THE
WATER
REPORT
POLICY | REGULATION | COMPETITION

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Trust or bust

Scottish Water CEO Douglas Millican on earning and keeping customer trust

COMPETITION WATCH

- Upstream contestability: how far should wholesale be opened up?
- Scottish public sector supply deal at a standstill
- MEUC Manifesto: big businesses demand a single supplier from day one.

THE WATER REPORT COMPETITION WATCH

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EDITOR'S COMMENT

Silence isn't golden

If there's one clear message coming out of Ofwat at the moment, it's that keeping a low profile is not a good idea.

The clues were there in PR14. Those that played by the old rules of PR09, or who thought it would be enough to put forward constant prices, did not come off best. The two enhanced companies in one way or another raised their heads above the parapet, suggesting new ways of working or showing particular ambition. South West Water's Water Shares gainsharing proposal has earned particular praise, with Jonson Cox citing it twice in as many weeks as a "useful template" for others to follow.

This call for companies to speak up was revisited when Cathryn Ross launched Ofwat's forward strategy in January, and earlier this month when Cox delivered his Policy Exchange speech on managing change (see report, p4-5). Both times, the regulator called for dialogue with and ideas from the industry as it grapples with securing trust and confidence through a period of change.

To some, this may seem a little like getting an invite to your boss' house for dinner – you don't really want to go, but you are obliged, so you show your face and leave at the earliest opportunity. But companies would be wise to seize the opportunity of engaging in constructive dialogue with both hands. It is certainly the lesser of two evils: non-engagement and no change isn't an option so the choice is between getting involved and standing a chance of influencing regulatory arrangements going forward or not engaging and having change imposed from above.

And many of the challenges on the horizon are big ticket and carry significant risk. Take retail market opening. Delivered inadequately this could do just the opposite of building customer trust. Big customers especially are keen for choice and demand that an effective market is delivered on time (see report on MEUC manifesto, p20-23).

On upstream reform, our feature on p6-9 suggests there is consensus on one-thing: that industry-led reform would be infinitely preferable to regulator-imposed reform. As RBS' Richard Bartlett, told companies at Water UK's City conference earlier this month: "It will be a hell of a lot nicer to fix problems yourself than get to the point where the regulator is going to fix them for you." This way salvation from enforced RCV unpicking and asset stranding lies.

On mergers too, Cox said he would be looking for far more creative and persuasive arguments than the efficiency lines that are usually trotted out.

All round it seems that during these times of change, keeping a low profile could prove a high risk strategy.

Karma Ockenden, editor,
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Feedback, comments and suggestions very welcome.

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COX TAKES SOFTLY SOFTLY APPROACH TO MANAGING HARD CHANGE

With RPI indexation, dynamic upper quartile efficiency and potential water source competition on the table, Jonson Cox is pushing on with the change agenda he launched two years ago.

"Financial markets are nothing if not adaptable."

Two years ago this month, Ofwat chairman Jonson Cox delivered what has become known in water circles as his Royal Academy of Engineering speech. It laid out the bare bones of a regulatory policy that has been fleshed out over the past 24 months. It ventured into a broadening of the traditional role of the regulator and introduced some concepts that were, at the time, pretty radical, including gainshare, deleveraging, customer legitimacy and board reform. It went down in some quarters like the proverbial lead balloon.

A week ago, Cox delivered a speech in a similar vein at a Policy Exchange event. Its content was at least as radical, putting on the table for discussion some fundamental building blocks of the industry. These are detailed below.

Price setting

RPI indexation: While the concept of wholesale asset indexation isn't up for immediate review, Cox raised the spectre of what he saw as the unavoidable question of ending indexation to Retail Price Inflation – and in some parts of the value chain, ending indexation altogether. RPI, he said, "systematically over-counts inflation by up to 100 basis points above CPI", the latter being the inflation measure used by the government and the index for changes to pensions and benefits, so a more relevant measure for customers.

In view of conclusions such as that of the Institute of Fiscal Studies that RPI is "no longer fit for purpose", Cox said regulators were under pressure to switch.

The problem is RPI indexation has been one of the crucial factors underpinning institutional investment in the sector. Standard & Poor's director Tania Tsoneva said switching to the lower CPI measure would have negative consequences because "you've got to think about legacy index-linked debt and how that would be met by cash flows that would be lower". Cox implied this issue could be handled: "Financial markets are nothing if not adaptable but we realise that change may take some time, innovation and potentially 'grand-fathering' of some elements."

WICS and Scottish Water found a way through the problem, as Scottish Water chief executive Douglas Millican describes on p10-13. Essentially customer prices are set relative to CPI while costs remain indexed to RPI.

Service efficiency: In PR14 managers grudgingly accepted Ofwat's challenge for companies to reach upper quartile performance on service and efficiency, benchmarked against a 2013 baseline. This means in theory every company can achieve upper quartile performance and the associated benefits if it performs well enough. In the Policy Exchange speech, Cox looked ahead to PR19 where a "dynamic" upper quartile challenge would likely be imposed, better emulating a competitive market. Taken to its logical conclusion, this could mean three quarters of companies at any one time would fall below par. Aside from any direct financial associations that may be in play, this could also have reputational and investment consequences for poor performers.

ODI cap and collar: Rewards and penalties under the ODI mechanism are at present subject to a cap and collar, which limits the impact on the return on regulatory equity to +/-2%. Cox said these restrictions could be adjusted even within this price period "if this creates the desired focus on operating the business well and with less reliance on outperfomance from simply gearing up the balance sheet".

He relished Ofwat's achievements to date on driving more differentiation in the industry, noting: "The gap between the best and the rest should be and now is larger – a range of four hundred basis points or 4% on equity returns."

Cox added: "We continue as regulators to be under scrutiny about the level of leverage in utility sectors. If the risk profile of having more at risk on operation causes highly-leveraged companies modestly to de-gear, that would be a good thing. Our job is not to create the highest level of certainty for the industry; it's to put the risks where they are best managed and in doing so we create a very secure and stable investment."

Performance tracking: Cox indicated it had been a bit feast to famine since the June Return was scrapped. He set out a new approach to performance monitoring whereby companies would need to publish data on performance against commitments that would be available to all stakeholders. This would enable them to track individual company progress and to compare companies across the country.

One of the relevant stakeholders here

is likely to be the Customer Challenge Group successor bodies. Their early hard work on company business plans in PR14 was trumped somewhat by late stage Ofwat intervention on the back of comparative information that wasn't available to CCGs at the business planning stage. It is very likely the the new performance tracking data would be part of the CCGs' armoury at PR19, enabling them to make more informed decisions and enabling Ofwat to base fast-tracking decisions on a five-year track record.

Market reform

Wholesale performance incentives? Cox hinted these could be introduced to ensure business customers receive good service from their wholesalers as well as their retailers after retail market opening. It would be no good, he said, if a customer had a problem and the wholesaler took three weeks to pick up on the issue from the retailer. "We and companies need to think about how customers will be directed to get the quickest possible resolution in an area where different corporate entities will provide different parts of the service. As we break up the supply chain we mustn't lose customer confidence to deal with wholesalers and networks as well as retailers."

Some customers have already flagged up to *The Water Report* that there can be a disjoint between the customer-serving retail side of an integrated company and the monopoly-minded wholesale arm. This disjoint could get more pronounced in a fragmented market structure.

Retail separation: how companies structure themselves for retail competition is a corporate decision. But Cox indicated a preference for the logical approach of separation, commenting that vertical integration "no longer works". He said: "Why would an investor who's interested in deploying large amounts of capital in a monopoly business, subject to reliable economic regulation, wish to invest in a retail business with between 1 and 2.5% margins, a capital base limited to IT systems and a business responsible for managing very large amounts of bad debt? There are others who may be better at doing that than the investors who are attracted to the networks, and the management who have had their careers wholly running a monopoly service."

Whether separation might become a requirement over time remains to be seen. New entrants would no doubt welcome the greater clarity around level playing field issues.

Water resource competition? In the upstream space, Cox singled out for attention introducing more choice of water sources. This may indicate this upstream service will be the regulator's first area of focus as it looks to introduce more competition into wholesale markets (see upstream contestability feature, p6-9). Abstraction reform will be a priority should this be the case. Cox said he was initially sceptical about splitting off upstream activities but that population growth and climate change had made resource innovation pressing.

Creative restructuring

In a clear shift away from Ofwat's traditional insistence on the value of comparators, Cox described comparative regulation as "very powerful but also a constraint". Traditional cost efficiency-driven merger proposals will still get short shrift. Said Cox: "If efficiency was so closely linked to scale we'd be able to predict accurately the league table of efficiency. The reality is that we have very efficient companies at the small end and some efficient companies at the top end of the scale. Portsmouth Water is 1/100th the size of Thames yet gives many in the sector a run for their money on efficiency."

But with the Water Act facilitating undertakings in lieu of a full CMA enquiry, Cox's door is open to more creative proposals. He cited as possible examples water/water and wastewater/wastewater consolidation, and retail/retail or wholesale/wholesale deals.

Start talking

Cox offered companies and investors what must by now be a familiar (but would once have been a quite alien) way through the woods: dialogue. It got the industry through a successful PR14 and even managed to patch up the head-on collision surrounding Section 13. It shows how far both sides have come down this path already that Cox was able to raise issues in his Policy Exchange speech that have been fundamental to the industry's financeability and success to date without an immediate backlash.

Covering all bases, though, Cox included a gentle reminder that in brokering the Section 13 deal, companies had signed up to work with Ofwat in a constructive and cooperative manner on the development of a new way of regulating. And that the alternative – licence wrangles – would be far worse. Cox wouldn't be drawn on how long he would give the dialogue to work before thinking about a more formal approach, commenting only that dialogue did not always equate to negotiation.

So in managing change, Ofwat has no intention of focusing only on its formal duties but will continue its approach of the previous two years in interpreting its role broadly. Cox saw this role as delivering "the implicit promises made to customers when the sector was privatised 25 years ago". One Policy Exchange attendee wondered if the regulator was stepping into the breach left by staff and resource issues at DEFRA and the Environment Agency.

Either way, upcoming changes look to remain broad and significant, and companies seem to have little choice but to start talking (see leader, p3). TWR

ROYAL ACADEMY OF ENGINEERING RECAP

In his Royal Academy of Engineering speech in 2013, Cox set out six interlinked concepts about the future of the water and wastewater:

Customers: how to sure up the legitimacy of the sector and ensure sufficient weight is put on price and service outcomes for customers in austere times.

Water resources: how to develop upstream reform avoiding the 'lowest common denominator' approach and without risking the financeability of monopoly assets.

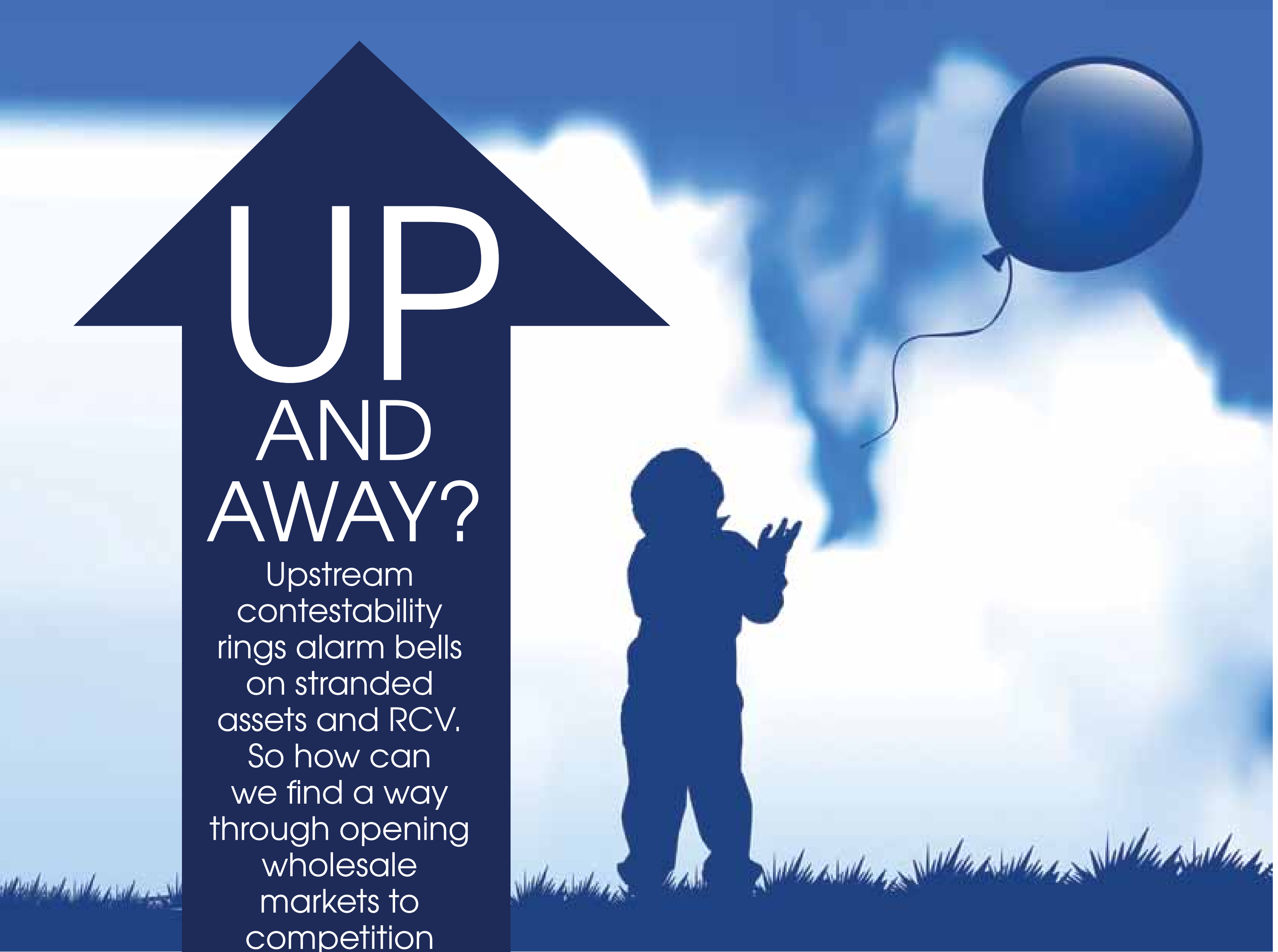
Financing water companies: how does high gearing sit with public interest, and how can more balanced pain/gain share between customers and investors be introduced?

Evolutionary reform: how to progress this agenda using clear signalling and constructive dialogue on contestability, and what if the pace of change is too slow?

A fair outcome from PR14: how to prevent bidding and get less intrusive regulation off the ground.

Board leadership and governance: transparency, effectiveness, best practice.

Cox seemed delighted to report at Policy Exchange that despite the "frosty" reception his 2013 speech received: "There was no one in the sector who could materially question the legitimacy of what was said. Now, I'm gratified by the number of people who have come up to me and told me how timely and progressive those ideas really were in maintaining trust and confidence in our sector."



UP AND AWAY?

Upstream contestability rings alarm bells on stranded assets and RCV. So how can we find a way through opening wholesale markets to competition and maintaining investor confidence?

Last issue, *The Water Report* kicked off a series of articles on upstream reform with a look at upstream services. This month, we focus on who might provide those services in future. In other words, where might contestability be introduced. The series draws on a set of stakeholder discussions facilitated by Indepen.

Upstream reform is about more than the introduction of competition into existing wholesale markets. As noted last month, it is about reform of the wider water market not just the water utility and will involve the likes of collaboration and trading as well as competition. But contestability is an important part of the reform agenda and undoubtedly the most contentious.

While all upstream services are potentially contestable, it is only discrete services such as industrial effluent treatment and water efficiency that can currently be provided by companies other than the local water utility. However government policy as enshrined in the 2014 Water Act favours reform, and Ofwat has just kicked off Water 2020, a programme of work to explore the possibilities. We have already moved beyond the point of questioning contestability as a concept to thinking about how to decide which upstream markets should be opened.

A sensible guiding principle would seem to be: if competition might be able to deliver a better outcome than monopoly provision – better water quality, more resilience, more water resources and so on – then it should be considered. Wessex Water's director of strategy and new markets David Elliott suggests this consideration should focus on three core elements: is competition feasible (technically possible)?; is it viable (could markets be established)?; and is it desirable (would there be a buyer)?

Many in the industry can see potential benefits in those outside the industry participating in the delivery of outcomes. It may mean new water sources can be brought into play or greater resilience achieved – managing flooding, for instance, certainly requires input from multi-sector stakeholders. And as detailed last issue, some water companies are already partnering extensively at catchment level with land managers to deliver better, lower cost water quality outcomes.

Moreover, there is a broad-based understanding that as the challenges facing the industry change over time, so must its responses. Neil Griffiths-Lambeth, associate managing director of infrastructure finance at Moody's Investors Service, observes: "Reform and evolution is continual. Regulatory frameworks need to evolve to reflect change, and we see that as desirable."

Jump or push?

The tricky bit is how to move from the theory of contestability to practical implementation. And here the two polar extreme options seem to be: either water companies take the initiative, explore the possibilities and make proposals themselves; or they have it forced on them by the regulator. While there is very little agreement on upstream reform in general – the very concept is variously defined, understood and supported – on this key point there is consensus.

Within the industry, all companies signed up to the deal that brought an end to the Section 13 standoff a few years ago. This obliges them to work constructively with Ofwat going forward on reform issues. While some companies are more advanced than others in their exploration of upstream potential, undoubtedly an industry-led solution would be more palatable to all.

Tony Ballance, Severn Trent's strategy and regulation director, says: "I'd like to see how far the industry can go on this itself. It seems a little early to call for an enforced approach." He adds: "There are a good number of us [water companies] who are positively disposed and making efforts."

In this they will have the backing of investors. Richard Bartlett, head of coverage and debt capital markets at RBS, urges water companies: "You as an industry should take a lead. You need to think about what is truly contestable; would you consider putting any of your core operations out to competition? It will be a hell of a lot nicer to fix problems yourself than get to the point where the regulator is going to fix them for you."

Even pro-reformers are not keen on the enforced approach. Jerry Bryan, chairman of Albion Water and long term campaigner for competition considers: "Being told what to do by government or regulator? It's not an approach I would welcome. I don't think there is sufficient understanding of market potential."

Far from frustrating Ofwat, this enthusiasm for industry-led reform is likely to be music to its ears. Its preference is to deliver the reform agenda collaboratively with the industry and other stakeholders, assessing risks and scoping out opportunities together. It is understood to be open minded at this very early stage in the process; to have no blueprint of exactly where markets will meet regulation. Ballance for one is impressed: "Ofwat should be applauded on its approach," he says. "They are approaching this in the right way. We need to work in partnership and base decisions on analysis and fact."

Industry activity

So will upstream contestability be allowed to grow in this way, through company efforts and without unduly unsettling the supposedly easily-spooked water investor? Bryan says the ball is in companies' court. "If companies can take a lead and demonstrate they are fulfilling the objectives on sustainability and affordability and so on, they would give the government and Ofwat the opportunity to endorse good behaviour not impose their will."

Elliott agrees: "My personal view is it depends on if the industry positively responds. Wessex could become a group of companies operating in a series of markets, some monopoly, some competitive. Hopefully over time our returns would grow. If that happens, there would be less pressure on the regulator to introduce forced change."

Ballance observes though that "inevitably there may be areas where the regulator wants the industry to go further than it volunteers".

What do the early signs indicate? Speaking at Water UK's City conference earlier this month, South West Water chief executive Chris Loughlin, whose company is one of the most advanced on delivering water quality outcomes with third parties through catchment activity, noted the industry's efforts to date had been "parochial" and needed to move forward now.

According to Bryan: "A very small number of companies are starting to question whether they could use contestability to deliver better totex solutions in AMP6. A lot are culturally resistant – a 'we're a big company; what can we learn from a small company?' mentality. They should recognise a small company can be fleet of foot, innovative and have a bigger risk appetite – qualities big companies don't have. So, I don't see much sign of it yet. But it is early days. The price settlement has only just been completed. Boards are only just starting to ask these questions."

While Ofwat's clear preference is for dialogue, its conduct of PR14 has proved it has grit and will hold its line, even if this is unpopular, where it can robustly demonstrate logic and sound evidence. So industry be warned: too slow or too timid could have unwelcome consequences. Ofwat chair Jonson Cox at his Policy Exchange speech earlier this month (see report p4-5) said dialogue didn't always mean negotiation.

Need for capital

Should the regulator make decisions on upstream contestability that prove unpopular with water investors, the situation could prove grave. Despite the £100bn+ of private investment that has flowed into the industry since privatisation, there remains an ongoing need for more capital, not least to refinance existing debt and invest to meet the resilience, water quality and water resource challenges of the future. As Wessex chief executive Colin Skellett told the City conference: "The one thing that is a real certainty in all of this is that the industry will be cash negative for a long time to come, so we'll need you guys [investors] to keep supplying money. That's really important." He added: "We need to be careful of unintended consequences. If you start talking about potentially disaggregating the RAV [regulatory asset value], investors will get jumpy."

> **"Our challenge to incumbents is: where cost to serve is high, they should at the very least, in the interests of their customers that are paying the cross subsidy, ask whether if those projects were contestable there would be a better outcome?**

If not yet jumpy, investors' ears have definitely pricked up at the prospect of upstream contestability. Griffiths-Lambeth confirms: "There is a perception of increased regulatory risk. We don't know where this is going to go yet, but there is significant interest."

RBS's Bartlett tells those who argue a trusted regulatory framework with a 25-year track record can't break: "I'd draw your attention to Europe and Greece. How quickly things can turn, even if you have a bank backing you, not just a water regulation framework." He piles in an additional note of warning: that it is currently very difficult to read signals from the market responding to regulatory change because market movements are overshadowed by big picture issues such as European quantitative easing and political shocks. "There are no market signals but the volatility is there," he observes. >

Kenton Bradbury, asset management director, infracapital at M&G, says it isn't a matter of investor loyalty to the sector; it is simply a matter of looking after investor best interests. "We make long term illiquid investments. It's not easy to move money around. But we have to work for our investors [mostly pension funds and institutions]… the money will follow the risk/reward profile."

Hastings' executive director of global asset management Valeria Rosati insists these arguments are not because investors are resistant to change of any sort. "Bondholders are in the industry for a very long time," she says. "We have taken on a lot of change in PR14 and everyone has embraced it. So it's not just that we don't like change. Upstream reform needs to be done is a way that will preserve our faith. We shouldn't be jumping to the conclusion that we prefer market solutions on resilience to central planning."

You as an industry should take a lead... It will be a hell of a lot nicer to fix problems yourself than get to the point where the regulator is going to fix them for you

Interestingly, investors' acceptance of the changes brought by PR14 may have lowered their tolerance of further change. Both debt and equity investors feel the risk/reward balance has shifted out of their favour already; that there is more risk, whether because totex will make it harder to understand credit metrics or because poor ODI performance would further erode returns.

Loughlin observes PR14 has affected "the extent of headroom or capacity we have to deal with shocks – I see tighter headroom and plenty of potential shocks". He lists in the latter category RPI indexation, the upcoming general election ("probably the most uncertain of my lifetime"), and upstream reform.

Killer issues

There are a handful of killer issues for investors as the rules around upstream contestability are drawn up over the next few years.

RCV: if competition for existing assets is introduced, it is very likely regulatory capital value would have to be allocated along the value chain. Ofwat has commitments in this area so would have to be careful how it handled historic RCV. Nevertheless the criticality of RCV to investors means any threat to it is red alert territory. Loughlin observes that the PR14 lower cost of capital was tolerable because investors stood a chance of recovering some of the loss through the new incentive mechanisms introduced in parallel. "But if you start to unpick RCV, even the risk of it given it is such a fundamental building block, and you could completely shake the house down."

Stranded assets: related to RCV allocation, the risk of asset stranding is perhaps the most prominent of investor concerns. Pointing out that new nuclear hasn't been possible without government support because of the risk of asset stranding, Bartlett says if this investor nemesis rears its head in water it would "change the nature of the industry out of all recognition". M&G's Bradbury remarks: "I can't believe we are even talking about asset stranding!" Returns would have to be high to reflect this risk should it emerge.

Cost of capital: a higher cost of capital would likely emerge as an unintended consequence of competition.

No black box

The hope is that constructive dialogue will offer a way through these incredibly difficult issues. Playing to investors' appetite for transparency and predictability, Ofwat has committed to both listen and share information with stakeholders; decisions won't be taken inside a black box. Alone this should provide reassurance. Griffiths-Lambeth comments: "Where it all goes wrong is where you have random jumps to curious places and nobody understands why."

Ballance is hopeful that an overriding common agenda will also win out. "Ofwat and government views are aligned with ours; we have a common interest in maintaining investor confidence… If reform is progressive and well thought through, investors should be able to see it through a positive lens, not as a threat to value."

Griffiths-Lambeth explains that in evaluating upstream changes, Moody's would focus on:

- whether the stability and predictability of the regulatory framework was preserved
- effect on RCV – including the risk of asset stranding and erosion of returns
- effect on incumbents – including any necessary changes in business model, capex requirements, leverage requirements, volatility and additional revenue
- operations: who would be executing core functions.

There is also the strong probability that the component parts of a disaggregated value chain (with their accompanying different types of regulatory arrangement and variously skilled management teams) would attract different types of investor. Obviously the higher risk competitive elements would require a higher return, potentially attracting new investors with more risk appetite. The parts that remain monopolies would continue to attract more traditional types; there could possibly even be lower risk/ lower return segments than are available under the integrated structure. Investors could play in both competitive and monopoly areas or, more likely, stick to one or the other.

Playing in Ofwat's favour as upstream contestability issues are explored is the regulator's robust and well-respected track record. Water regulation has served companies and their investors well for a quarter of a century; the belief – the hope – is this will continue. Bradbury comments: "I hope our trust in the system is respected."

Tania Tsoneva, a Standand & Poor's director, says: "Globally, Ofwat is excellent; top of the class. She adds: "So at the moment we are monitoring the rhetoric. We think there could be more a perception of uncertainty than actual uncertainty."

Balance and evolution

Further reassurance is to be found in water minister Dan Rogerson's latest comments on the issue. Presenting to Water UK's City conference, he said contestability was "just one strand" of upstream policy and that the use of market mechanisms would need to be balanced with long term planning and regulation.

In the round, it seems companies' and investors' plea is not for no change, but for evolutionary change. Tsoneva says: "We understand there are going to be changes. It is important that change is introduced in an evolutionary way…Upstream in isolation seems like a very big risk, that the RCV is not going to be in tact. But if it is done in an evolutionary way, I can see ways companies could adapt." Louglin: "Dramatic, big bang change is not the best."

So what might "evolutionary" upstream contestability look like? Some suggestions are:

Competition in new or supplementary markets: if reform is defined as reform of the water market rather than just the water utility, new upstream markets could be created outside the space currently monopolised by incumbents, or to supplement incumbent activity. For instance, a market for flood management or sustainable drainage services could be developed in which water companies could compete alongside a host of stakeholders from other sectors and new entrants. Catchment management is an example of an activity to supplement water company treatment services, for which Payments for Ecosystem Services (PES) markets could be developed.

Wessex's Elliott says: "There could be a whole host of new services; more for investors to invest in." Wessex is actively exploring the PES area. Elliott mulls: "If we can create a nutrient market in our area, there's nothing to stop us creating that market in someone else's area. Then the [local] monopoly would have to decide if they wanted to trade in it or not."

Competition on the fringes of RCV: Albion Water's Bryan argues opening up parts of the wholesale value chain where incumbents' cost to serve is high could result in a win-win-win outcome: delivering the government's reform agenda; providing profitable business for new entrants; and delivering outcomes at a lower cost for incumbents and ultimately customers. While new entrants may proactively spot some of these opportunities – for instance, if they have access to a cheaper source of water than the monopoly supplier – Bryan would really like to see incumbents scrutinising their AMP6 programmes and putting some high cost to serve projects out to tender.

He says: "Our challenge to incumbents is: where cost to serve is high, they should at the very least, in the interests of their customers that are paying the cross subsidy, ask whether if those projects were contestable there would be a better outcome? If the market came up with a better solution, be that a cheaper or a more sustainable solution, it would benefit shareholders as well."

Bryan suggests this sort of activity could take place within the existing regulatory framework, as new appointments and variations do. To control risk, he suggests small scale pilots as a first step, where "finding opportunities to innovate, in some cases quite radically" could be tested and learned from. An example is a new large scale development that could explore closed loop water and wastewater infrastructure where activities such as water reuse and recycling are maximised.

Bryan's ideas seem to chime with Elliott's views. Aside from the new markets discussed above, he sees scope for water companies to volunteer to "chip off" parts of their business where others could deliver better outcomes. "It's not about a dogmatic approach to breaking the industry down," he says. "There may be value in stripping some things out of the monopoly."

I can't believe we are even talking about asset stranding!

Special projects: For developments such as the Thames Tideway Tunnel, which carries complex construction risk and a hefty price tag, testing the market seems entirely logical.

How and whether competitive upstream services are regulated will fall to Ofwat to call, presumably following extensive stakeholder dialogue. It is likely different parts of the value chain will benefit from different sorts of regulation, with differing levels of return. In fact we are likely to end up with a far less uniform regulatory regime altogether. Across the value chain, Ofwat has a range of regulatory tools at its disposal, from full price controls at one extreme to no regulation at the other. Even where price controls are deployed, these may vary from segment to segment. Furthermore, upstream challenges vary enormously across the country, so the regulatory regime may need to accommodate regional differences within a flexible framework.

Finally, the issue has been raised that a more fragmented wholesale market may need some kind of system operator to ensure security of supply and future resource planning. This will be the subject of a future article in this upstream reform series. TWR

WHICH UPSTREAM SERVICES MIGHT BECOME CONTESTABLE?

Theoretically, all upstream services could be opened to competition, but clearly some are better bets than others in reality. Drawing on the Indepen group's work, and through discussions held researching this article, The Water Report identifies the following areas as potential priorities:

- **Sludge:** Ofwat has already done some joint work in this area with the Office of Fair Trading, and the waste to energy market is mature.
- **Water resources:** new water resources are highly desirable in light of supply/demand pressures in some areas; abstraction reform is currently being scoped out.
- **Network expansion to new developments:** could be desirable if new entrants can offer lower cost or more sustainable infrastructure solutions.
- **PES markets:** these are already being explored around water quality outcomes in catchments and could be extended to new areas including flood management and sustainable drainage.
- **Raw water storage:** with increasing focus on managing resources and consumption at catchment level, multi-stakeholder reservoirs may emerge.
- **Water treatment:** development here will depend on the approach taken to RCV allocation and access pricing. Resolving the latter in a way that encourages new entry will be crucial to the development of markets. Ofwat will look at access pricing as part of its Water 2020 work.
- **Natural monopolies:** existing networks are the least likely upstream component to be opened up. However they are unlikely to be unaffected should competition for existing assets in other parts of the value chain be pursued and RCV allocated. Stefanie Voelz, vice president and senior analyst at Moody's, explains RCV is capitalised at a discount to asset value, so to make new markets such as for existing treatment facilities attractive to new entrants, "there would have to be disproportionate allocation to those upstream assets, which would mean a far smaller proportion would remain with the network".

TRUST OR BUST

Douglas Millican says Scottish Water is already "trusted to serve Scotland" and he has no intention of letting that slip as the company sets about delivering the SRC15-21 deal from next month.

You can barely set foot in a water industry meeting these days without the "T" word cropping up almost instantly. "Trust" has been bubbling away on the back burner for a while, both as an undercurrent of PR14 and in light of its sad decline in energy. Ofwat turned up the heat and planted trust firmly front of mind earlier this year when it published its sector vision: one of an industry that – at some future point – inspires trust and confidence.

It is interesting, then, that late last year when Scottish Water refreshed its vision, it was confident enough to state that it was already "trusted to serve Scotland". This is no dim and distant hope: research has found the company to be both the most trusted utility in the UK and in the top four most trusted companies in Scotland.

On top of phenomenal performance achievements since its formation in 2002, perhaps the public ownership that was once seen as a hindrance has become a blessing. In tabloid terms, no private investors means no fleecing customers; nothing to distrust.

Douglas Millican, Scottish Water's chief executive since February 2013 and its founding finance and regulation director, comments: "One of the great things for us is, if I go back 13 years ago when we were formed, we probably thought we were the poor cousins of industry in England. There was maybe a degree of envy of private companies. But we've made public ownership work for us. We can engage our staff and say 'the reason we want you to make savings is because it goes back into keeping the customer price promise. Keeping the aspiration for nice stable charging is a good motivator for staff; the savings they generate go straight back to the customer pocket."

Staff engagement

However, the company's customer trust agenda runs deeper than just its ownership model. Millican says trust is multi-layered and he is keen to build on what he calls the "taken for granted trust" that all water companies have – i.e. customers are so confident in water quality and quantity that they rarely think twice about it – to strengthen "informed trust". Currently, he says, around two-thirds of customers who think more deeply about Scottish Water trust it, "leaving us something to really go at".

How does it plan to win over the remaining third? "I need to make sure every member of staff is trusted in every single encounter with every customer in every community, so it's a living, breathing every day vision to drive up where we are with that 64%, to be ever more trusted. Will we ever get to 100%? Probably not, because things do go wrong. But that is the vision we are painting to our staff.

"What's important to me is in any interaction with Scottish Water, can you trust the people you are dealing with…The 'trusted to serve' vision can resonate as much with a wastewater employee as a customer service employee. You're not just desludging a tank, you're caring for the natural environment. We are trying to drive a connection between everybody's role and some higher order benefit."

To drive home the message, the vision was launched with a series of all-staff events in November, which will be topped up with six monthly refreshers for all those in leadership roles. The idea is that fostering trust will pervade every action of every employee, whether they are responding to a Tweet, fixing a pipe, liaising with a community group or engaging with customers of the future in schools with one of the company's mobile water-cycle education units.

To bring it all down to earth, Millican provides a practical example: "We've had bad weather in parts of the Highlands and Islands in the last few days. It's really interesting if you split the social media communications [resulting from the impact of this weather] into two categories. For those without electricity but with water, a favourable contrast was made about Scottish Water relative to their electricity provider. For the very very small number of customers who were without both electricity and water, there was negativity on both.

"So we need to go further, so no matter what happens to the power supply we can always keep our customers on water supply. That's a really good example of picking up the sentiment of >

customers from social media, picking through and looking at what customers want. In the 21st century, it's unacceptable, even for the most remote communities, so we've got to find a way to keep our customers on supply."

Customer Forum deal

That's a micro example, but scaled up to the macro level and Scottish Water's vision holds firm. Nowhere is this more evident than in its conduct throughout the recent strategic review of charges (SRC), which will be implemented next month and sets prices through to 2021. When *The Water Report* interviewed Water Industry Commission for Scotland (WICS) chief executive Alan Sutherland for its launch issue, he asserted that a well-managed company would do more for its customers than its regulator. This philosophy underscored a price review characterised by direct company/customer (in the form of the Customer Forum) negotiation. Was Sutherland right?

Millican says: "It's difficult to give an absolutely objective answer to that, but I can give you a sense of how it felt for us given the vision we have about being trusted by customers. It put a huge incentive on us to make sure that we reached a deal with customers. Clearly there was a backstop arrangement under their cooperation agreement in that if we didn't reach agreement with the Forum it would default to WICS to do a normal price review. But from our perspective, that would've been failure. How can a business that is seeking to put customers at the heart of its business, that wants trust from its customers, not do a deal with its customers?"

Negotiations were framed around three key findings of research jointly undertaken by company and Forum: no service deterioration; specific service improvements; and broadly stable prices. "That provided the space for discussion," Millican recalls. "There were certain improvements the Forum wanted to get made and there was a clear price limit it wasn't prepared to go above. The debate was around a 0.4% range – [annual increases of] between about 1.5 and 1.9%. Ultimately we landed effectively at 1.6% (see box, Scottish Water final determinations). So it was all happening within a very small margin.

"But because there were clear improvements we wanted to deliver for our customers as well, that did mean we went pretty far on efficiency, particularly capital efficiency. Alan certainly said afterwards that we went further than he might have pushed us."

Aside from fostering trust, there was another upside to this. "We've gained an extra year because we agreed that plan back in January last year. Okay, we had to go through the final determination process, but we were able to work on the basis of our final business plan. It's almost doubled our planning time – so even if the challenge has pushed us a bit further, we've given ourselves longer on how we are going to deliver that.

"We are very pleased we reached that agreement and we are pleased that the commission reflected that right the way through the determination process. That has built enormous regulatory confidence within Scottish Water, that when the regulator says we are going to embark on a journey, they will follow it through."

Embracing CPI

Within the framework of the price review, a specific example of trust-building in action was Scottish Water's ready-acceptance of dropping the historic link to RPI and linking prices to CPI instead.

CPI is the inflation measure used by the government and the index for changes to pensions and benefits, so a more relevant measure for customers. Ofwat has raised the spectre of following suit and adopting CPI at PR19 – a prospect that has met with considerable nervousness. So how did Scottish Water respond?

Millican explains: "When we were having our early discussions, when the Forum was getting up to speed with regulation, they expressed surprise at RPI because we are in a world now where people on fixed incomes – through benefits or state pensions or whatever – are now all indexed to CPI. So there was surprise that utilities like us were still on RPI.

"So we took a clue and when we came in with our business plan, it was we who offered to put prices in reference to CPI. That's a good illustration of the nature of the dynamic interaction that resulted from collaborating with customers. We thought if we come along and pick up the clue from customers, that's another way of building trust and confidence that we are serious about putting customers at the heart of the plan."

He notes though that: "What we've got is quite an elegant solution that gives customers protection relative to CPI but gives us cost protection relative to RPI because our costs are indexed to RPI. So provided the outturn differential between RPI and CPI is broadly in line with expectations, it will be fine."

Delivery plan 2015-21

Next month, Millican will lead the company in kicking off the implementation of the price settlement. The overall cost of delivering the plan is £8.1bn across 2015 to 2021. Scottish Water will finance this with revenue from customer charges of £7bn, net new government borrowing of £720m, utilising £220m of opening cash balances and funding from infrastructure charges, and asset disposals of £95m.

There will be a mid-way review in the six year period, dubbed IR18. This will allow time for further investigations where there is uncertainty around the issue to be addressed and/or the best solution to address it, and prevent potentially suboptimal solutions being locked in prematurely. Millican comments: "When we get to IR18, we can then confirm the remaining elements of the programme and we can start to book in some of the investment for 2021-24. So the idea is that you get into rolling six-year investment periods that are updated every three years."

Absolute price increases are locked in for the first half only, but there is an expectation that the levels that feature in 2015-18 will continue in 2018-21. Says Millican: "Our aspiration is that we can keep running on 1.6% for the final three years. If inflation continues to be very very low, we might even be into less than 1.6% at the back end.

"But let's say we are in a situation where there are pressures which mean the price control has to be revisited. We would do everything in our power to minimise that. We might look at how we can move the date of investment, not just 2018-21 but to 21-22/23. We are very very committed to keeping prices stable."

Asked to highlight key elements of the business plan, Millican identifies:

- Two new customer experience measures: one in the household sector and one in the business sector. The latter will seek the views of licensed providers, developers and end customers. The former has been modelled on the Service Incentive Mechanism, though will not include financial incentives/penalties and has different measures and weightings.
- The plan to take every customer off the internal flooding register, and to make progress in a number of areas that are suffering from external flooding.
- Increasing resilience through making smart connections in the water supply system.
- Predictive and preventative investment in water treatment works that are at risk of non-compliance. Historically the company has concentrated on areas of known non-compliance.
- The largest single investment is in a huge wastewater tunnel under Glasgow that will bring storage into the system to lower the level of flooding and improve the quality of discharges to the environment.

Efficiency demands

SRC15-21 demands some striking efficiencies, which Scottish Water intends to meet through a mix of revised procurement arrangements, streamlining investment management processes and improved productivity within the supply chain.

On the capital side, spend of £500m a year is earmarked, with an average 16% efficiency demand relative to start costs. In response, Millican says: "We are changing the whole approach we take to investment delivery. In the past, a lot of our investment delivery has effectively been outsourced to Scottish Water Solutions – two versions of it. That originally came about because we had huge challenges on performance efficiency, so we outsourced.

"It worked fine on one level but it has also given us assets that aren't necessarily the ones we would have chosen. With glorious hindsight, it hasn't always given us the most sustainable assets to operate in the long term. So what we've identified is that we need to take ownership of our service planning. Not just our investment planning but our service planning. We are in the business of delivering service outcomes for customers. So we don't start with the presumption that it is an investment answer. The answer might be an operational improvement; it might be working in collaboration with a third party; it might involve land management; or it might be an investment.

"We now have a function called strategic customer service planning. It's all about planning what the right route is to deliver outcomes for customers and working out long-term service plans. Out of that will inevitably drop elements to put into the investment plan but we would have identified the option we want delivered."

To this end, Scottish Water is putting three alliances in place that will work on a design and build basis: one covering water infrastructure; one covering wastewater infrastructure; and the third covering non-infrastructure. The alliance partners will do quite a bit of self delivery but they will also subcontract both traditionally and under Scottish Water's rural framework, which specifies use of smaller, rural contractors. The company will deliver some elements of the programme in-house – for instance, non-complex capital maintenance – but the three alliances will deliver the bulk.

On the operating side, two areas stand out: reducing energy consumption and reducing service failure. Scottish Water has ambitions to produce more home grown renewable energy than it consumes in time, with further wind investment featuring prominently in 2015-21.

SCOTTISH WATER FINAL DETERMINATIONS 2015-21

The proposed charge caps are as follows:

	Household	Non-household default	Wholesale
2015-18	1.6% each year nominal	0% each year	CPI-0.3% each year
2019-21	Indicative 1.6% each year nominal subject to overall six-year (2015-21) cap of CPI-1.8%	0% each year nominal	CPI-0.3% each year

These caps mean:

Domestic customers: all households should see their bills increase below the rate of inflation throughout the regulatory control period – typically by £6 or less each year. Actual household customers' bills will increase by no more than than 1.6% each year for the three years from 2015-16 to 2017-18. This profile of increases is expected to continue for the period 2018-19 to 2020-21.

Non households: no increases in maximum charges payable.

Wholesale: these caps are broadly the same as for household customers, except they are fixed annually relative to the CPI, not set in nominal terms. SRC15-21 is the first time wholesale revenue caps have been set. The introduction reflects uncertainty in these revenues, borne of among other factors the broader economy, water efficiency work in the retail market, and government policies such as on charging exemptions for charities. Scottish Water's wholesale revenue has underperformed the original determination for the closing period.

Government lending: £120m per year.

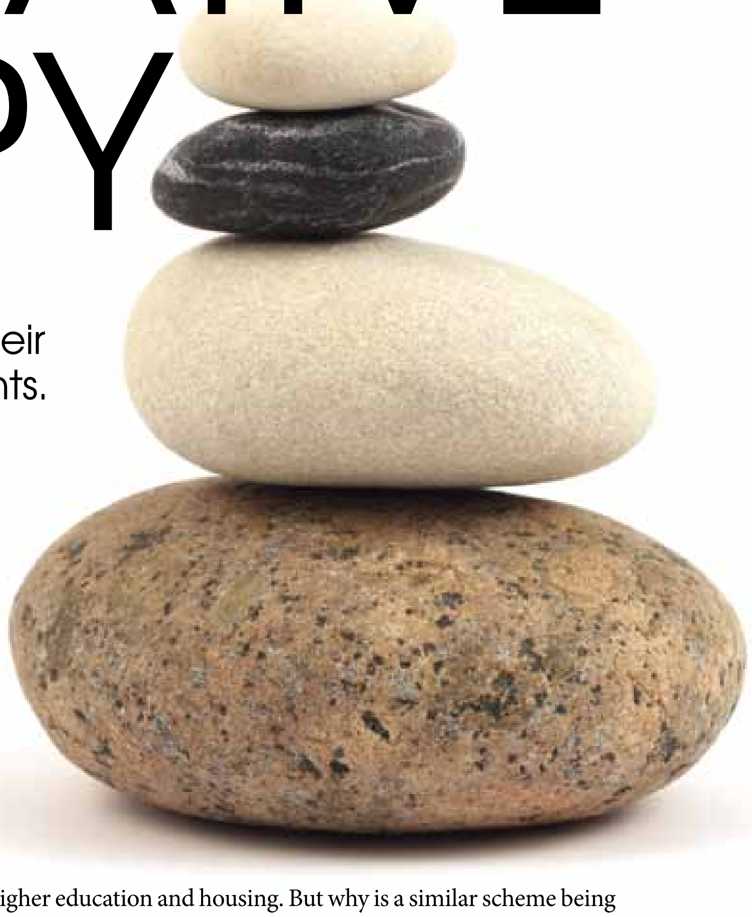
Investment: £3.5bn over six years, which will further improve drinking water quality, protect the environment and support the economy. Among the key features of the investment programme are:

- Around £300 million to enhance and protect drinking water quality, including improvements planned in Aberdeenshire, Fair Isle and South Uist, as well as the refurbishment of hundreds of miles of water mains and modernisation of dozens of water treatment works
- Over £100 million on a new Glasgow wastewater tunnel to improve water quality in the River Clyde and reduce flooding
- Around £45 million to deliver solutions to external sewer flooding problems and around £100 million for solutions to internal flooding issues.
- Around £55 million to improve the resilience of water supplies across Scotland's communities to deliver continuous supplies of high-quality water to customers. This is the start of an on-going programme for the next 20 years.

Innovation both internally and from the supply chain will be vital in meeting these tough efficiency challenges. According to Millican, "it's about fresh thinking and great ideas" across the spectrum of operation. In the coming period, for instance, the company will pilot a Dutch technology at its wastewater treatment plant in Glasgow "which we believe offers very significant energy and carbon savings and that has the potential to be scaled up in lots of large wastewater treatment plants". It will also be adopting the innovation of one of its West Highlands operatives – to clean air filters with a hand-held vacuum cleaner, thus prolonging their life. "This has significantly reduced the amount we would spend over the period on filters," Millican remarks.

To aid Scottish Water in this pursuit, WICS built in a number of provisions to the SRC to encourage experimentation, including acknowledging higher risk solutions require higher returns and removing capex bias incentives. TWR

ALTERNATIVE THERAPY



From 1 April, customers will have a new Alternative Dispute Resolution scheme at their disposal to help heal deadlocked complaints.

Customer complaints about water and wastewater services are at their lowest level for a decade. In 2013/14, written complaints from customers to water companies fell by 18%; a sharper fall than for 2012/13 and the sixth successive year of decline. Customer complaints to the Consumer Council for Water (CC Water) about their water companies also continued to fall (see charts and table). So at first glance it seems an odd time to be launching a new complaints scheme for water.

But from 1 April, customers with "deadlocked" complaints – those which have not reached a satisfactory conclusion for the customer despite going through the complaints process of the involved water company and CC Water, will have a new option at their disposal. The Water Redress Scheme, or WATRS, falls under the heading of Alternative Dispute Resolution (ADR) and will offer customers with deadlocked complaints the opportunity to have an adjudicator consider their case and impose a binding decision on the water company.

Water customers in Scotland already have this option: they can appeal cases to the Scottish Public Services Ombudsman, which handles final stage complaints on water alongside a range of other public services including health, government, prisons, higher education and housing. But why is a similar scheme being introduced in England now? Or perhaps more to the point, why haven't English customers had this provision available before?

"The numbers we are working on are 250-750. I appreciate that is quite a range. We think it will be towards the lower end."

Sir Tony Redmond, CC Water

Richard Khaldi, senior director of customers and casework at Ofwat and the regulatory lead on WATRS, explains the groundwork was done by the 2011 Gray Review of Ofwat and water customer representation. "Gray identified a gap in complaint provision," he says recapping existing arrangements. An unhappy customer must first approach their water company, and then in most cases where an unsatisfactory outcome is reached, they will escalate their complaint to "triage" at CC Water. For a few issues specified in the Water Industry Act, Ofwat has powers too – for instance, on connections prices – but most standard complaints cannot go that route. Currently the small number of customers who remain unhappy after this process is exhausted either have to drop the issue or proceed to court. "WATRS will fill the gap for deadlocked complaints," Khaldi says.

Neil Dhot, head of corporate affairs at Water UK, says companies have embraced the development "because it chimes with the wider vision to give customers trust and confidence in the sector". Dhot explains customers should still expect their water suppliers to respond to complaints quickly and fairly; it is appropriate that it is the company that has the first opportunity to put things right. But WATRS will add a layer, providing a clear and independent way of resolving complaints that have reached a deadlock under the current arrangements.

This positive attitude by the water companies has meant provisions in the Water Act 2014 requiring an ADR scheme to be set up have not been required. All the involved parties have voluntarily worked together to get a final stage complaints system off the ground. While the scheme was developed under Water UK's stewardship, all water companies have signed up. Khaldi comments: "We [Ofwat] asked for that provision to be included in the Water Act. It is still sitting there, but very much as a backstop. [There is] an independent panel to provide oversight and to make the scheme as good as it can be." (See box, The ADR panel).

It is also worth noting that the introduction of WATRS is taking place against the background of an EU directive on ADR. The directive requires member states to have in place ADR schemes to enable any dispute in respect of goods and services to be submitted by consumers. It was adopted in the UK in 2013 and is due to be implemented this year. The provisions of the ADR Directive do not directly apply to the water sector, because it provides services under statutory obligation rather than contract, but it provides context for the new development.

Eligibility and powers

WATRS will be open to all customers: household, non-household, developers and self-lay organisations. It is expected to have to deal with only a small number of complaints each year, because most are resolved at the company/CC Water stages. Sir Tony Redmond, CC Water's regional chair for London and the South East, says: "The numbers we are working on are 250-750. I appreciate that is quite a range. We think it will be towards the lower end."

The scheme will be able to deal with most common complaint causes, including metering, billing, leakage, sewer flooding and supply issues. It will be free at the point of use for the customer and has been designed to be easy-to-use. According to Sir Tony, unlike taking action in the courts, "customers won't need professional support or advice. WATRS will look at the evidence the complainant produces and then invite the company to respond".

The scheme will be able to award financial compensation – to be paid by the offending company – of up to £10,000 for households and £25,000 for businesses. But it is not limited to financial arrangements. Sir Tony explains: "There are no restrictions as it seeks to offer fair redress for the complaint made. In a debt case, it may write off the debt. It could decide who is responsible for a leak. When customers apply, they will be asked to fill in a form which will include a question on what outcome they would like to see. They probably would already have stated that anyway at the company stage or to CC Water."

Decisions made under WATRS will be binding on water companies if the customer accepts the decision, but should the customer remain dissatisfied, they are free to pursue redress in law. Sir Tony notes: "It's also worth saying that the formality of the scheme seeking information from the company after receiving a complaint may well be enough to prompt the company to volunteer a response."

Water specific

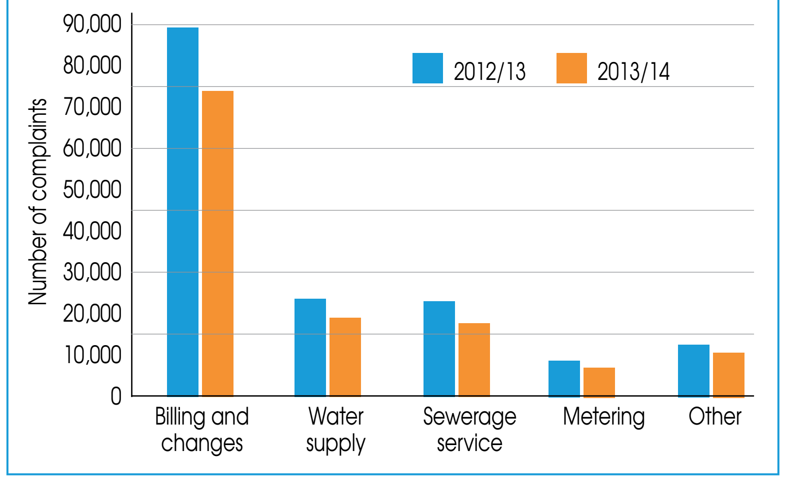
The new redress scheme has a distinctive water identity, as its very name – WATRS – indicates. This choice reflects a position spelled out by Water UK last June in response to a Department of Business, Innovation and Skills consultation on the ADR Directive. It said on the possible long-term simplification of the ADR landscape: "Water UK would wish the particular characteristics of the regulated sectors, including water, to be taken account of in any proposed simplification of the ADR landscape.

"In many sectors, an ADR scheme could be expected to deal with relatively simple contractual disputes revolving for example around the speed of the supplier's service or the quality of workmanship. Such disputes may also arise in regulated sectors but our experience suggests that the extensive legislative frame- >

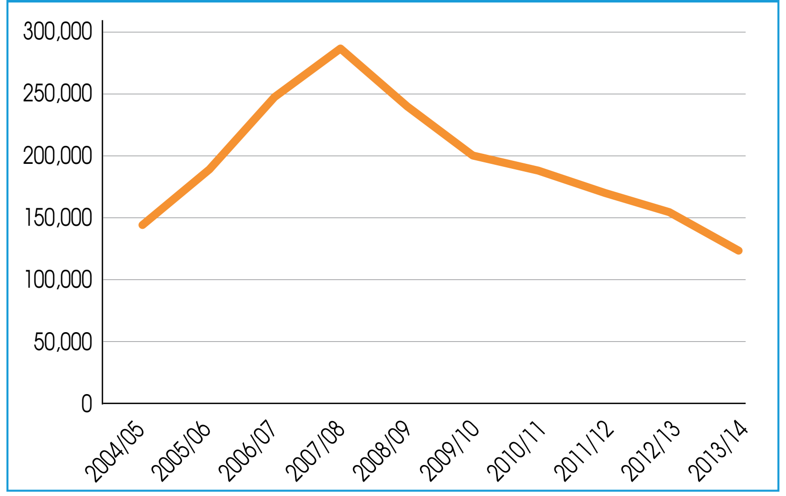
WRITTEN COMPLAINTS FROM CUSTOMERS TO WATER COMPANIES BY CATEGORY 2010/11 - 2013/14

Category	Number of complaints 2010/11	Number of complaints 2013/14	% change
Billing and charges	119,087	70,616	-40.7
Water	28,431	18,585	-34.6
Sewerage	14,796	16,766	13.3
Metering	7,378	6,762	-8.3
Other	15,448	10,489	-32.1
Total	185,140	123,218	-33.4

WRITTEN COMPLAINTS FROM CUSTOMERS TO WATER COMPANIES BY CATEGORY 2012/13-2013/14



WRITTEN COMPLAINTS FROM CUSTOMERS TO WATER COMPANIES 2004/05 -2013/14



work within which regulated companies operate will give rise to disputes requiring the decision maker to understand that framework. A generic ADR scheme, focussed on resolving contractual disputes, would therefore not, in our view, be appropriate for such disputes. Water companies would not support any proposed change to the ADR landscape which required disputes in the sector to be submitted to a scheme which was not sector specific."

CEDR

WATRS will be delivered on the ground by the Centre for Effective Dispute Resolution (CEDR) after the organisation won a competitive tender overseen by the independent panel. Sir Tony says the panel's decision was based on the following considerations: "Did it have the skills, competence and experience to investigate complaints? It didn't need to have water industry experience but experience of how to resolve disputes in similar industries. [CEDR has appointed a technical panel to assist with complicated cases since its appointment]. Was it free of water company and CC Water links? Did it have the capacity to fulfil the role? Also timeliness was important. Could it receive a complaint and commit to making an evidence-based decision in good time?"

CEDR will give companies five days to decide if they are going to do a deal or contest the complaint. The SLA then gives CEDR 20 working days to make a decision. This is meant to be quick."

Neil Dhot, Water UK

ADR IN REGULATED SECTORS

In July last year, the UK Regulators Network published a report reviewing ADR in regulated sectors. Among its key observations are:

- Complaints handling varies regulated industry to regulated industry. Ofgem and Ofcom are required to set complaints handling regulations and have a statutory requirement to approve a redress scheme. CAA investigates complaints itself, while in rail and the English and Welsh water sectors, consumer organisations investigate complaints.
- Redress options expected by customers: an apology; financial compensation; the reinstatement of the customer to the position they were in before the problem arose; an acknowledgement of wrongdoing on the part of the supplier; and a commitment by the supplier to introduce changes in its practices in its future dealings with customers.
- Types of redress provision: in-house complaints procedures; conciliation; mediation; adjudication; arbitration; ombudsmen schemes; and court action.
- Principles of good redress: independence, impartiality, transparency; effectiveness; accountability; and accessibility.
- The key features of different redress schemes are: scheme type (from conciliation to ombudsman); how the scheme is funded; and the number of schemes operating within the sector – communications has two, for instance, while Ofgem decided it was not in the customer interest to have more than one in energy. According to the report: "There are arguments for and against having more than one scheme operating in a sector. In favour is the fact that the redress schemes face competition in terms of providing their services efficiently and effectively, and if a scheme fails on these counts there is a ready alternative to which companies can switch. Against this is the argument that having more than one scheme might lead to customer confusion, different service standards, limit the scope for awareness raising among consumers by the scheme provider, and since membership is a choice for the companies rather than the customers the companies may tend to choose the least expensive and possibly less robust defender of customers' rights."
- Potential benefits of redress: consumer empowerment; a sense of fairness which breeds customer confidence; service improvement encouragement; cost effectiveness; and better regulation.

For the full report, see http://www.ukrn.org.uk/wp-content/uploads/2014/07/Alternative-Dispute-Resolution.pdf

THE ADR PANEL

A expert panel was established to ensure the independence and impartiality of the ADR scheme throughout its development and particularly around the procurement of a service provider. The panel oversaw the contract specification and tender arrangements, and met with the preferred supplier before the final contract award. After 1 April, the panel will perform a monitoring and review role.

The members of the ADR panel (they work in an individual capacity, rather than as representatives of their respective organisations) are:

- **Sandra Webber** (chair) - former director of consumer support at UK Civil Aviation Authority
- **Jo Causon** - CEO, Institute of Customer Service
- **Adam Scorer** - director, Citizens Advice
- **Richard Khaldi** - senior director, customers and casework, Ofwat
- **Sir Tony Redmond** - CC Water
- **Phil Marshall** - outgoing director of customer services at Bristol Water and new deputy chief executive of CC Water
- **Gary Dixon** - domestic retail director, United Utilities.

Khaldi comments: "The use of the panel, its independence, has been a comfort to us as a regulator. In a personal capacity, I am a member of the panel and I know everyone has aimed to make the scheme as good as it can be. The panel will monitor performance in the first instance; we (Ofwat) will sit in the background and regulate through the panel but can react if we need to."

Dhot picks up the latter point. "CEDR works with the NHS and post already, and we have specified one of its toughest service level agreements (SLAs). After receiving notification of a complaint, CEDR will give companies five days to decide if they are going to do a deal or contest the complaint. If they contest it, they also have to provide their evidence within that five days. The SLA then gives CEDR 20 working days to make a decision. This is meant to be quick."

Five individual adjudicators within CEDR have been identified and trained up for the WATRS work; it is their individual decisions that will hold sway. Complaints will reach these individuals from two routes: either referral from CC Water or direct from the customer. Sir Tony points out though that: "Customers won't be able to jump the earlier stages. That could be a bit of a problem; customers might try to bypass their company and CC Water and go straight to CEDR. It would have to knock them back as this would be outside their jurisdiction."

Once it takes on a case, CEDR will hand control to the customer. The complainant will be asked to provide evidence of its case and so the customer will decide where the evidence comes from.

While done with good intentions, could this customer empowerment weigh against those less able to keep good records, or those whose cases are less easy to document (for instance, a leakage dispute as opposed to a well documented billing problem)? Sir Tony doesn't see a difficulty in the latter case, arguing the customer would at least be able to call upon the case records held by the company and CC Water. In reference to the former, he acknowledges there won't be any technical support available to the customer (though CEDR's technical panel could be called upon) but says help will be available for those facing particular access difficulties. "The scheme has to be accessible," he says, "so it will support, on a case by case basis, things like disability or language barriers."

Cost and communication

There will be no cost to the complainant. Instead, CEDR will receive fixed funding, shared across the industry, to enable it to get WATRS off the ground and acquire the specialist skills needed to resolve water disputes. However there will also be an element of what Khaldi says is similar to the polluter pays principle, whereby case fees are also charged to companies involved in disputes. Those companies with the greatest number of unresolved disputes will therefore make the greatest financial contribution to the service, adding a further financial incentive for good behaviour.

In terms of how this new string to customers' complaints bow will be communicated, Dhot says it will have to be delicately played. While general consumer awareness is of course desirable, it would be costly and inefficient to fund mass promotion given the scheme will only be used by at most 1000 customers a year. Furthermore, because complainants can't bypass company and CC Water arrangements, in many ways there isn't any need for the scheme to be brought to their attention until they get to an advanced stage in the complaints process. "In many ways, this is a staff education issue," Dhot observes. "It will be really important for the customer-facing staff in water companies and at CC Water to have full understanding of the arrangements so they can advise customers accurately when the time is right."

Monitoring and review

Given the novelty of WATRS, it is going to be vital to monitor the scheme closely to see how it is performing for customers. The panel will watch over progress in an ongoing way, and there will be a thorough examination at the six month stage, after which the panel may make recommendations for change.

Among the evaluation criteria will be matters such as whether the scheme: is perceived to be fair and impartial; is accessible to different groups of users; offers a good experience regardless of the outcome; is cost effective; is well understood and appropriately used; and provides a genuine alternative to other means of recourse. Key performance indicators and other measures are framed around matters including timescales, how and how frequently customers come to the scheme, the number and topic of complaints, value for money, the nature and robustness of outcomes and overall customer satisfaction.

This is not just about resolving individual complaints. It's also about driving improvements in the sector as a whole.

Richard Khaldi, Ofwat

All involved parties are also keen to stress that data generated by the scheme will be used for the wider good. Khaldi emphasises the point: "This is not just about resolving individual complaints. It's also about driving improvements in the sector as a whole. As a panel member, I am very keen on a feedback loop for the industry, furnishing it with information on both the issues that are causing the problems in the first place and the way those issues are dealt with. For instance, is the ombudsman's decision one that only the ombudsman could have made, or could the company have dealt with it sooner?" Unsurprisingly, CC Water is keen for the industry's consistently improving track record on complaints to get even better. "We want to see a further decline, fewer and fewer complaints," says Sir Tony.

Dhot stresses that none of this is falling on deaf ears. "We see this as another strand of companies taking ownership of their customers," he says. "It's a new source of information to learn from and companies will need to demonstrate that they have taken it on board and acted on it." To this end, the plan is to produce an annual report detailing complaint types, trends and so on. This won't feature a league table of companies as the idea is to constructively encourage improvement across the industry. TWR

NEWS IN BRIEF

Part and parcel: The UK Water Partnership has been launched to join up currently fragmented innovation, development and commercialisation work around water technologies and services. It wants to increase the country's chances of securing a slice of the $500bn global water market.

Durability dozen: eleven experts from the water industry, Ofwat, CC Water, the supply chain and academia have joined chairman and Waterwise managing director Jacob Tompkins on the independent working group commissioned by Ofwat to explore resilience.

Bournemouth duo: Sembcorp Bournemouth Water has appointed Philippa Goodwin as finance director, as non-executive director Peter Millward steps up to become the new chairman.

Loved of tunnel: Thames Tideway has announced preferred bidders for £2.3bn contracts to construct London's super sewer. These are BMB, a JV of BAM Nuttall, Morgan Sindall, and Balfour Beatty; FLO, a Ferrovial Agroman UK and Laing O'Rourke Construction partnership; and CVB, a Costain, Vinci Construction Grands Projects, and Bachy Soletanche JV.

Cholderton changes: Ofwat has modified Cholderton Water's licence conditions to end its historical, unique-in-the-UK arrangements that left it with a different style of PR14 price control from the other 18 companies. Ofwat said the modification would reduce the regulatory burden on Cholderton and enable it to set separate wholesale/retail controls at future price reviews.

NIW cash: too little, too late

Northern Ireland Water (NI Water) and its regulator are assessing the impact of a £20m shortfall in 2015-16 government funding.

Regional development minister Danny Kennedy has just announced £109m in cash funding for NI Water and £140m in capital funding. While this is an increase on a January draft budget offering, each sum is short of the money calculated by the Utility Regulator (UR) as necessary to fund water and sewerage services in its December 2014 PC15 final determination. There is now a £5m cash gap, while the capital sum allowed is £15m short of UR's December funding requirement of £155m.

The eleventh hour timing of the decision – just two weeks before the new price period starts – has added to NI Water's difficulties. Ahead of the announcement the company told *The Water Report*: "A lack of medium term financial settlement impacts our ability to plan efficiently. There is a risk that services to our customers – which we have worked hard to improve – may start to deteriorate in the current period of uncertainty."

And there remains uncertainty over where the axe will fall. The minister said: "Work will still be needed to assess changes to outputs required of NI Water because funding is not at the level required by the regulator."

Following the minister's announcement, UR told *The Water Report*: "We are continuing to engage with NI Water to assess the impact of any shortfall in funding. Our aim is to ensure that the company delivers the best possible package of outputs for water and sewerage consumers within the funding available."

Kennedy said he was struggling to shore up NI Water's funding in the face of cuts to his departmental budget of £60m: "I have been working intensively with officials to determine how best to spend the limited resources that are available to me," he said. "The scale of reduction required cannot be delivered without an impact on core services."

In issuing PC15, UR chief executive Jenny Pyper warned: "As NI Water is partly funded by government subsidy, any reductions in public expenditure allocations may impact on the implementation of the price control determination."

In an answer to a NI Assembly question, Kennedy revealed that NI Water's funding allocation from his department has fallen in every year but one since the company was reclassified as a non-departmental public body in 2008.

CMA calls in Bristol panel

A former telecoms regulator is to chair the Competition and Market Authority group appointed to conduct the inquiry into Bristol Water's appeal against Ofwat's final price determination. Oftel deputy director general and current advisor to the European Commission on the regulation of air traffic management Anne Lambert will be joined by: former senior economic adviser to the Monopolies and Mergers Commission and member of the CMA's specialist utility panel Robin Aaronson; former partner and head of the competition department at lawyer Reed Smith, Katherine Holmes; and director of the London Press Club, Stephen Oram.

The group has until 3 September to determine the appeal and, if appropriate, issue new price limits.

Cash for catchments

Farmers have been offered £14m in grants to help them protect the environment and reduce water pollution. The grants include Water Capital Grants totalling £10m under the new Rural Development Programme for England. These will fund new projects to reduce the impact agriculture can have on water quality.

Meanwhile, DEFRA reported that, last year, it made 105 payments totalling almost £1.1m to organisations taking on local catchment partnerships to deliver improved water quality to meet objectives under the Water Framework Directive. Sub catchment payments totalled more than £159,000 for 27 partnerships while 78 whole catchment partnerships received almost £921,000. Support costs came to about £292,000 and Environment Agency administration costs were £28,000.

Wales cleans up on SUDS

The Welsh Government is consulting on interim national standards for sustainable drainage systems (SUDS).

The interim standards cover design, construction, operation and maintenance. They call for adoption and management arrangements for SUDS infrastructure and all drainage elements to be agreed with the local authority or sewerage undertaker at the planning stage. The deadline for responses to the consultation is 30th April.

Meanwhile the Committee on Climate Change has warned of "ineffectual" Westminster government implementation of SUDS rules through the planning system. Sub committee chair Lord Krebs has called for tougher rules including removal of the automatic right for developers to be connected to public sewers.

FEARS MOUNT FOR ON-TIME MARKET OPENING

The loss of WICS as a partner for Ofwat in delivering retail market opening arrangements, and in particular the associated loss of Alan Sutherland at the helm, has caused nervousness about whether April 2017 is a realistic start date.

Sutherland's stint at the forefront of Open Water is widely known to have galvanised both engagement and preparation activity. He has, since late last year, pressed the case for urgent action on market delivery.

A number of sources have told *The Water Report* they fear delays might be inevitable following the loss of Sutherland's experience and programme management skills and while Ofwat's new market opening director (Adam Cooper) and whoever it appoints commercially to be its delivery partner get up to speed.

WICS is believed to have walked away from the delivery partnership role over contractual issues. It will continue working to develop the Anglo-Scottish market in its capacity as Scottish regulator as part of the Retail Market Opening Management Group, alongside Ofwat and DEFRA.

Alongside this change, Ofwat also announced last month that Open Water Markets Limited (OWML) will stay on to deliver the third Market Achitecture Plan in May; set the specification for central market IT systems (by the end of April); and procure a market assurance framework. Ofwat had planned to take this work in-house in January but this is now scheduled for 1 June. Resource issues at Ofwat may have prompted the delay. OWML COO Roy Field, only appointed last September, has resigned and the company is now seeking a new COO for the next six months to oversee the winding down of OWML and the transition to Ofwat.

Ofwat also confirmed as we previously reported that central market systems will be procured privately through Market Operator Services Limited, an industry-led private company that in time is expected to become the market operator. Open Water gave potential IT suppliers until 11 March to express interest but no tender details are thought to have been made available.

Speaking at Water UK's City conference earlier this month, Sutherland was adamant the market would open on time in April 2017. Ofwat said it would use an integrated market plan to track progress and inform delivery discussions going forward, and would commission independent "gateway" reviews at key milestones. TWR

SCOTTISH PUBLIC SECTOR DEAL AT STANDSTILL

Award of a coveted £350m contract to supply retail water and wastewater services to Scottish public sector bodies has ground to a halt.

Preferred bidder Anglian Water Business was originally due to hear on 27 February whether the contract award would proceed. However an open-ended "stand still" period, in which competing bidders and other interested parties get to raise objections, has now been imposed. This will almost inevitably delay the scheduled deal start date of 1 April.

The Water Report understands two queries have been raised. These could involve anything from a request for more information to an attempt to push the contract to rebid.

These legitimate queries come hot on the heels of intense lobbying by some stakeholders in Scotland against the contract being taken out of local public sector hands.

Involved parties are prevented from commenting while the process is underway.

TWR comment: Objecting on a local public ownership ticket directly conflicts with the whole principle of a competitive market, which hitherto Scotland has heralded as a success story. It would effectively exclude all licensed providers except Business Stream from bidding for public sector supply work, depriving those customers of choice. It also fails to acknowledge that most of the £350m would flow back to the Scottish economy in wholesale charges to publicly-owned Scottish Water.

Rather than going backwards and pushing for less (or no) competition in Scotland, objectors would be wiser to throw their weight behind keeping up the pressure for the opening of the English market. That would be a fairer way to balance the scales for Business Stream, which at present is prevented from winning mass business south of the border while being open to losing market share on its own turf. TWR

DETAILS OF THE DEAL

The three year (with a 12 month extension option) contract was tendered by the Scottish Government in August 2014. It comprises two lots: lot 1 to supply local authorities and social landlords; and lot 2 to supply a range of other public sector organisations including health bodies, colleges, central government departments including police and fire, and the Scottish Parliament. The contract covers approximately 15,000 sites and 27,000 supply points, and accounts for around 25% of the entire Scottish market.

MEUC MANIFESTO SETS OUT BIG BUSINESS DEMANDS OF THE RETAIL WATER MARKET

New research from major customer representative the MEUC shows a real appetite for competition among big businesses – but only if the market is right.

Karma Ockenden, editor, The Water Report

Alongside my day job as editor of The Water Report, I also chair the Water Competition Action Group of the Major Energy Users' Council (MEUC). The organisation, a familiar part of the energy industry landscape, represents large utility consumers and counts among its members some of the biggest brands in the country.

In view of the opening of the retail water market, the MEUC has stepped up its activities in water. The Water Competition Action Group seeks to represent MEUC members' interests as the water market develops and to bring member companies together with other stakeholders, with a view to delivering the sort of market large customers want.

With this objective in mind, I recently commissioned market researcher Accent to survey members' views on water retail market opening. 22% of member companies responded. We have used the findings to compile an MEUC Water Competition Manifesto, which sets out in clear, simple terms what big business customers want.

We presented the manifesto to water minister Dan Rogerson MP earlier this month and subsequently have distributed it more widely. Ahead of May's general election, we hope the manifesto will be used by whichever party or parties form the next government to put customers at the heart of the new market.

The six key points of the manifesto are set out below. This should make interesting reading for any water supplier hoping to win large customer accounts and for all stakeholders involved in designing and establishing the market.

MEUC Water Competition

MANIFESTO

DELIVER THE MARKET

MEUC members are unanimous in wanting to be able to obtain competitive water supply quotes and potentially to switch supplier.

OPEN ON TIME

Don't keep us waiting beyond April 2017. We have waited long enough.

ENSURE MULTI-SITE BUSINESSES CAN SWITCH TO A SINGLE SUPPLIER FROM DAY ONE

When the market opens, we want to be able to switch all our sites to a single supplier and benefit from consolidated and improved billing. This means all incumbent water companies must be ready to engage with the market as wholesalers, regardless of their retail intentions.

GIVE US CONFIDENCE

Our biggest concern is that we could be left with supply or administrative problems should the switching process or market arrangements fail. Nearly half of us will be deterred from participating in the market if this risk materialises. We need assurance that switching will be smooth and the market will work.

PROTECT US IN THE EVENT OF SUPPLIER EXIT

Our top consumer protection priority is that our price and service terms won't suffer if our existing supplier exits the market and we are transferred to a new licensee.

GIVE US A SAY

We want the market to work for us, so we would welcome involvement in market decisions and want to be kept informed on developments.

Manifesto research conducted by Accent on behalf of the MEUC Water Competition Action Group. Contact the group chair Karma Ockenden on 07880 550945 or karma@thewaterreport.co.uk

MANIFESTO POINT 1 DELIVER THE MARKET

MEUC members are unequivocal in their support for government policy on retail market reform; respondents are unanimous in wanting the ability to obtain competitive quotes for water and wastewater services and potentially to switch supplier.

Chart 1 shows which potential benefits of competitive water supply are most important to large customers. The prospect of obtaining a cheaper price per unit is deemed most important by 42% of MEUC members – by far and away the most popular choice. Some respondents may already have gained price benefits in the Scottish market – which in some cases have been considerable – and be looking to achieve a similar win in England.

There was a desire for water price standardisation across the country from some quarters. One respondent for instance questioned: "Will there be a national structure to the unit price of water?" Another pointed out the relevance of the wholesale element of the bill, insisting: "The level set for water wholesale price needs to be fair and reasonable. Unlike the energy markets, none of the trades should be 'under the counter'."

Aside from price, the next most popular potential benefit was better help to manage or reduce water consumption, which 21% of MEUC members said was most important. Some respondents raised the point that they would be looking for the best deal in the round, rather than in a single area. One said: "We would be looking at all aspects of our water supplies [and] what was on offer; looking for a bespoke system to chose a different option at each site."

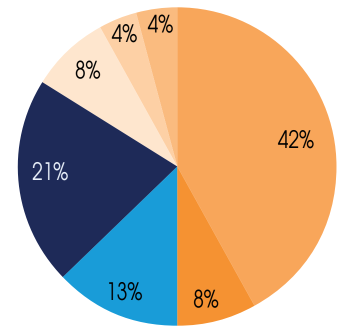
OBSERVATIONS: The Water Act 2014 provides for the establishment of a retail water market, so in that sense, this manifesto point is not a big ask. Of note for policymakers, though, is this customer segment's unerring desire to be able to switch. This suggests that if the market is delivered to their satisfaction, they will be inclined to take interest and to take part. Expectations around price benefits may have to be managed though, if margins pan out thinner in England than in Scotland, as is expected. See chart 1.

MANIFESTO POINT 2 OPEN ON TIME

MEUC members not only want the market delivered, but they want it delivered on time. 71% said it was important that the market opened as scheduled in April 2017. Of the remaining 29%, some indicated they did not plan to be early adopters, so timing was not critical to them. One commented: "I would like to see how the market took off before we switched." Others stressed water company market readiness should be the deciding factor, not a calendar date. One for instance said his feelings on the market opening on time "depends whether the water companies are able and capable of taking extra business. Currently billing capabilities are way off where they need to be".

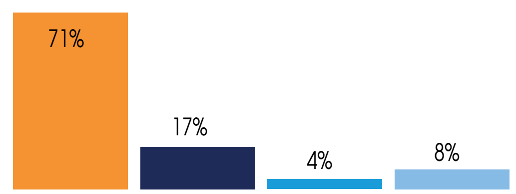
OBSERVATIONS: Members feel they have had a long enough wait for choice

Chart 1: Which of the following potential benefits of retail water competition are most important to your organisation?



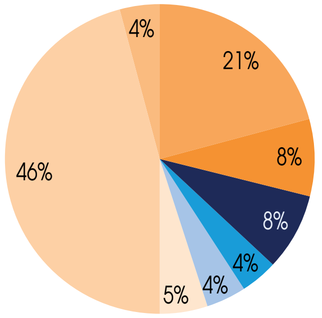
Cheaper price per unit of water **42%**
Better customer service e.g. account management **8%**
Simpler billing/admin **13%**
Better help to manage/reduce consumption **21%**
Better operational services e.g. new connections **8%**
Innovation/new services **4%**
Other **4%**

Chart 2: You are due to be able to switch your water supplier from April 2017. How important to you is it that this deadline is met?



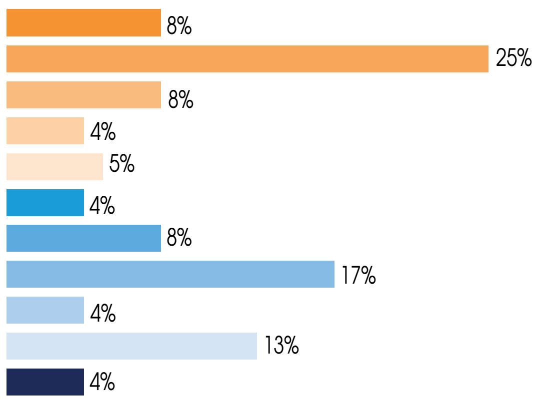
Important **71%**
Neither important nor unimportant **17%**
Unimportant **4%**
Other **8%**

Chart 3: Which of these market features do you think are most desirable for the competitive water market?



Ability to compare prices simply and easily **21%**
Ability to compare service packages simply and easily **8%**
Easy switching process **8%**
Wide choice of tariff/service packages **4%**
Market data is accurate **4%**
New entry is facilitated **5%**
Multiple sites can be switched to a single supplier from day one **46%**
Other **4%**

Chart 4: Which of the following concerns you most about the prospect of competition in water retail?



Difficulty finding the best deal/comparing supplier offers **8%**
Risk of switching "going wrong" and leading to administrative/supply problems **25%**
Could lead to price rises for some customers **8%**
Confusing tariffs **4%**
Poor sales practices/mis-selling **5%**
Negotiating a fair contract **4%**
Benefits won't outweigh the costs so it won't be worth the bother **8%**
Market activity will be limited/good deals won't emerge **17%**
Wholesale services (eg new connections) won't improve **4%**
It will introduce greater complexity into the market which could cause problems**13%**
Other **4%**

in water. So if market opening is delayed, large customer confidence may be damaged.

While there is clear public commitment both from the government and those working on the Open Water programme to the April 2017 date, the MEUC also notes a)the sheer volume of work required of water companies to be ready on time – primarily on organisational structure, data and wholesale tariff design and b) changes were being made as recently as a few weeks ago to market delivery and governance arrangements.

The MEUC urges all stakeholders to up the pace and work towards on-time delivery of a fit and proper market. See chart 2

MANIFESTO POINT 3 ENSURE MULTI-SITE BUSINESSES CAN SWITCH TO A SINGLE SUPPLIER ON DAY ONE

The survey asked MEUC members which of a list of potential features of the new retail market they considered most desirable. An overwhelming number (46%) chose as their top pick the ability for multi-site businesses to switch to a single supplier on day one.

There is widespread frustration among members about the limitations and administrative complexity of existing metering, billing and charging arrangements, which vary water company to water company. One member commented: "My biggest frustration is with the inflexibility of the water companies' billing systems. They need to be able to cope with electronic billing and have the flexibility to work with the customers. Something that still hasn't been done in Scotland!" Clearly there is a strong desire from multi-site businesses for simplification and rationalisation.

The next greatest proportion of respondents, 21%, said the ability to compare prices simply and easily was the most desirable feature. This may follow bad experience in the energy market. Other desirable feature choices were scattered, as chart 3 shows. In addition, one respondent remarked that his most desired feature was a "common data protocol across all supplier system outputs to allow easier switching".

OBSERVATIONS: Market delivery plans do aim to cater for multi-site switching to a single supplier from day one. So on paper, this should be deliverable. However, it will require all water companies to be fit and ready to engage with the market come 3 April 2017 as competent wholesalers, regardless of their retail strategy. The MEUC is aware that different water companies are currently at different stages of preparation for competition. To deliver the kind of market its members want, water companies across the country need to be ready on time. This is particularly important for businesses that trade nationally and have sites in every water company area. It notes that penalties for ill-preparation are expected to feature in Ofwat's licensing for competition work, due to start in May.

It would also like those designing the market to consider the merits of the case made by stakeholders such as Business Stream for common standards for wholesalers. They argue this would help avoid customer confusion and extra costs associated with different tariff structures, payment terms, margin sizes, metering policies and data quality in each wholesaler area. See chart 3.

MANIFESTO POINT 4 GIVE US CONFIDENCE

The MEUC asked members about their concerns regarding market opening. A broad range of concerns surfaced (see chart 4). A quarter of respondents feared switching could "go wrong" in some way and lead to supply or administrative problems. A significant proportion (13%) had a related top concern: that greater complexity in the market could result in problems of one sort or another.

The second largest proportion (17%) said their top concern was that market activity would be limited and good deals won't emerge. Billing again was proactively raised, with one member commenting: "Billing capability is patchy. Giving more business to some suppliers is asking for trouble."

46% said they would be deterred from considering switching or trying to get a better deal if their concerns materialised (see chart 5)

OBSERVATIONS: The MEUC urges the government and everyone involved in the design of the market to take these concerns seriously or risk big businesses bailing out of market participation. Large customers will need to be robustly assured that switching processes and the market will be worth the effort and won't in any way leave them high and dry.

Regarding the fear that activity could be limited and consequently that good deals won't emerge, large customers will want to see the market designed to encourage new entry. The market plan on the table provides for incumbents to decide how they structure themselves for competition – specifically, whether they remain vertically integrated. It could be difficult for companies that opt to stay together to robustly demonstrate arm's length retail/wholesale arrangements. New entry may be limited and members' choice restricted if potential entrants don't feel the playing field is level enough. In Scotland, where Business Stream had to demonstrate robust separation, independent decision making and financial viability of its retail operation, new entry has been facilitated.

Separately, members have expressed a desire for clarity around how the role of third party intermediaries will develop. One questioned: "What is role of consultants? Ofgem consulted on TPIs. Will Ofwat do too? Good to have rules upfront." See chart 4.

MANIFESTO POINT 5 PROTECT US IN THE EVENT OF EXIT

MEUC members expressed a wide range of priorities when asked what customer protections they would like to see in the market. The largest proportion (25%) said their top priority was that their supply terms would be protected in event of incumbent exit. Other popular priorities were robust supplier of last resort arrangements and rigorous licensing procedures to ensure new entrant suppliers are fit to serve (see chart 6).

OBSERVATIONS: Customers who proactively switch supplier won't be affected by incumbent exit and consequent transfer to a new retailer. However, on the basis of the research, it is important for large customers to see robust retail exit protection arrangements in place, for those who choose to wait a while to switch or who for one reason or another are deterred.

The MEUC welcomes the initial proposals for supply terms protection set out in DEFRA's December retail exit consultation – particularly the "principle of equivalence" framework and the price and service terms protection offered by the suggested deemed contracts. However it is concerned by the timetable. Current plans suggest the secretary of state won't publish final decisions on exit until December 2016. Given the market is due to open in April 2017, customers will have a maximum of four months' notice to respond.

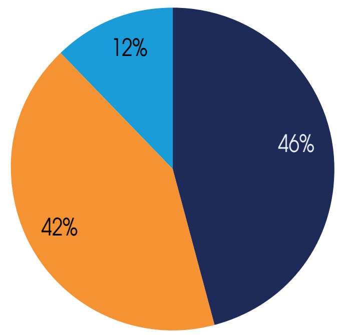
Members appreciate it is impractical to move the decision date forward from December 2016 given the extensive work and consultation programme required to enact the exit provision in the Water Act. However, they would ask for notification of potential exits and intended recipient retailers ahead of the final decision being taken, to give them as much time as possible to react. See chart 6

MANIFESTO POINT 6 GIVE US A SAY

Finally, 88% of MEUC members said business customers and their representatives should be actively involved in the design of the water market.

OBSERVATIONS: The organisation welcomes the engagement it has had on developments so far – for instance, inclusion in DEFRA communications and workshops on retail exit, the meeting with Dan Rogerson and proactive engagement from Open Water around customer communications. It wants this engagement to continue as fully as possible going forward.

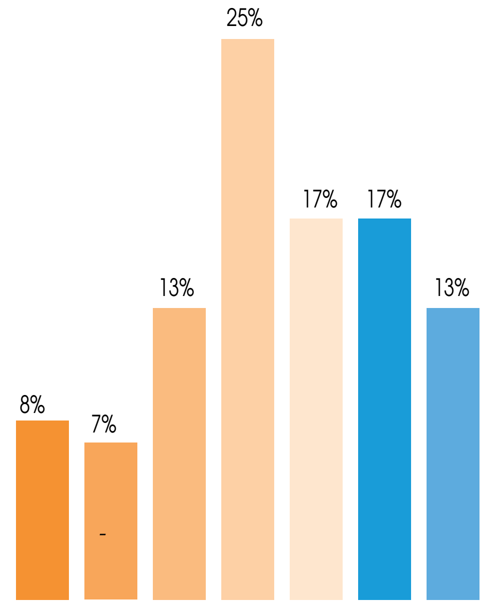
Chart 5: If any of your top concerns materialise, would this deter you from considering switching or trying to get a better deal?



Yes **46%**
No **42%**
Don't know **12%**

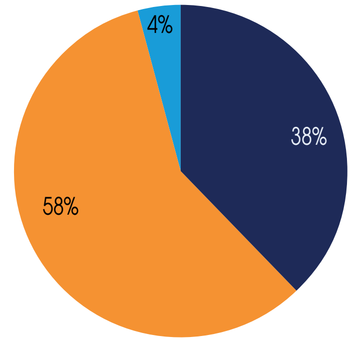
As a closing point of interest, the MEUC also asked its members about their awareness of upstream reform and the opportunities or challenges it might present for business. The results are show in chart 7. TWR

Chart 6: What are your priorities for customer protection in the competitive water market?



Codes of practice on selling/mis-selling **8%**
Standard contract availability to set fair baseline terms **7%**
Clear tariff and service comparability **13%**
Supply terms protection should your supplier exit retail **25%**
Supplier of last resort arrangements (insolvency protection) **17%**
Rigorous licensing to ensure retailers are fit to serve **17%**
Quick resolution when things go wrong/effective dispute resolution **13%**

Chart 7: Are you aware of plans to reform the "upstream" (wholesale) water market after 2017 and the opportunities/challenges for businesses this might present?



Yes **38%**
No **58%**
Don't know **4%**

AWB STAKES ITS CLAIM AS AN EFFICIENCY SPECIALIST THROUGH PARTNERSHIP

Anglian Water Business has partnered with SaveMoneyCutCarbon to consolidate its efficiency credentials and offer business customers significant savings despite thin margins in the English market.

Anglian Water Business (AWB) is already well on the way to carving out a strong identity for itself as a water efficiency specialist in the business retail space. Part of the Anglian Water Group which supplies eastern England – one of the driest and the fastest growing region of the country – it is inherently steeped in the group's Love Every Drop philosophy. It is increasingly tailoring the message to support business customers specifically.

Last month, the company made a move to enhance its offering in the efficiency space by signing a partnership with dedicated household and business energy, water and carbon efficiency specialist SaveMoneyCutCarbon. The partnership will highlight simple, cost-effective measures that can make a lasting impact on businesses' utility bills – from advice to discounted products and practical services. It sounds an awful lot like diversifying into the market for water services rather than straightforward water/wastewater supply.

AWB managing director Bob Wilson explains the move: "It all comes back to enabling customers to make significant savings – double digit savings, not the 1-2% savings you would get from a price discount – on their bills. For many SMEs, water is so far down their list of priorities that they would never even pursue the 1-2%.

"In Scotland, SMEs are switching for a significant discount. They switch for a significant discount in energy. It is unlikely the English market will offer enough margin for suppliers to offer big discounts, so we are setting up with the expectation of thin margins. We will help customers save significant amounts of money though saving product – water in and wastewater out. It sounds counter-intuitive and it's not what we've seen in energy but I think this is how it is going to go in water."

So is the new partnership a concerted step towards AWB becoming a water services company? Wilson says: "The water services market idea is true for the bigger customers. But for our SMEs, it's more about building their trust in our brand. We've got to be honest and accept they are unlikely to get excited about water savings, but if we put good quality [water efficiency] products and services in front of them, we stand a chance of building trust and them seeing us as someone who is trying to do the right thing."

But in teaming up with SaveMoneyCutCarbon, AWB will also be treading new ground in efficiency terms by offering its customers energy saving products and services too. This could get SMEs more excited. SaveMoneyCut Carbon points to a DECC study which suggests SMEs can on average save 18-25% of their energy costs – £5,800 to £12,200 a year – by taking measures which pay for themselves within one and a half years.

Mark Sait, chief executive of SaveMoneyCutCarbon, says: "AWB is delivering real value to its customers and demonstrating that it is taking a long-term, leadership position in the marketplace by setting out to champion and support not just water but also energy efficiency and savings."

To Wilson, linking the two utilities is a no-brainer. "Energy is so closely linked to water," he says. "That's one reason we were attracted to SaveMoneyCut Carbon. When you flag up the energy and carbon savings to customers of using less water, it's like you can see a light going on."

SMCC services

So what exactly will AWB be getting out of the partnership? Sait explains there are three parts to SaveMoneyCut Carbon's business:

- **Field services.** This is the biggest activity and involves hands-on efficiency services on customer sites. Sait says. "We will step into their building, identify where savings can be made, and if they want us to, supply and install the relevant products."

"Our field services teams do investment proposals too."

- **Online business.** This seeks to distil the knowledge and experience SaveMoney-Cut Carbon has learned in the field and make it available to a broader range of customers online. SaveMoneyCut Carbon will provide a portal on AWB's website offering its customers special rates on a range of proven energy and water saving products including:
- EcoSmart showers, eco taps and tap aerators and which can cut water use by 50%-60%, save the energy needed to heat it and typically pay for themselves within a year;
- High quality LED lighting for indoors and outdoors which can save up to 85% of energy consumption and typically pays for itself within 12-18 months;
- Intelligent building controls which can cut heating costs by up to a third. Heating and air conditioning can account for 60%-80% of a building's energy use.
- Intelligent room controls which respond to daylight and sense when a room is unoccupied, dimming or turning off lights when they're not needed.

Around 67% of SaveMoneyCut Carbon's established business is with hotels. It counts among its clients industry leaders including The Savoy and The Runnymede as well as extensive chains including the Macdonald Group, Hotel Collection, Radisson Blu and Easyhotel. Sait says the close association with hotels has meant SaveMoneyCut Carbon has really had to know its products. "Hotels have massive consumption. Guests' attitude is that 'we've paid for it so we're going to use it,' so they have deeper baths, fresh towels every day and so on. You can neither tell guests off nor educate them because they aren't there long enough. So it all comes down to the product and about making savings without the guests ever knowing about it." (See box – Rooms serviced at Hotel Collection).

- **Engagement and education:** SaveMoneyCut Carbon works with the staff of commercial organisations to educate and inform them on efficient behaviour. It takes a holistic approach and, for instance, offers some of the product discounts available to the employer to the staff too for their homes. An example of this work is an extensive training and education programme SaveMoneyCut Carbon delivered to Ministry of Defence staff.

For SaveMoneyCut Carbon, AWB brings to the party a trusted brand and a customer base of 125,000 businesses, including some major accounts. "The Anglian name is solid," says Sait, whereas we are a bit crazy, wacky, out there!" He explains the SaveMoneyCut Carbon brand (an amalgamation of the two biggest Google search words inputted by customers seeking efficiency services) was purposely chosen to be fresh and different. On top of that, AWB has expertise both on the billing and charging side and on network issues such as leaks which occur outside customer property boundaries.

The plan is that, working in partnership, AWB and SaveMoneyCut Carbon will be able to offer an integrated service for customers, potentially catering for everything – from scrutiny of existing consumption and charging and putting together a financial case to invest in efficiency – to product selection, purchase, installation and monitoring. Any business customer can use the services, though Wilson says the main proactive communication activity will be targeted at SMEs.

2017 opportunity

And beyond 2017, out-of-area customers will be in sight too. Wilson says AWB would have struck up the partnership even if market opening wasn't a consideration. "We would have done this anyway. It sits with our Love Every Drop platform. Both the wholesale and the retail business at Anglian know the more water efficient the customer is, the better." But he acknowledges that there could be benefits when AWB goes out of area. "Building trust, building our brand – yes, it will help."

Sait is more vocal about AWB's strategy. "Water deregulation – it's an interesting space. AWB is being innovative, forward looking. It is looking at how it can add value for customers, going beyond water to energy and carbon. When telecoms was deregulated, companies had to add value. I see water going the same way… AWB is looking over the parapet, while others are sleeping giants, still just giving away budget shower heads."

'It is unlikely the English market will offer enough margin for suppliers to offer big discounts. We will help customers save significant amounts of money though saving product – water in and wastewater out.

Sait suggests the partnership could in time provide opportunities for AWB in the vertical sectors SaveMoneyCut Carbon is strong in – notably hotels. "I can see all hotel chains wanting to move to a single water bill after 2017," he says. "They are keen on reducing their number of suppliers generally, and in many ways we act as an outsourced utilities supplier. We don't have a partner on the energy side as there are third party intermediaries pitching ferociously in that market. However, AWB could become our partner water supplier for all those accounts."

Such is his desire to make the partnership reach its full potential, Sait says while SaveMoneyCut Carbon will sell products to other water companies, it is not looking to replicate its partnership deal with AWB with other water suppliers. "If another water company rang up and wanted to partner, we wouldn't do it. It would undermine our partnership with AWB." TWR

ROOMS SERVICED AT HOTEL COLLECTION

The Hotel Collection expects to save £360,000 a year after investing £300,000 in energy and water efficiency projects across its 21 UK hotels. It worked with SMCC to identify projects which would cover their costs within two years, and has made savings by installing LED lighting, eco-smart showers and tap aerators across its estate, as well as an intelligent heating and cooling management system at The Hinckley Island Hotel in Leicestershire.

The Hotel Collection began its efficiency programme with water saving measures because these would generate the fastest return on investment. It invested £60,000 to reduce the costs associated with the heating and usage of water, which accounts for around 10 per cent of utility bills in many hotels, installing tap aerators and eco-smart shower devices. The group recouped its costs and saved a further £125,000 in just seven months, and the programme is expected to save it £200,000 each full year.

According to SMCC, savings of £360,000 a year work out to £128 for each of The Hotel Collection's 2,800 rooms. If the UK hotel industry achieved only half that across its 600,000 rooms, it could cut bills by more than £38 million every year, while saving significant amounts of carbon to help meet UK carbon reduction targets.

MEASURE FOR MEASURE?

Research out last month from Green Alliance skilfully marries up environmental and affordability arguments for saving water. But is it just a whirlwind romance or a partnership for life?

Green Alliance published a report last month that made a solid attempt at extending interest in water efficiency beyond the earnest environmentalist to the man in the street. The Southern Water funded research, *Cutting the cost of water: the case for improving water efficiency in the UK*, put forward a sound economic case for a more ambitious strategy on reducing water consumption.

Noting that prices are set to fall by an average 5% in 2015-20 on the back of Ofwat's efficiency challenge and low borrowing costs, the report pointed out that in the longer term, there were strong upwards pressures on bills. This results from:

- Increasing demand: left unchecked, demand in England could increase by up to 49% by 2050.
- Decreasing availability: by 2050, mean summer river flows could be down 50%.
- Regulatory restrictions: sustainability reductions could hit some areas hard. For instance,100 megalitres per day (Ml/d) could be withdrawn from the public water supply from the River Itchen alone.

According to one 2013 estimate, £96bn will need to be invested in water infrastructure up to 2030 – £1.5bn a year more than current levels. Inevitably this would impact bills, and in particular the bills of the poorest.

However, greater ambition on water efficiency could both cut bills for individual households and negate investment in new sources of supply. For the householder, the report suggests a metered property could save £78 a year from ambitious water efficiency actions, or £45 from more conservative levels of conservation (see chart 1). Speaking at the launch event, report author William Andrews Tipper described the associated 25-42 litre reductions as "substantial, not just nice to have".

Retrofit v resources

In terms of negating investment in new sources of supply, the research offers an interesting comparison between Thames Water's Beckton desalination plant and large scale water efficiency retrofit. Beckton cost £250m to build and has a supply capacity of 140M//d. For retrofit to deliver the same capacity as the plant at the same cost, it would need to save an average 41.2 litres per property per day and at an average cost of £88.70 per property.

Green Alliance said: "This comparison is hypothetical; we are not suggesting that Thames Water should have pursued a retrofit strategy rather than build the desalination plant. It is, nevertheless, striking that existing retrofit programmes have delivered water savings on this scale within this range of costs. Anglian Water's Ipswich Area WEM trial achieved savings of 41.5 litres per property per day at a cost of £40.80 per property.

Off a cliff

However, looking ahead the scale of ambition on water efficiency is desperately underwhelming. The next five years are actually looking quite bright, with totex supporting moves such as home visits and retrofit programmes – activities well beyond traditional cistern hippo giveaways. But, says Andrews Tipper, after that "water efficiency programmes are set to fall off a cliff". A look at the water stressed south east is a case in point - see diagram.

According to the report, in absolute terms, the volume of water planned from new supply will massively increase, from 191Ml/d from 2015-16 to 2019-20, to 341Ml/d from 2025-26 to 2039-40. In contrast, across this period, the savings envisaged from demand reduction will plummet from 142Ml/d to just 9Ml/d. Partly this reflects the scheduled completion of Southern Water's and Thames Water's universal metering schemes by 2020.

But, says Green Alliance: "It also suggests that the water resource management planning process is not giving sufficient weight to the potential for water efficiency to manage long term supply deficits."

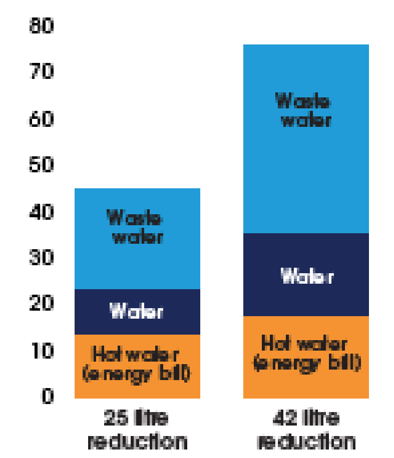
Matthew Wright, Southern Water's chief executive, offers some comfort on the bleak outlook. He explains his company is piloting lots of things in the next AMP that may subsequently be rolled out more widely. "We have to have certainty before we commit," he says. "If we try something and it doesn't work, there's no more money so we pilot and research so we can scale up with more certainty."

Making the most

So how can water efficiency programmes be best used to cost effectively manage supply deficits on a far wider scale than hitherto envisaged? Green Alliance suggests four ways of maximising the cost efficiency of water saving activity:

- Peak lopping: better data from better metering should enable better targeted interventions to reduce demand spikes and the need for expensive but rarely used supply sources.
- Targeting activity: water stress is highly local. Taking action in zones with the risk of supply deficits is likely to be more effective at managing the costs than a strategy aimed at reducing per capita consumption across a whole supply region.
- Reduce non-essential use by thirsty customers: for instance, the affluent with high discretionary use or those in social housing. Best practice consumption in social housing stands at 150 litres per person per day, equivalent to the national average. This is thought to be down to the prevalence of old, inefficient bathrooms and fittings.
- Integrate water and energy efficiency programmes: piggy backing on publicly funded energy efficiency activity would reduce costs surrounding, for instance, finding willing participants.

Chart 1: Potential annual household bill savings from reduced water use



Finally, the report moves beyond its primary conclusion: that water efficiency could play a more significant role than is currently foreseen in managing demands on the water system and thereby reducing capex and alleviating bill pressure. It offers some overarching recommendations on how to accelerate the move to a more resilient water system at the lowest cost. These are:

- Accelerate action on unsustainable abstraction. Green Alliance recommends setting minimum flow levels and exploring over the next couple of years both broader indicators and new mechanisms to build into PR19. Tackling this issue would also facilitate greater water trading.
- Further regulatory intervention is needed to break the link between revenue and sales. The Abstraction Incentive Mechanism has been successful in prototype form and could work effectively, says Green Alliance. And while Southern Water won its hard-fought battle to have its proposed ODI on reducing per capita consumption added back into its final determination (it was stripped out at draft determination stage), such an incentive could be applied much more widely.
- Introduce variable tariffs such as rising block tariffs in water stressed regions, accompanied by universal metering and vulnerable protection.
- Retrofit and standards: piggy back on energy efficiency rollouts; local authorities could set the water efficiency bar for new housing higher than demanded by building standards; the government should press manufacturers and retailers to speed up adoption of the Water Label.

Divorce?

These all sound logical, but it is with number 3 that we hit a stumbling block. For variable tariffs mean price signals for customers and it is here that supporters of efficiency on an affordability ticket are likely to get off the bus.

Green Alliance offers a sound argument in support of variable pricing: that variable tariffs can reduce demand by 5% on average and 10% at peak times over and above the effect of metering. But price signals that will increase bills for some customers at some times are at odds with a regulatory system that fundamentally tries to keep bills as low as possible and companies who are keen to keep customer favour.

Southern's Wright is refreshingly honest about the position this puts his company in – a company that is stepping up to the plate and taking a leadership role in the industry on demand management but one that also that wants to please its customers. "Is there an inherent conflict [between price signals and keeping bills down]? Yes. Am I an advocate of peak pricing? From a customer standpoint, it's a disaster. Customers don't understand it." He advocates the gentler approach of building shadow pricing into water resource management planning as a way forward.

How water companies in South East England plan to avoid shortages during extreme drought

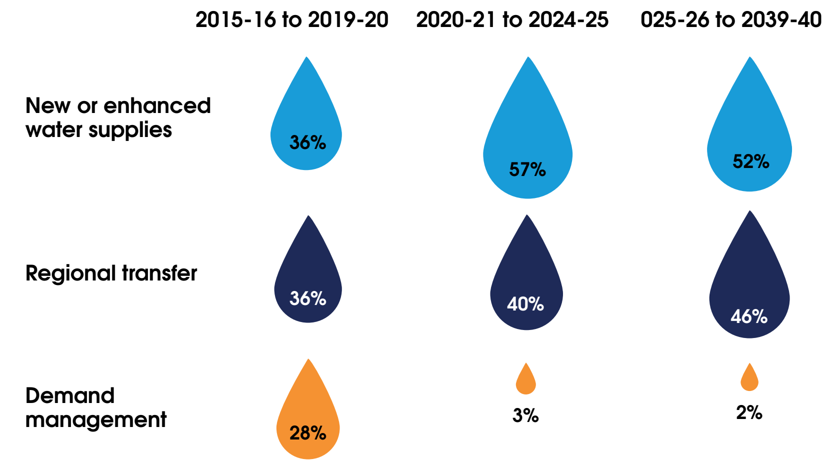
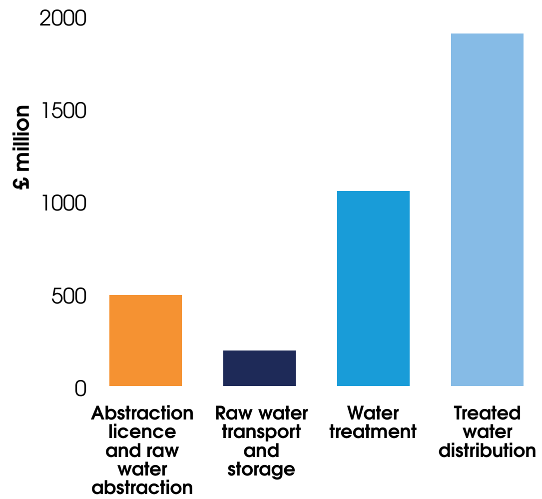


Chart 2: Water company upstream operating costs 2013-14



The step beyond influencing users through variable pricing is influencing abstractors through variable pricing – in other words, scarcity pricing of one sort or another. Green Alliance is in favour, noting that at present water itself has no cost and its societal, environmental and economic benefits are not reflected in the price paid by the abstractor (see chart 2).

The report notes: "One estimate has concluded that a relatively low differential charge of up to 10p per cubic metre would facilitate water transfer from less scarce to more scarce regions, whilst being less likely to lead to expensive new supply options such as desalination. Nevertheless, during PR14 Ofwat turned down a number of requests from water companies to introduce scarcity charging."

And that says it all. Pushed beyond the basics of installing aerated taps and low flush loos, there is a fundamental conflict between taking water efficiency to its logical conclusion through establishing a true value for water, and keeping bills down. Teaming up efficiency and affordability is a valuable marriage of convenience, but not a partnership for life. TWR

BUCKLAND STOPS HERE

Dame Yve Buckland stands down as chair of CC Water at the end of this month after a successful decade. But the work must go on, she says.

It is with a "heavy heart" that Dame Yve Buckland will, at the end of this month, cease to be chair of the Consumer Council for Water (CC Water) after a decade at the helm. Having served two terms, and then been asked by DEFRA to stay on to see PR14 through, she says she is sad to leave but feels it is high time she handed the baton to someone new.

The heavy heartedness will undoubtedly extend beyond Dame Yve herself; not only is she a highly respected, independent minded and well liked figure in the industry, but CC Water's achievements for customers under her chairmanship speak for themselves.

She recalls: "When CC Water was created in 2005, there was huge public dissatisfaction with the privatised water industry. There was a drought crisis in our first year [the 2004-06 drought], leakage was a big issue, there was misreporting at two companies, complaints were growing and there was lots of media attention on the industry. In fact, one of the first things I had to do as chair was appear as a talking head on Panorama!"

CC Water was in fact set up as a direct result of political concern about the poor state of affairs for the water customer. The Water Act 2003 provided for the establishment of an independent statutory consumer body and CCWater and was created with Dame Yve as its founding chair on 1 October 2005. It offers two distinct advantages over the previous customer representation arrangements, which comprised ten regional customer service committees under Ofwat's wing. CC Water is independent, with an eye only to customer best interests not broader regulatory concerns. And although represented in the regions, its centralised structure means it is able to speak with a single, national voice, which has served to raise the profile of the customer in the wider industry.

Dame Yve comments: "Because we were carved out of Ofwat, there was a feeling that we should establish ourselves as a really strong independent voice and get some real leverage for customers, not just play a figurehead role."

Dramatically different

CC Water had plenty to be getting on with in 2005. On top of the operational issues Dame Yve mentions, the 2004 price review had been conducted with minimal attention to customer willingness or ability to pay and prices were on the up. Average bills leapt 8.5% before inflation in April 2005, and 18% over the five year period. Also by 2005, complaints were growing at a whopping rate of around 20% a year, to peak at 273,000 in 2007/08. Around half of these complaints were about bills and charges.

Taking care to stress there is still plenty more to be achieved, Dame Yve notes things now are "dramatically different" for the water customer. This is due in no small part to the tireless efforts of CC Water as a strong independent customer champion, both fighting the customer corner to companies and regulators; and

being a trustworthy go-to place for consumers who need help, advice or information.

Dame Yve observes that it could have been very different, as the fortunes of the energy customer show. "I've always kept a constant watch on energy. Loss of a strong independent customer voice there has resulted in customers losing confidence and the industry losing customer trust. The variety of [consumer representation] arrangements there has diluted the customer voice – the demise of Energywatch and then all the changes at Consumer Focus. There's a gap there now, and what we see is Which? stepping into that gap. Someone has to occupy the vacuum or else the politicians are called in."

Clearly it's not job done for today's water customer, particularly for the one in five who recently told CC Water they found their bills unaffordable. But as the box sets out (see A decade of differencex), leaps and bounds have been made on both value for money and service over the past decade. Throughout, CC Water has added its home-grown blend of encouragement, education, pressure, lobbying, cajolement and cooperation to water companies' own efforts and those of the regulators. It has only favoured the public clash as a last resort.

Disbandment and merger

The watchdog's steady achievements for customers over the past ten years are all the more remarkable because throughout that period it has operated under the constant threat of being wound up or merged with consumer bodies from other sectors. Dame Yve sounds slightly bemused as she recalls: "The first phone call I got about this job back in 2005 was to say I had been appointed chair. The second phone call I got was to say 'oh, and by the way, the future of CC Water is under review and it might be merged with another body'."

Describing the situation as "irksome", particularly following the 2011 Gray Review which wholeheartedly endorsed CC Water's achievements and existence, Dame Yve says there has been a silver lining. The close scrutiny has encouraged both a determination to deliver for customers and rigid cost control – especially important because costs are ultimately funded through bills. "We cost 40% less now than when we were established," she says. "Each water bill payer spends just 21p a year on CCWater, down from 25p [in 2008/09]."

Efficiencies are under constant review, and recently resulted in a decision to close a number of regional offices, for example. "In light of the falling number of complaints, of the new Alternative Dispute Resolution (ADR) scheme, of the changing structure of the industry and so on, we looked at how we both stay local and handle complaints efficiently. We will keep local advocacy and local policy executives in the regions. But we will move to a more efficient networked approach for our customer complaint handlers, although there will still be specialists who deal with each water company."

A DECADE OF DIFFERENCE

Upon its formation in 2005, CC Water undertook research to determine customer priorities. Customers said, and continue to say, that above all they want value for money, a good level of service and someone to represent their interests. The watchdog has concentrated on those areas over the past ten years and contributed to the delivery of impressive results.

Price reviews: Customers had a limited say in the process or outcome of PR04. By the time PR09 got underway, CC Water had secured a seat at the negotiating table via the "quadripartite" process. A group consisting of four main stakeholders – the company, CCWater, the Environment Agency and the Drinking Water Inspectorate – was set up in each water company area to discuss investment requirements, service packages and costs ahead of company business planning and throughout the price setting process. PR09 delivered a far better deal for customers than PR04, with bills staying broadly flat but investment at record levels. 82% of customers found the package acceptable.

In PR14, the customer had more say than ever. The Customer Challenge Groups (CCGs), comprising the quadripartite stakeholders plus other local customer voices, worked directly with water companies on customer research, which was then used to frame company business plans for 2015-20. In conjunction with challenge from Ofwat, the CCG/company work will see average pre-inflationary water and sewerage bills fall by 5% between 2015 and 2020, or by £20 from £396 to £376. £44.3bn of expenditure will be delivered.

At the national level, CC Water kept a constant downward pressure on the cost of capital allowed by Ofwat, which it felt had been too generous to investors at customers' expense in previous reviews. Ofwat in the event reduced the WACC from PR09's 5.1% to 3.6% wholesale plus retail margins.

Fairness: CC Water has lobbied for companies to share "excess" profits – those largely resulting from a lower cost of debt and higher RPI than Ofwat anticipated when it set prices – with customers. It secured the return of over £1 billion of benefits to customers in 2013-15.

Meanwhile, despite Dame Yve's dissatisfaction with help for those who struggle to pay their bills (see main interview), there have been improvements since 2005. CCWater led a project to improve the take-up of the vulnerable groups scheme and in 2007/08, rebranded it as WaterSure. The new name (common across the industry), a simplified application process and ongoing publicity and promotion has increased customer take-up by 350% to 73,000 since 2008. Similarly, its work on Special Assistance Registers for elderly and disabled customers has helped boost take-up by 120% to 224,000 since 2008.

Service levels: In a bid to halt the rising tide of complaints against water companies in 2005, CC Water set about cultivating a preventative approach. It has worked to establish the root causes of customer complaints – which are often billing and charging related – and urged water companies to do better in these areas. It has also put pressure on poor performers to do better through industry-wide comparisons and tried to foster a "right first time" resolution culture when customers do raise complaint.

Absolutely key to both right first time complaints handling and better underlying service was the introduction of the Service Incentive Mechanism (SIM) in 2010. CC Water worked with Ofwat and the industry to replace the previous system because it was difficult to understand and focused on the wrong measures – for instance, how quickly phones were answered, not how well complaints were resolved. For 2010-15, the SIM offered companies price adjustment incentives in the range of +0.5 to -1 percentage points on operating costs, based on their performance.

SIM figures show an improving service trend, and the dark days of 2007/08 when complaint levels approached 300,000 a year are now a distant memory. In 2013/14, written complaints to companies fell for a sixth successive year. They were down 18% on 2012/13 levels to 123,218 – well under half the peak number. Telephone and written complaints to CCWater fell in line with this pattern.

In total, since 2005, CCWater has returned over £18million to household and business customers in compensation and rebates.

She doesn't see the spectre of disbandment or merger lifting any time soon, despite CC Water's success. "It's always a possibility anyway, for any public body," she observes. "I expect Ofwat and Ofgem probably feel the same." She recalls Gray's view that, should a decision be taken to merge CC Water with another consumer representative at any point, "it would need to be lift and shift – our functions would need to be maintained wherever they were managed".

She adds: "If there was a better way [of representing water customers], we should advocate for it. We would always look at what was proposed and evaluate it." In the meantime, the sword of Damocles will bolster CC Water's determination to deliver for customers and do so on a budget.

Unresolved affordability

Looking back over the decade, is there anything Dame Yve would have liked to turn out differently? "There are arguments we've been pushing hard but still haven't won," she mulls, singling out affordability for attention. "The affordability debate is a deep, difficult and still largely unresolved issue. What customers wanted in 2005, they still haven't got – and that is a tax and benefits based solution."

She acknowledges improvements over the past ten years and the role companies' social tariffs will play in helping the poorest. From April, 14 companies will offer these discounts. But she very much considers these "the next best option" to a tax and benefits based approach, adding: "Customers have no great appetite to pay for social tariffs, and there remain issues around consistency and contribution level." She notes that while prices have been held down in PR14, affordability remains an issue for 20% of customers now and this looks set to grow in the future in light of welfare reform, ongoing austerity and big ticket investment needs.

Looking to the future more widely, Dame Yve identifies a number of other challenges that will need an efficient, influential, expert, independent consumer body to champion water customer interests through.

Future challenges

Immediately, there is monitoring the delivery of the PR14 settlement. Top of the list here is keeping careful watch on how Outcome Delivery Incentives play out. "We all know customers are not keen to pay for upside performance," Dame Yve says. "So we will need to monitor whether payments in the event are fair and legitimate, and to explain to customers what element of their bill is paying for the upside, and what they are getting in return."

Looking ahead to PR19, CC Water will look to fend off any potential dilution of the customer voice. It wants to see tweaked CCGs embedded fully as part of the regulatory process. Among the adjustments it has proposed are the need for CCG chairs to be truly independent: appointed jointly by companies and CCWater; answerable to company boards; but remunerated under CCWater's auspices. And that membership of the groups needs to be regularly refreshed to prevent questions of capture and legitimacy arising.

In terms of customer service, Dame Yve stresses: "We must keep a lid on complaints. They can't be allowed to bounce back up. If metering is pushed out more extensively, this will be especially important." She adds that, in light of its novelty, the incoming ADR scheme for deadlocked complaints will also need CC Water attention. "The way ADR works will need to be kept under review. We'll be looking to see if the service is working for both households and businesses." See ADR feature, p14-17.

Ensuring the Service Incentive Mechanism is optimal going forward will be important in keeping complaints down. "SIM has delivered a great deal," mulls Dame Yve, "and now it will sit next to the new performance incentives. It needs to continue to promote the best service possible for customers." CC Water has previously argued for a wider incentive/penalty range (of +1% to -3%); a higher weighting (90%) for the qualitative measure to address the reluctance of companies to communicate with customers in case it attracts SIM points; and for the mechanism to bite wholesalers as well as retailers once the market is opened to competition.

Finally, customers will need to be looked out for as the water market is reformed. "Business retail competition and upstream competition potentially offer great benefit to business customers, but those that are ineligible must not suffer from poorer service or price deaveraging as a result. Also, we need to keep an eye on businesses that don't want to switch, particularly the smaller businesses. Customers' experience of energy might have made them reluctant to use the market to shop around. Even some of the switching websites in energy that seemed to be there to help customers have turned out to be in the pay of the industry."

On top of that there is retail exit to help customers navigate, while even businesses that do participate in the new retail market will need to be safeguarded from the likes of mis-selling and rollover contracts.

But after 31 March, dealing with all of these challenges will fall to someone else. Dame Yve's successor as chair will be a ministerial appointment. At the time of interview, she said she didn't know who was in the frame though she had heard "some great people had come forward".

As for Dame Yve, she will continue with her existing two-day-a-week role as chair of Birmingham's Royal Orthopaedic Hospital and doesn't rule out the possibility of further work in water – should the right post come along. "But I don't want to rush from CC Water to something else; it's a hard act to follow." She concludes: "It's been fabulously fascinating and I'd like to pay tribute to CC Water's great people – they really are top quality." TWR

DAME YVE ON CC WATER'S STAKEHOLDER RELATIONSHIPS 2005-10

Water companies: "This is not to say all water companies like CC Water – it can depend where they are in our rankings! – but I would like to pay tribute to the fact that there have always been leading companies that have risen to our challenges. Over the years, some have even come to us with better ideas. I have been impressed with some of the figures I have worked with in the industry – those that have been receptive to the idea of balancing profit with delivering well for the customer."

Regulators: "Our relationships with regulators ebb and flow. Right now, I'd say we are in a good and appropriate place with Ofwat. But over the years it has been important for us to hold regulators to account – both Ofwat and the Environment Agency."

Politicians: "We work at arm's length from DEFRA. And we are not politically aligned."