

SES Water
Customer Scrutiny Panel (CSP)
Wednesday 14 August 2019
In the Boardroom, Redhill at 10:30am

Present: **Graham Hanson* (Chair) (GH)**
 Chris Hoskins*, Nutfield Conservation Society (CH)
 Jon Sellars*, Environment Agency (JS)
 Anthony Ferrar – SES Water Managing Director (AF)
 Paul Kerr – SES Water Finance and Regulation Director (PK)
 Tom Kelly – SES Water Wholesale Director (TK)
 Dan Lamb – SES Water Head of Retail Services (DL)
 Cat Holland – SES Water Communications Manager (CaH)
 Jeremy Pelczer – SES Water Chairman (JP)
 Lorraine Taylor – SES Water minute taker

Apologies: **Helen Mouldsley*, Independent (HM)**
 Simon Bland*, Reigate and Banstead Borough Council (Deputy Chair) (SB)
 Martin Hurst*, Independent (MH)
 Bella Davies* - South East Rivers Trust (BD)
 Deborah Jones* - Citizens Advice Mole Valley (DJ)
 Tom Perry* - Environment Agency (TP)
 Karen Gibbs* Consumer Council for Water (KG)
 Alison Thompson*, Consumer Council for Water (AT)
 Jaime Ali*, Independent (JA)

***Denotes CSP member**

The CSP Chair's summary of key areas of focus and action following the meeting are as follows:

The purpose of this additional CSP meeting was for the Company to provide a status update on their proposed representations to Ofwat following the draft determination on their business plan. The CSP reiterated that its prime interest has been to understand the possible customer impacts and issues that might arise as a consequence of the draft determination and how the Company intends responding.

The meeting provided helpful feedback and useful discussion on a number of customer-related aspects of the Company's intended actions. The CSP again recognised and welcomed the inclusive and open debate with Company senior executives and the Board Chairman. The CSP expressed some concern that there was potential risk to some customer impacting programmes should the Company fail to agree with Ofwat its justification for an increased allowance in certain areas. Therefore, although there is no formal requirement for Customer Challenge Groups (such as the CSP) to respond to the draft determination, the CSP has taken the view that there are some valid concerns from a potential customer impact perspective that warrant the CSP sharing these concerns with Ofwat which will take the form of a separate letter by the deadline of 10am on 30 August.

Chairman's welcome

The apologies for absence were noted.

There were no new interests registered at the meeting.

The minutes of the previous meeting were agreed with no amendments or additions requested. Matters arising:

- Update on C-MeX results; and
- Understanding the risk and potential customer impacts of the Company's representation to Ofwat's draft determination on its business plan

Both matters will be covered in full as separate items on the agenda.

PR19 Business Plan

Overview of draft determination representations

PK summarised Ofwat's prescribed form and content of the documents to be submitted as part of the draft determination representation. All documents are required to be submitted by 10am on 30 August as well as being published on the Company's website. The main representation document will provide more detail on the response and whether the Company accept each of Ofwat's interventions.

PK summarised the proposed key representations primarily affecting customers:

- Resilience – reinstate the risk of supply failures performance commitment with associated funding
- Leakage – reposition our funding request in light of our historical performance on leakage per property
- Softening – accept the proposed performance commitment but propose a less binary underperformance penalty
- Financial hardship – the Company's response is still being discussed and agreed with the Board.

Resilience

TK described the basis of the representation, what the Company is proposing and the supporting evidence.

GH asked if Ofwat wants the Company to finance this work from its existing funding allowances as customers are supportive of increased network resilience and TK responded that is not the case as the performance commitment as well as the funding has been removed. He added that Ofwat has asked for further evidence of the need to complete the three-AMP programme and this will be provided, including further customer willingness-to-pay analysis and expanded analysis on critical asset failure. TK added that the Greater London Authority (GLA) is also supportive of this work and will be making a separate representation.

GH commented that the CSP will provide comments in its representation on the risk of customer impact and re-emphasis that customers are prepared to pay more to be able to be served by more than one treatment works.

Leakage

TK reported that all water companies have committed to at least a 15% reduction in leakage by 2025 but only companies currently in the upper quartile of performance for both the 'per property' and 'per kilometre of mains' measures have received any funding.

TK described the basis of the representation, in terms of what the Company is proposing and the supporting evidence. This includes accepting the performance commitment and associated Outcome Delivery Incentive (ODI) but requesting that Ofwat includes the Company in the upper quartile, based solely on the 'per property' measure.

GH asked if Ofwat wants the Company to fund leakage from its existing funding allowance rather than through enhanced funding from Ofwat. TK replied that those outside of the upper quartile are expected to meet their target through base expenditure but this will not enable the Company to carry out its planned mains replacement programme which is the only way to make sustainable leakage reductions

JP added that the Company needs to remind Ofwat in its representation of customers' willingness to pay to reduce leakage in the manner proposed. AF added that it is unlikely that Ofwat will radically change its funding methodology but they had made some changes between its initial assessment and draft determination.

PK reported that the Company is receiving external support from NERA to challenge Ofwat's determination but that historic arguments cannot be re-run in the representation.

Customer research on resilience and leakage

CaH summarised the additional customer willingness-to-pay research analysis that has been carried out to support the resilience and leakage representations.

For resilience, this shows that to protect 100% of households against a supply failure, customers are prepared to pay up to a 4% average bill increase (£7.52) a year before support drops off. The maximum the work required will cost customers in any one year will be £2.43. The quarterly household customer tracker also consistently shows that security of supply is the strongest driver of overall satisfaction.

For leakage, 87% of customers support investment to deliver a 12% or greater reduction in leakage with 42% supporting a 15% reduction. To deliver this in a sustainable way by replacing 1% of pipes a year will cost customers £4.44 a year, £2.36 of this is for mains replacement. Customers are prepared to pay up to a 2.5% average bill increase (£4.70) a year before support drops off.

Softening

TK reported that Ofwat has introduced a new performance commitment associated with the delivery of our obligation to soften water at five of our treatment works. TK described the basis of the representation, what the Company is proposing and the supporting evidence which includes accepting the performance commitment but proposing a less binary underperformance penalty that better reflects how the Company softens water and the associated customer impacts.

CSP members agreed that it seemed sensible that the Company challenge the binary nature of the financial penalty, and propose an appropriate alternative calculation mechanism that represents a more realistic view of aligning penalty payments to the perceived customer disbenefit.

Financial hardship

DL reported that the draft determination has increased the performance commitment for the number of customers benefitting from the social tariff from 19,000 to 25,000 by 2025. To reduce the bill impact of this on customers Ofwat has stipulated that the Company will need to fund the 6,000 increase. Ofwat has also introduced an underperformance penalty for this measure. The Company has not yet decided whether a representation will be made in this area but would welcome any views from the CSP.

GH responded that the CSP, in its September 2018 PR19 Report to Ofwat, was supportive of the Company's original plan, including the trade-off to have a less stretching social tariff target to offset the increased cost to customers of doing more on leakage and PCC, and therefore maintain an overall acceptable level of bill. The CSP position has not changed and 19,000 is a realistic? target, especially given the Company's current and historic strong performance in this area.

JP reported that the Board is still discussing the options and whether the Company will make representation to Ofwat.

CSP support requested

CaH summarised the areas of the Company's representation where CSP support would be beneficial, particularly including resilience, leakage and softening.

GH reported that the CSP has a duty to raise concerns to Ofwat in relation to potential negative impacts on customers of its draft determination. GH added that the CSP will therefore provide a representation letter to Ofwat that identifies areas where the CSP is supportive of the Company's proposals to mitigate against potential negative customer impacts. GH also confirmed that the CSP has no issues with the Company making references to previous comments made in the CSP's PR19 reports. A first draft will be circulated to members shortly and the Company will also be invited to comment.

Action: GH to draft proposed letter to Ofwat

It was noted that the Company would have the opportunity to present its response to the draft determination to Ofwat on 25 September. AF agreed to confirm whether GH was invited to the meeting.

Next steps

PK summarised the remaining governance timetable up to representation submission to Ofwat by 10am on 30 August and the representation meeting with Ofwat on 25 September.

C-Mex: overview of initial results in Q1

DL provided a summary of the first quarter's results which covers the period April to June 2019 and was carried out in three waves.

The Company's overall score for the quarter is 74.16 which is lower than the industry average of 76.31 and places the Company 13th in the industry league table. If this was the final result for AMP7 this would carry a penalty of £924k compared to the existing SIM penalty of £2.45m

The industry saw a drop in scores from Wave 1 to Waves 2 and 3. This was largely a result of the drop in Net Promoter Scores which highlighted the need to create more awareness of the Company but also highlighted that customers do not see water companies as a brand to promote as they do not have a choice of provider. Further analysis is being completed to understand the reduction in scores in more detail, especially as a score consistent with Wave 1 would have resulted in 7th position in the league table.

DL explained that the most common drivers for dissatisfaction are high bills, meter reads, appointments, metering and the quality of reinstatement works. Drivers for low scores remain consistent with SIM, meaning the existing transformation programme remains well positioned to address the shortfalls. Digital contact scores considerably higher than non-digital contact, being 20% higher on average.

GH asked if the Company compares itself with Portsmouth Water, another small water-only company which is second in the league table for the first quarter. DL responded that he continues to engage with Portsmouth Water but there some key differences including a much lower metering penetration and the fact that they do not bill on behalf of the sewage provider in their supply area, both of which generates increased levels of contact.

DL reported that the higher scorers in the C-Mex (including Welsh Water, Anglian Water, Wessex Water and Yorkshire Water) are typically further ahead on their digital journey.

It was noted that the next set of C-Mex results are due in December.

TK observed that the recent negative industry media coverage such as the Ofwat investigation into Southern Water's wastewater operations will have impacted on customer perceptions across the country, particularly in the south-east.

Any other business

New website design concepts

GH questioned what response the Company is looking for from CSP members on the two new website design concepts. CaH responded that the Company wants views on the look and feel

of the concepts and explained that they are deliberately quite similar to gain more targeted feedback.