

SES Water
Customer Scrutiny Panel (CSP)
Tuesday 23 July 2019
Boardroom, Redhill - 10:00am

Present: Graham Hanson* (Chair) (GH)
 Helen Mouldsley*, Independent (HM)
 Simon Bland*, Reigate and Banstead Borough Council (Deputy Chair) (SB)
 Chris Hoskins*, Nutfield Conservation Society (CH)
 Jon Sellars*, Environment Agency (JS)
 Karen Gibbs* Consumer Council for Water (KG)
 Alison Thompson*, Consumer Council for Water (AT)
 Jaime Ali*, Independent (JA)
 Paul Kerr – SES Water Finance and Regulation Director (PK)
 Tom Kelly – SES Water Wholesale Director (TNK)
 Dan Lamb – SES Water Head of Retail Services (DL)
 Cat Holland – SES Water Communications Manager & minute taker (CaH)

Apologies: Martin Hurst*, Independent (MH)
 Bella Davies* - South East Rivers Trust (BD)
 Deborah Jones* - Citizens Advice Mole Valley (DJ)
 Tom Perry* - Environment Agency (TP)
 Anthony Ferrar – SES Water Managing Director (AF)

***Denotes CSP member**

The CSP held a private session before the main session of the meeting.

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

- Performance: The CSP noted that overall performance to date continues to be on track in terms of meeting most performance commitments in Q1. The more detailed list of performance measurements now shared with the CSP is welcomed. The CSP noted that the SIM measurement is now no longer active, pending a first new C-MeX output, but a focus on customer satisfaction remains a key interest given the previous below target SIM results and the Q1 customer tracker where customer satisfaction has dropped below target. Progress on handling complaints is moving towards target and the CSP will await with interest a first view of C-MeX results at the August meeting
- PR19 progress: The meeting included helpful feedback from SES Water on their planned next steps regarding the Draft Determination from Ofwat. It was recognised that there will be a significant amount of work to completed in a relatively short time by the Company, given the scope of issues raised by Ofwat, particularly related to interventions in cost efficiency and performance reward/penalty ranges. The CSP reiterated that its main focus would be to understand the potential customer impacts and risks related to whatever actions SES Water will be proposing and seeking to agree with Ofwat. A follow up CSP meeting has been agreed for August to ensure that the CSP has further

information on conclusions and plans prior to the end of August response back to Ofwat.

Chairman's welcome

The register of interests was circulated prior to the meeting and no new interests were registered at the meeting.

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

- Additional CSP meeting organised for 14 August, albeit with very limited availability
- The Company's Annual Report for 2018/19 was published online on 15 July and printed copies will be received shortly and available for members as requested
- Water Resources South East will feature on a future meeting agenda as requested

At the end of May the CCG Chairs met with Ofwat CEO Rachel Fletcher. Discussion items included expectations of CCGs during the Business Plan draft determination process which does not include any formal requirement from Ofwat for the CSP to provide a specific response. Other discussions also included Ofwat's 'emerging strategy' which will result in a new shared vision for the water sector and regulation from 2020 onwards. Rachel Fletcher also agreed with the CCG Chair feedback that future customer engagement activity should include more regional and national research on shared issues rather than companies carrying out their own research programmes which is expensive and repetitive.

GH attended Ofwat's recent 'Future 30' event which was useful for hearing more about the regulator's future plans. AF also went to this event with another Company representative.

GH, SB and AT attended the Board meeting on 17 July, the purpose of which was to increase the level of direct interaction between the CSP and Board members. GH commented that the CSP members present all found it useful and helpful because as well as observing the meeting, CSP members were invited to comment and input on a number of points. SES Water plans to arrange further CSP attendance at Board meetings at least on an annual basis. SB commented that he was pleased to see evidence of the Board's focus on delivering for customers.

Performance update – figures for Q1 2019/20

PK summarised the Company's performance for the first quarter of the year, noting that there had been a strong start in many areas.

The following key areas were discussed:

- The Drinking Water Inspectorate's annual water quality report for 2018 has been published which shows the Company leading the industry for the new Compliance Risk Index measure
- There have been no supply interruptions over three hours during the first quarter
- The regulatory leakage target has been met for the last 20 years but the internal target, which is purposefully more challenging, was not met during Q1

- Per capita consumption (PCC) is higher than target but this is expected to drop as the school summer holidays get underway and many customers leave the area. The PCC performance commitment is also linked to the number of customers on a meter and installations for the quarter are ahead of target. The intention is to outperform in this area, ahead of the planned universal metering programme proposed in the Company's Business Plan for 2020 to 2025
- Complaints are slightly higher than target, largely driven by annual billing, developer services and the closure of the A217 in April to carry out a mains repair. The Company is confident in meeting the annual target and progress on this over the last year has been recognised in a recent letter from CCWater. AT said that there would be another meeting between the Company and CCWater ahead of the publication of the annual industry complaints report.

GH asked if SIM measures are still being tracked and DL responded that this has been replaced with shadow C-MeX reporting this year but that key elements of SIM, such as levels of unwanted contact, are still being monitored. DL confirmed that some C-MeX results have been received for the first quarter but the customer experience element is due to be released imminently. GH asked for an overview to be included at the next CSP meeting on 14 August.

Action: DL

PK summarised the Q1 results of the quarterly domestic customer tracker survey which show that customer satisfaction has dropped to 86% against a target of 91% which is the lowest it has been for two years. The data has only recently been received so is being further reviewed to try and identify the root cause. The value for money measure is high, with only 5% of respondents feeling that their water bill is not good value for money, against a target of 15%.

PR19 Business Plan

PK summarised Ofwat's recent draft determination of company business plans and the materials that are available including, for SESW, over 200 pages of written documents as well as various financial models and data tables. It has been described by industry commentators as 'hard-hitting' with few changes to slow track and significant scrutiny plans since the initial assessment in January, with an overall industry cost gap of £6.2 billion. This, coupled with the lower Weighted Average Cost of Capital (WACC) and lower equity returns makes financeability challenging and increases the likelihood of appeals to the Competition and Markets Authority (CMA) following final determinations in December.

For SES Water, significant interventions have been made on proposed Performance Commitments and Outcome Delivery Incentives (ODIs) which has resulted in a more downward skew of the risks to Return on Regulatory Equity (RoRE).

GH commented that it is positive that although ODI reward/penalty ranges have been adjusted, very few performance commitment targets have been changed which demonstrates that the customer engagement programme was of a high quality and informed the Company's plan, despite Ofwat comments in the determination that they felt there was a lack of evidence of this.

TNK summarised the key interventions on the wholesale performance commitments (PCs):

- Ofwat has removed the PC and associated funding around ensuring 100% of customers can be supplied from more than one treatment works to reduce the likelihood of supply failures. The intention was to complete the final five years of the Company's 15-year resilience programme. JS commented that Ofwat was supportive of this work in the initial assessment. GH commented that the CSP would be supportive of any representation that the Company chooses to make in this area as it was strongly supported by customers
- No enhancement expenditure for reducing leakage has been given as the 15% reduction target is not an industry-leading ambition. This means that it may be necessary to reduce investment in other areas to achieve this and GH commented that the CSP would be keen to understand the likely customer impact of this
- The softening cost adjustment claim has been largely accepted but Ofwat has intervened by applying a new softening PC with a financial penalty that could amount to over £5 million in a year. The Company will be accepting the performance commitment but challenging the binary nature of the proposed ODI which assumes that customers receive no benefit when the hardness of their water is just slightly higher than the agreed target. The five treatment works that soften water also serve different numbers of customers. GH asked about the risk of incurring the full annual penalty and TNK responded that this would not happen but as water quality takes precedence over softening, operationally it can be necessary to stop or reduce softening occasionally.

JS asked what the 'increase' was referring to for the Water Industry National Environment Programme (WINEP) PC and TNK responded that this was going from 18 schemes to 24 but the Company is still reviewing the funding associated with this. JS added that the Environment Agency is carrying out its own review of WINEP across the industry.

DL summarised the key interventions on the retail performance commitments:

- Ofwat has intervened to increase the Water Support assistance target from 19,000 customers to 25,000 customers by 2025, with shareholders funding the additional 6000. SB commented that if that level cannot be reached despite the Company's best efforts, there is still an underperformance penalty. DL replied that in the Business Plan the Company estimated that there could be up to 40,000 eligible customers in the supply area but this can change depending on people's circumstances. The underperformance penalty is still being examined to decide if the Company will challenge this. GH added that the CSP maintained its view, as presented in the initial PR19 report to Ofwat, when the CSP supported the lower target of 19,000 as it was a balance of trade-offs with leakage and PCC performance to achieve an acceptable bill impact for customers
- The first contact resolution target has been increased to 90% from 85% which will be extremely challenging to achieve. The original target was based on expert advice from the Institute of Customer Service, taking into account the nature of the service provided. GH asked about the methodology for this measure and DL responded that

this was being looked at to check consistency with other companies and to assess the exact definition of a genuine repeat contact versus a further contact from the same customer about a different issue.

PK summarised some of the other key interventions made to the plan, including the small company premium not being given and a potential PR14 SIM penalty payment of £2.4 million. He also showed the revised average bill profile over the five-year period.

GH asked if the Company planned to do any additional customer research to support representations and CaH replied that no additional research will be carried out but the previous willingness-to-pay results will be re-analysed to better support some arguments, including resilience. KG added that CCWater is carrying out national customer research on the acceptability of the revised bill profiles and common performance commitments.

GH asked that at the next CSP meeting on 14 August the Company should present their decisions on the interventions with accompanying bill impact and any risks to customers.

Action: PK

Industry reputational issues

TNK summarised the recent outcome of Ofwat's investigation into Southern Water's wastewater operation and the actions that SES Water has taken as a result, including responding to an industry-wide letter from Ofwat CEO Rachel Fletcher. He also spoke about the Environment Agency's publication of its annual report which currently only includes water and sewerage companies but SES Water is supportive of the plan to widen this to include water-only companies in the future.

GH added that it was reassuring to observe both these issues being discussed in detail at the recent Board meeting.

Voice of the customer programme update

The CSP has previously been informed of the Company's future plans for ongoing customer engagement, called the 'voice of the customer' programme. The benefits of this include improved customer insight, more informed decision-making and an evolving relationship with the CSP on the actions taken as a result.

CaH updated the meeting that the first element of establishing the programme is underway, starting with an audit of all the current customer research undertaken and also the multiple sources of customer data currently available such as post-call surveys, household trackers, social media and complaints.

The results of the audit and an outline proposal for the programme from April 2020 should be available for a further discussion with the CSP at the October meeting.

KG asked if we would be looking to compare the programme with others through the Institute of Customer Service and CaH confirmed that this was part of the plan to take account of

best practice outside of the water industry as we know our customers compare our service with that received from other companies outside of utilities providers.

Any other business

TNK updated that the draft terms of reference for the Environmental Scrutiny Panel have been circulated and updated following feedback from a number of parties. They will now be shared with the executive directors for comment, as well as CSP members in due course. The agreed approach is for the panel to be a separate committee from the CSP but to ensure appropriate links between the two. The first panel should take place by the end of the calendar year. GH commented that this evidence of the Company's increased focus on the environment is helpful. KG asked if the Company's Water Resources Management Plan (WRMP) has been signed off and TNK replied that Defra had not yet given the go ahead to publish, possibly due to other companies in the south east following different timescales for their plans.* GH asked about the Company's current water resources situation and TNK replied that there are no major concerns but the situation is being monitored. Rainfall patterns have been erratic but so far total summer rainfall has been at average levels and although there is no groundwater recharge at this time of year, it does help to suppress demand and reduce the soil moisture deficit which helps with prompt recharge in the autumn.

CaH updated that the Company's new website is progressing as planned and CSP members will shortly be invited to comment on the proposed look and feel of the new site, as well as being involved in the testing of various functions closer to go live.

CaH summarised the current planned timescales for the recruitment of a new managing director to succeed AF following his decision to retire. The successful candidate is expected to be announced in September.

**Following the meeting on 25 July the WRMP was approved for publication by Defra.*