bio, and supportive of the need to transport sludge to achieve those outcomes.
11. Financeability	We will look for evidence of customer support where companies take steps to address			✓	Final Methodology - Chapter 11 (page 201)	E	We asked customers about the run off rate choices we have to make in the

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	financeability constraints.						online community engagement as part of the consultation on the outline plan.
12. Bill profiles	<p>Companies should take into account customers' views on the profile of bills over time, which will enable companies to understand customers' implicit views on the impact of their PAYG and RCV run-off choices on bills, both in the short and long term.</p> <p>We acknowledge feedback from respondents to the consultation and we do not expect companies to directly ask their customers about their PAYG and RCV run-off rates.</p>			✓	Final Methodology - Chapter 11 (page 192)	E H	Bill profiles were included in the acceptability research, the online community, the vulnerability focus groups, the Be the Boss game and published in the outline plan. We included the effect of inflation, the ten-year picture, and tailored profiles for Hartlepool, Cambridge and Essex and Suffolk customers.
13. Accounting for past delivery	When testing how well the company has provided evidence for its proposed reconciliations for the 2015-20 period and how well it has followed the PR14 reconciliation rulebook methodologywe would expect to see.... evidence of customers' support, and the strength of that support, for its proposed adjustments to the 2020-25 price controls.			✓	Final Methodology - Chapter 12 (page 213)	E	We have published the rewards and penalties in our annual report for the past two years, and also regulatory update the CEF on the potential level of future rewards and penalties.
14. The initial assessment of business plans (IAP)	<p>A high-quality business plan (the bullet points most relevant to the CCG role):</p> <ul style="list-style-type: none"> • Is grounded in excellent customer engagement, with a wide range of evidence. • Should include stretching outcomes and performance commitments that reflect what customers want, and their relative priorities, and clear line of sight from these through the plan. It should also include evidence of consideration of customer participation; • Is affordable for all current and future customers, with appropriate assistance provided where needed; • Sets out the company's approach to effectively and efficiently identifying and providing support for customers in circumstances which make them vulnerable. 			✓	Final Methodology - Chapter 14 (page 239) and Appendix 13 Table 2 on pages 13-23 sets out the focus, test questions and potential features of high quality, ambition and innovation (against each test area)		There are no new requirements set out here, all are captured above.