



Customer Scrutiny Panel Meeting

20 August 2018



PR19 business plan: SES Water's response on key conclusions

Has the Company considered how customers could help co-create and co-deliver solutions to underlying challenges?

While SESW have sought to engage with customers on co-creation/co-delivery, there is only limited substance so far.

We define co-creation simply as ensuring that our customers have helped us produce a business plan that takes their views and priorities into account. With the many enhancements from PR14's engagement programme and speaking to more customers and stakeholders than ever before, we feel we have carried out effective engagement which has informed our plan. Through our plan, we are delivering what our customers have helped us create.

Examples include:

- Early engagement workshop on dWRMP, before potential solutions were being discussed
- Usage reduction is about working together with customers to change behaviour
- Design of our metering programme with customers, including what it could be called and the messages we can use to engender support
- Design of our revised social tariff with experts, including eligibility and awareness raising
- Design of customer journeys with current and future customers, including adjustments for vulnerability
- How to better reach vulnerable customers, including through foodbanks and community groups
- How to make our education activities more appealing to college students

We stayed in touch with research participants at each stage to include them in further activity so they were able to provide more informed inputs. We invited everyone to join our online community so they could see how their contribution shaped the process, what we had done with their views and for them to keep talking with us.

Ofwat's key questions – amber responses x 3



Has the Company effectively engaged with different customers, including those in circumstances that make them vulnerable?

The Company has effectively engaged with and understood the needs of different customer groups; including those in vulnerable circumstances.

Although CSP maintain that the engagement relating to non-financial aspects of customers in vulnerable circumstances, and future customers was limited.

With regards to sample sizes at all stages, including vulnerable and future customers, we have taken the expert advice of our research providers with regards to what is robust or appropriate.

We included activity on non-financial vulnerability at every stage of the programme including:

- In-home interviews – physically disabled, high water usage, over 75 years old
- Customer co-creative workshop – changes needed to customer journeys for the vulnerable
- Focus group on our Helping Hand scheme at the Purley and Coulsdon Club for the Elderly
- Conversations with users and support workers at Caterham foodbank
- Interviews with support agencies: East Surrey Carers, Age UK Surrey, Age Concern, Sutton Housing Partnership
- Customer workshop on financial and non-financial vulnerability – identifying groups & their needs
- Design sprint on social tariff and other non-financial support

Importantly, we have not just focussed on talking directly to vulnerable and future customers:

- Taken into account that those in financial hardship are likely to have other vulnerable circumstances too
- Asked current customers about what we should prioritise for their children and grandchildren

Ofwat's key questions – amber responses x 3



<p>Has the Company effectively informed and engaged with customers on its current levels of performance and how this compares to other companies in a way customers could be expected to understand?</p>	<p>Limited engagement with customers on current levels of performance e.g. consciously chose not to test the impact of providing comparator information in phase two quantitative research, stating that “prior research by water companies has showed that providing comparative information has no statistically significant impact on the choices made by customers”.</p>
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With regards to ‘framing’ information such as performance, we have taken the expert advice of our research providers at every stage:

Phase 1 – In talking about their future priorities, a section of the customer workshops focused on our current aims and attendees were given a leaflet summarising our latest performance against each one

Phase 2 – We did test the impact of providing comparator information in the WTP survey by showing some respondents our performance over time for both the conjoint and build-your-own exercises. There were no significant differences in the average change in annual bill from the services picked, giving little evidence that framing has an impact on customers’ perception

In discussion with Box Clever we also specifically decided not to include comparisons with other companies as this is misleading without knowing what their customers have paid for that level of performance.

Phase 3 – In the acceptability survey, we showed respondents our current performance for each proposed performance commitment in the format of the customer-friendly ‘5 years, 5 pledges’ pledge tables

Other key areas from the methodology – amber responses x 3



<p>Performance commitment levels:</p> <ul style="list-style-type: none">• CSP’s view on how the Company has approached this• Customer engagement and support for each proposed outcome, performance commitment and ODI	<p>SESW completed an effective programme of engagement on PCs and listened to the CSP views and those of customers as expressed by the WTP research and took on many of these views. CSP concluded that there was good evidence supporting the acceptability of PCs and that on balance the degree of stretch seemed appropriate. However, CSP challenged that SESW have not specifically tested the potential impact of ODI rewards/penalties with customers.</p>
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We have specifically chosen not to test the concept of rewards and penalties with our customers for three reasons:

1. To keep the research as understandable as possible
2. They are part of the Ofwat framework and we are of the view that we would not be being transparent to ask customers their views on measures that they do not have a choice over – Ofwat have already made a policy decision on the RORE ranges for ODIs and if we did not include them in our plan, it would not be accepted
3. There is no expectation going into PR19 that rewards will be earned (or penalties incurred). We are setting stretching targets for all our performance commitments (the CSP agrees) and intend to deliver the targets set with the aim of receiving no penalties or rewards. If we do manage to deliver more we will be able to recover the costs of delivering this through a reward paid through customers' bills. We have not tested the appetite to pay more with customers but the framework is designed to deliver long-term benefits to customers as it encourages companies to push themselves and stretch the frontier for efficient delivery of high-quality service.

Other key areas from the methodology – amber responses x 3



<p>Resilience/consumption:</p> <ul style="list-style-type: none">• Company plans and how customer engagement has impacted this• Companies should make sure their plans reflect the needs and requirements of future customers, as well as current ones	<p>PR19 plus WRMP research and customer engagement on resilience/consumption was broad and effective, with good engagement across customers and stakeholders, including educating/informing of disruption risks. SESW had effectively engaged with customers (including future customers) on some aspects of longer term issues but did flag some challenges:</p> <ul style="list-style-type: none">• Future customer research samples being small• Limited assurance on the customer engagement on levels of service for longer term resilience• Potential for improved regional planning within WRSE to consolidate resilience risk assessment across water companies' WRMP outputs• Performance commitments and affordability engagement more short-term (to 2025) than long-term
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For us, reflecting on the needs of future customers does not mean simply speaking to future customers. It means talking about longer-term challenges and developing a plan to address these – see, in particular, our pledges, ‘a service that is fit now and for the future’ and ‘supporting a thriving environment we can all rely upon’. We have responded to our customers’ feedback on key resilience measures under these two pledges.

Regional planning has played a key part in our WRMP and business plan development and there will be increased focus on this going forward. See letter dated 9 August 2018 from Defra and regulators on Ofwat’s website which states, “To meet this challenge we need ambitious and co-ordinated leadership across industry, government and regulatory bodies”.

Other key areas from the methodology – amber responses x 3



<p>Business customers: SESW engagement with business retailers to learn about their views and the views of their customers.</p>	<p>SESW have met the requirement to engage with business customers, and account for their views although SESW could have done more sooner on business customer engagement i.e. the main significant engagement was late in Phase 3 (105 interviews with Business Customers).</p>
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With regards to sample sizes at all stages, including business customers, we have taken the expert advice of our research providers with regards to what is robust or appropriate.

We included activity with business customers at every stage of the programme including:

Phase 1 – Two pre-tasked workshops with representatives from businesses with differing water needs, from ‘tea and toilets’ e.g. a taxi firm to ‘complete dependence’ e.g. café, beauty salon and car mechanic

Phase 2 – WTP survey with 100 respondents, in-depth interviews with managing director of SES Business Water to gain a retailer’s perspective and National Farmers’ Union to gain a trade association perspective

Phase 3 – Acceptability survey with 105 respondents

Outstanding points of note responses x 5



The SESW engagement approach, while comprehensive and effective, appeared more “process” driven than “strategic”, and maybe could have benefited from clearer aims and objectives at the outset.

We presented our initial draft engagement strategy for PR19 to the CSP and our Board in October 2016, which was agreed as the way forward. It identified the three groups we needed to engage with – limited prior knowledge, interested and expert – and also the three phase approach with objectives, outcomes, and approach for each.

We’ve improved our strategic approach since PR14 by:

- Having three phases with the output from each stage informing the next so it’s customer-led
- Using three key sources of insight – what we already know from customers, wider communication channels and bespoke research
- Working with new and independent research partners, chosen for their expertise and specialisms to increase the quality of our engagement and credibility of findings
- Developing the overarching ‘Talk on Water’ brand to increase visibility and engagement
- Having Jon Woods, independent non-executive director and General Manager of Coca-Cola UK, Ireland and Northern Europe, oversee our programme, lending his considerable expertise on research techniques, customer-friendly language and communication channels

We feel that we have been strategic about our engagement right from the outset and although the delivery of our strategy has evolved as we have undertaken the programme, we have never veered from our initial agreed approach.

Outstanding points of note responses x 5



The timetable for production and approval by the SESW Board of the detailed Business Plan, and the overall sequencing of customer engagement, CSP discussions and Board considerations meant that the CSP were constrained in terms of having adequate time to fully consider the drafts or final version of the Plan. Notably CSP did not see any full consolidated draft of the Plan prior to Aug 13th.

CSP did have earlier insight and engagement on PCs/ODIs, which enabled some review of how the customer engagement was impacting the business plan; and ultimately were able to review other Plan components, but it was very late in the process.

We provided the first draft of chapters as soon as they were written, drip-feeding content when it became available.

We appreciate that the CSP received the full draft late in the process but feel with the additional activity outside of the main meetings, members had sufficient information to form their initial view on how engagement has shaped our plan. Examples include:

- Monthly 121s between Graham, Anthony, Jo and Cat
- Challenge log updates
- Specific sessions on performance commitments and level of stretch
- Plenary sessions with company reps ahead of private sessions
- Timely email responses to queries or requests for more information
- Access to theme leads (Company practitioners and Board reps)

Outstanding points of note responses x 5



Despite a stretching PCC commitment (requiring high metering penetration), the level of PCC will remain high compared to other companies, and still be outside the forecast upper quartile at the end of the plan period. It would seem unwarranted, therefore, to allow an “ODI reward” for exceeding a PCC target which still leaves SESW outside the upper quartile and thus it might be more appropriate to set a deadband of the upper quartile level to only allow a reward if that level is reached.

As you state we have set ourselves a stretching target to reduce PCC. We note that between 2014/15 and 2017/18 only three companies have reduced PCC (Southern, Thames and ourselves). So while our PCC may remain higher in our area than in other companies’ areas, our plans to reduce PCC appear to be significantly more stretching than we have seen companies target in the past.

There are a significant number of other commitments where we operate within the upper quartile, and in many of these cases lead the industry. However, we are still proposing penalties for not meeting our target, i.e. penalties for what could be industry leading performance. Ofwat has advocated a balanced incentive framework and not one weighted materially on the downside and therefore we consider it appropriate to limit the use of asymmetric incentives.

Outstanding points of note responses x 5



While SESW have enhanced their commitment on reducing leakage, excessive leakage will remain a key customer concern (despite SESW being one of the best performing companies on leakage per property/day)

We agree that leakage will always be a concern for customers and it will always be a priority for us, hence our commitment to reduce it by 15% by 2025 and more than halve it by 2050.

We have met our leakage target every year since they were first set 19 years ago but have never been complacent. Our strong performance in this area has directly contributed to us reducing the amount of water that we take from the environment to treat and distribute by 25% over the last 50 years, despite our customer base growing by more than 25% since the early 1990s.

In our business plan we talk about how we will improve our activity to detect, find and fix leaks – doing more repairs and taking less time to complete them, improving the way we manage pressure in our network and accelerating the targeted replacement of our most problematic water mains - so the amount of water lost from our network reduces.

The wider metering roll-out will provide more information about customers' leaks as well, which we estimate accounts for a third of our total leakage figure.

Outstanding points of note responses x 5



Innovation was recognised by CSP as a strong point for SESW, but it was mainly evident in the operational aspects of the business with limited evidence so far in customer service; although the Business Plan (Chapter 3) does provide some detailed plans and actions regarding customer service improvements.

The final drafts of the innovation and retail chapters of the business plan provide more information about our innovations in customer service. This covers our strong track record (e.g. we were the first water company to launch electronic billing) and also how we will innovate to meet our pledge of, 'We'll provide excellent service whenever and however you need it'.

Performance commitment responses x 4

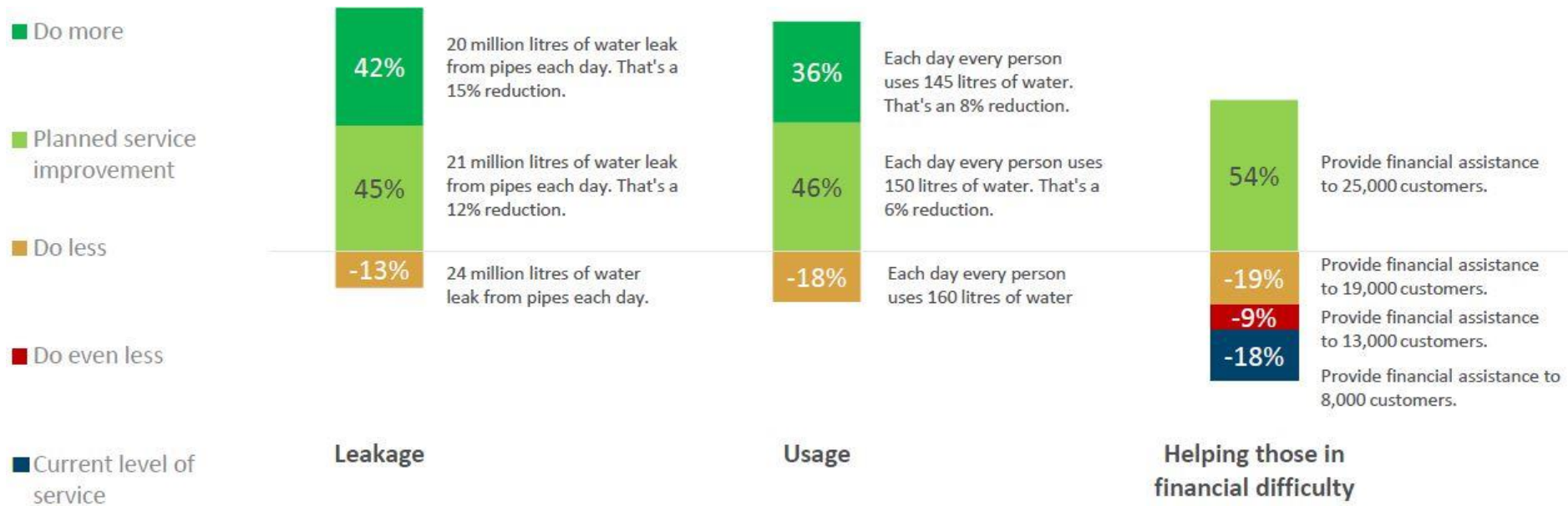


Numbers on the Water Support scheme is a reduction in ambition from the draft plan, despite customer support, although still keeping SESW one of the best performing companies on social tariff uptake. SES rationale is that further examination suggested the more stretching objective likely to be constrained by process admin resourcing (e.g. in CAB).

The driver for our decision is not about capacity as additional resource requirements are budgeted for in the plan. The agreed CAB support would be a relatively low proportion compared to our internal resources and our plan is to better automate and digitalise the process in any case.

Our rationale for opting to target 19,000 customers on our Water Support tariff as opposed to the 25,000 in our draft plan is for a number of reasons:

- In the acceptability survey, customers were given choices about the level of performance we should target for leakage, usage and social tariff. When viewed independently (and in combination), around half of respondents selected the planned draft target for each area. The majority of the remainder wanted to see more done on leakage and usage, but less done on helping those in financial difficulty (see next slide)
- We have therefore listened to our customers and committed to go further on leakage and PCC. To do this and keep the overall impact on bills close to what we consulted on in our draft plan, the trade-off is having a lower target for social tariff
- We believe this is the right decision because:
 - We are already a top-performing company in this area
 - 19,000 is a target, not a limit, and our significant out-performance already in this AMP demonstrates our commitment to go over and above what we are required to do
 - We are still committing to more than double the current number of people on the tariff
 - Leakage and PCC reduction are more longer-term and investment-heavy areas than switching people onto different tariffs
 - With an estimate of around 50,000 of our customers being eligible, we are still targeting 38% of them by 2025



Some CSP members felt that the survey question around the helpfulness of our Helping Hand scheme would be more relevant if addressed only to people who have received help

By measuring actual and perceived helpfulness across the entire customer base we:

- Understand our customers' opinion on a more diverse scale
- Do not have to specifically target surveys to those using the scheme

The main driver is to ensure our scheme is considered helpful by those already using it, but also by the larger population of customers who are not. Customers can enter into a state of vulnerability at any given moment through various drivers in their lives: unemployment, accident or illness, bereavement and mental health etc.

By only measuring the helpfulness with those already using the scheme we are not testing the views of those who may need it at some point in the future, or who may be in receipt of different support from other organisations.

Asking all customers through the survey is also another way of raising awareness that the scheme exists.

Performance commitment responses x 4



CSP thought more relevant to measure satisfaction (vs dissatisfaction) with value for money. Also CSP query if it's stretching when 2017/18 at 9%.

10% of customers being dissatisfied with their bill does not equate to 90% being satisfied as there are a large number of customers with no view on their bill.

We are already strong performers in this area and know that there is a limit on the level we can target as there will always be a proportion of dissatisfaction. We are therefore going further than our current target (<15%) and aiming to maintain our current positive performance over the five years. This in itself is challenging as the current 9% has not always been achieved and can fluctuate relatively easily with the different survey samples throughout the year.

Our focus will be on being clearer to customers about how we invest their bills and what they get for their money.

New void properties common performance commitment – if evidence SESW not being effective in identifying voids, then this would support a case for a penalty but do not see the case for a reward

We have a relatively good position in the industry on voids. We have set the outperformance and underperformance rates based on:

- The costs we're currently incurring on our void investigation trial
- The benefits accruing to all customers relating to the income that is received from finding and issuing a water bill to a property that was previously recorded as being empty and not using water.

Using the Ofwat incentive rate calculation formula produced a slightly higher payment rate than penalty rate which we did not consider appropriate. We have therefore modified the payment rate to be equal to the penalty rate.

Ofwat has advocated a balanced incentive framework and not one weighted materially on the downside and therefore we consider it appropriate to limit the use of asymmetric incentives.

Innovation. We have had really good engagement with the chair and your team on this, and got a genuine feeling of the strength of culture and commitment. However, having reviewed the draft Plan section on Innovation, it appears to us as being less convincing than our prior discussions have suggested it would be – and portrays innovation as essentially about efficiency, whereas it is much more than that.

The innovation chapter is still being reviewed, along with the other chapters, but essentially we have focussed on what innovation is actually delivering for customers today and how it will support the delivery of our pledges, as that is what Ofwat expects.

We have also talked about our innovation culture in detail over the remaining allocated pages of the chapter.

With innovation being a key theme within our plan, we also talk about what we're doing in many other chapters as well, including specific case studies.

Small firm premium. We continue to accept the willingness to pay evidence on this, and agree with citing the strong response to the aftermath of the freeze, and Merstham burst, as evidence of how small company service can be demonstrated. However, we note that, at £4, the premium is a significant portion of the bill impact and thus the evidence and rationale supporting this could come out much stronger in the Plan. Instead, the explanation of the support and rationale for the premium is included as part of financing, and efficiency (when all the other bill impacts are within section 2 on “Outcomes/bills”), and thus (in our opinion) the commitments to demonstrating the justification/benefits of being a small/local company (community engagement, local service etc) are somewhat lost across the plan. ‘

Please see the uncertainty, risk and financing chapter for a full explanation of the small company premium. The impact on the bill is c.£1.75 per customer per year. We will ensure that this figure is referenced in the discussion in this chapter which currently focuses on the impact on the cost of debt. It will also be referenced in the bill impact section of chapter 2.

The £4 quoted in your comment related to the impact we tested on customers. It related to the difference in our bill from the national average. It was set this way to provide a meaningful example to aid customers’ understanding.

The level of support for £4 was 82% which suggests that support for the actual premium would be at least at this level.