

Ref 7.3

# PR19 Board agenda, decisions and challenges

September 2018

## PR19 Board Assurance

This document summarises the input of our Board into decisions made in developing our plan.

Board meeting item	Board decisions and challenges
<p><b>September 2016 – Strategy Session</b></p> <ul style="list-style-type: none"> <li>• Approach to PR19 and AMP7</li> <li>• International best practice in resilience planning (MWH and Arup in attendance)</li> <li>• Long-term challenge of climate change (Prof. Mark Macklin, Aberystwyth University in attendance)</li> <li>• Report from Peter Davies, Chair of CCG</li> </ul>	<p><b>Strategic approach set by Board:</b></p> <ul style="list-style-type: none"> <li>• Business plan to be developed from results of major customer research programme</li> <li>• AMP7 to be developed in context of long-term mission statement and strategy (“Welsh Water 2050”)</li> <li>• Open and transparent working with CCG</li> </ul>
<p><b>October 2016</b></p> <ul style="list-style-type: none"> <li>• Customer involvement strategy to 2020</li> <li>• PR19 results of Phase 1 Research</li> </ul>	<ul style="list-style-type: none"> <li>• Scope of unprecedented customer involvement strategy agreed, with particular challenge to incorporate the views of “hard to reach” customers.</li> </ul>
<p><b>November 2016</b></p> <ul style="list-style-type: none"> <li>• Welsh Water 2050 – resilience strategies for water supply and environment</li> <li>• Customer-led Success – customer service strategy to 2025</li> </ul>	<ul style="list-style-type: none"> <li>• Challenge to be more ambitious in resilience targets for 2050, whilst ensuring affordability through continual efficiency and innovation</li> </ul>
<p><b>February 2017</b></p> <ul style="list-style-type: none"> <li>• Draft Welsh Water 2050 plan</li> <li>• Welsh Water 2050 customer engagement plan</li> </ul>	<ul style="list-style-type: none"> <li>• Challenge to engage as widely as possible with customers and stakeholders on WW2050 and then to incorporate their views in a revised plan.</li> </ul>
<p><b>March 2017</b></p> <ul style="list-style-type: none"> <li>• Welsh Water 2050 draft consultation document</li> </ul>	<ul style="list-style-type: none"> <li>• Board challenge of content of WW2050 draft document.</li> </ul>
<p><b>April 2017</b></p> <ul style="list-style-type: none"> <li>• Welsh Water 2050 consultation document</li> </ul>	<ul style="list-style-type: none"> <li>• Final approval for WW2050 consultation document for publication.</li> </ul>
<p><b>May 2017</b></p> <ul style="list-style-type: none"> <li>• Interim report from Peter Davies, Chair of CCG.</li> <li>• PR19 investment programme plan update</li> </ul>	<ul style="list-style-type: none"> <li>• Customer research needs to be representative of our whole customer basis, including areas in England, vulnerable customers, non-household customers, business customers etc.</li> </ul>

<p><b>June 2017</b></p> <ul style="list-style-type: none"> <li>• Triangulation of customer priorities (from Phase 1 of customer engagement programme)</li> <li>• Customer sentiment dashboard</li> </ul>	<ul style="list-style-type: none"> <li>• Measures of Success for PR19 should reflect customer priorities, going beyond Ofwat's required list.</li> <li>• Ongoing customer data and insight needs to be fully reflected in the development of the PR19 plan.</li> </ul>
<p><b>September 2017 – Strategy Session</b></p> <ul style="list-style-type: none"> <li>• PR19 update and planning; <ul style="list-style-type: none"> <li>○ Ofwat PR19 methodology</li> <li>○ Legal and regulatory obligations</li> <li>○ Challenges and opportunities</li> <li>○ Cost reduction plans</li> <li>○ Performance commitments</li> <li>○ Rewards and penalties</li> <li>○ Customer engagement update</li> <li>○ Welsh Water 2050 consultation</li> <li>○ Financial resilience</li> </ul> </li> <li>• Update report from Peter Davies, Chair of CCG</li> <li>• PR19 Business plan outline document structure</li> </ul>	<p><b>“Strategic Parameters” for the PR19 business plan determined</b> – e.g. on affordability, service standards, long-term resilience and support for customers in vulnerable circumstances.</p> <ul style="list-style-type: none"> <li>• Our plan needs to ‘do the right thing’ for customers, presented in a way that meets Ofwat’s methodology requirements.</li> <li>• Cost reduction plans need to be more ambitious.</li> <li>• Should aim for upper quartile performance for customers wherever this is feasible and represents good value for money.</li> <li>• Need to fully embrace rewards and penalties approach at PR19, but also need a mechanism to return rewards to customers.</li> </ul>
<p><b>November 2017</b></p> <ul style="list-style-type: none"> <li>• Welsh Water 2050: Customer engagement results</li> <li>• Measures of Success: Draft suite of Measures</li> <li>• Measures of Success: Target setting</li> <li>• Draft Water Resource Management Plan (WRMP)</li> </ul>	<ul style="list-style-type: none"> <li>• Measures of Success need to cover all customer priorities, Welsh Water 2050 commitments and Welsh Government’s Well-being Goals.</li> <li>• Draft WRMP approved for submission to Welsh Government</li> <li>• Board added ‘middle tier’ of ODIs.</li> </ul>
<p><b>December 2017</b></p> <ul style="list-style-type: none"> <li>• Wholesale business cost efficiency plan (inc. support services)</li> <li>• Measures of Success: Preliminary approval of suite of measures</li> <li>• Measures of Success: Preliminary approval of performance targets</li> <li>• PR19 Business Plan document – draft outline</li> <li>• Stress testing of strategic risk management</li> </ul>	<ul style="list-style-type: none"> <li>• Challenge of robustness and deliverability of business efficiency plan, including proposed support service cost reduction.</li> <li>• Consider whether we can drop any performance measures to give a more manageable list.</li> <li>• Performance targets need to be more ambitious in certain areas.</li> </ul>

<p><b>February 2018</b></p> <ul style="list-style-type: none"> <li>• 2018-19 and 2019-20 performance targets</li> <li>• Measures of Success: Approval of remaining performance targets</li> <li>• Financing: Discussion of PAYG and run-off rates</li> <li>• Financeability approach: use of credit rating ratios</li> <li>• Implications of Ofwat PR19 Methodology</li> <li>• Retail business cost reduction plan to 2025</li> <li>• Discussion of preliminary PR19 financial plan (bills, totex efficiency, financeability)</li> <li>• Customer engagement: Approval of PR19 plan options research</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of 2019-20 stretching targets.</li> <li>• Further challenge on 2024-25 targets for remaining MOSs.</li> <li>• Bill reduction should be around £20, or around 5%. This is in line with WACC saving.</li> <li>• Approval of putting bills/service options to customers, with commitment to reflect their preferences in final PR19 plan.</li> <li>• Challenge and approval of retail business cost reduction plan, as challenging but deliverable given company circumstances, subject to further work on social tariff strategy.</li> </ul>
<p><b>March 2018</b></p> <ul style="list-style-type: none"> <li>• Welsh Water 2050: approval</li> <li>• Performance targets</li> <li>• ODI Rewards and Penalties – approval of approach</li> <li>• Approval of efficiency programme including cost reduction targets</li> <li>• Strategy for customers in vulnerable circumstances – for approval</li> <li>• Risks and uncertainties</li> <li>• Customer acceptability testing research plan for approval</li> <li>• Preliminary approval of PR19 financial plan (bills, totex efficiency and financeability)</li> <li>• Customer-led success: Enhanced customer offerings for PR19</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of final Welsh Water 2050 strategy and document for publication, having ensured that changes have been made to reflect the results of customer and stakeholder engagement.</li> <li>• Challenge of 2018-19/2019-20 targets given latest performance</li> <li>• Rewards and penalties at P90 and P10 should be within Ofwat range but at lower end, to reflect results of customer research. Penalties should be higher than rewards.</li> <li>• Challenge of some ODI penalties and rewards – which should be increased.</li> </ul>
<p><b>May 2018</b></p> <ul style="list-style-type: none"> <li>• Customer research: PR19 Options Research Results</li> <li>• Customer research: Summary of results of programme</li> <li>• Updated PR19 financial plan (bills, totex efficiency and financeability)</li> <li>• ODI rewards and penalties - update</li> <li>• Social tariffs strategy and results of customer research</li> <li>• Revised AMP7 cost reduction plan – for approval</li> <li>• PR19 Board Assurance plan</li> </ul>	<ul style="list-style-type: none"> <li>• Agree partial inclusion of optional service investment, in response to results of customer options research.</li> <li>• Further stretch on efficiency and financial assumptions to ensure that this remains consistent with target reduction in average household bill of around £20.</li> <li>• Approve further expansion of social tariffs, but limited to a level consistent with customer support in research findings and planned £85 million of ‘customer dividend’ funding in AMP7.</li> </ul>

<ul style="list-style-type: none"> <li>• May Ofwat submission: Performance commitments (Measures of Success) and special cost factors</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of May Ofwat submission</li> </ul>
<p><b>June 2018</b></p> <ul style="list-style-type: none"> <li>• Customer research: Interim report from Peter Davies, Chair of CCG</li> <li>• Direct procurement assessment</li> <li>• Updated PR19 financial plan (bills, totex efficiency and financeability)</li> <li>• Financial sensitivity analysis</li> <li>• Value for money of AMP7 investment programme</li> <li>• Measures of Success: Long-term targets post 2025</li> <li>• ODI rewards and penalties: preliminary approval</li> <li>• PR19 Innovation Plan</li> <li>• PR19 Business Plan Executive Summary</li> </ul>	<ul style="list-style-type: none"> <li>• Direct Procurement assessment approved.</li> <li>• Consideration and challenge of investment options chosen to deliver PR19 outcomes in most efficient manner.</li> <li>• Appropriateness of financial sensitivity scenarios approved, with challenge to incorporate combined scenarios in addition to Ofwat required scenarios.</li> <li>• Challenge against ambition of some of the long-term MoS targets. More detailed rationale required.</li> </ul>
<p><b>July 2018</b></p> <ul style="list-style-type: none"> <li>• Update from Peter Davies, Chair of CCG</li> <li>• Customer acceptability testing results</li> <li>• Revisions to Ofwat’s PR19 methodology</li> <li>• Measures of Success: Long-term targets – rationale.</li> <li>• ODI rewards and penalties: final approval</li> <li>• PR19 Business Plan Executive Summary</li> <li>• Assessment of Financeability (inc. stress scenarios)</li> <li>• PR19 Business Plan Board Assurance</li> <li>• Approval of reconciliation rulebook submission and assurance</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of PR19 plan in principle, in light of customer acceptability results</li> <li>• Final approval of MoS targets, including post 2025, and ODIs.</li> <li>• Final review of Board assurance process for PR19 plan, including the role of external assurance.</li> <li>• Approval of Board assurance of financeability of business to 2030, in light of results of combined stress testing and consideration of potential mitigating actions.</li> </ul>
<p><b>August 2018</b></p> <ul style="list-style-type: none"> <li>• Report from Peter Davies, Chair of CCG</li> <li>• Final approval of PR19 business plan for submission to Ofwat.</li> <li>• Board assurance of PR19 plan.</li> <li>• Customer communication plan</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of PR19 business plan documents.</li> <li>• Approval of Board assurance statement, having reviewed delivery plan risks and the results of the internal and external assurance process.</li> </ul>