

SES Water
Customer Scrutiny Panel (CSP)
Thursday 31 October 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)
 Bella Davies* - South East Rivers Trust (BD)
 Jaime Ali*, Independent (JA)
 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)
 Van Dang – SES Water Economic Regulation Manager (VD)
 Cat Holland – SES Water Head of Communications & minute taker (CaH)
 Meyrick Gough - Meyrick Gough, Technical Planning Director at WRSE (MG)

Apologies: Martin Hurst*, Independent (MH)
 Deborah Jones* - Citizens Advice Mole Valley (DJ)
 Tom Perry* - Environment Agency (TP)
 Alison Thompson*, Consumer Council for Water (AT)

***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 the Company has again met most of its performance commitments in Q2, but that there were a number of measures that still required ongoing focus, as identified in these minutes. The CSP also noted, and discussed with SES Water management, Ofwat's Service Delivery Report 2018/19 in which the Company was classed as a 'middle performer' in the industry, with scope therefore for further improvement. The CSP also noted the further trend of improvement in complaints management, and that the majority of complaints received so far this year have been related to a significant road closure to carry out essential mains repair works and issues with the online billing system which have now been resolved
- **Customer Transformation programme:** The CSP noted the positive feedback from SES Water on the progress and expectations of the programme, including work underway to implement a new billing and Customer Relationship Management system within the next year. The CSP also gave positive feedback on the update provided on the Voice of the Customer plans so far, and will look forward to a full update on the planned programme at the January meeting

- PR19 progress: The meeting again included a helpful update on the Company's response to Ofwat's draft determination. The CSP Chair explained that he had attended the Ofwat representation meeting with SES Water management, and that the CSP will be interested in understanding the customer impact of the final determination at the CSP meeting in January, and the various options the Company will be exploring
- Water resources: the CSP was grateful for the interesting update on the Water Resources South East (WRSE) activity, and the initiatives to seek to work more closely together to manage scarce water resources. Specifically, from the SES Water perspective, the CSP was concerned to hear that groundwater levels remain below average, despite the recent rainfall, and that there is a potential risk of a temporary usage ban (TUB) next year (*see post-meeting update in Any other business section below*).

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:

- GH submitted the CSP's letter in support of the Company's draft determination response to Ofwat.

GH attended the CCG Chairs meeting on 12 September which took place ahead of the company representation meetings with Ofwat. A key theme of discussion around the draft determinations was the balance of customer bill reductions versus investment for the longer term.

GH attended SES Water's representation meeting with Ofwat on 25 September where he gave the CSP's views on the Company's response to the draft determination.

GH attended a Water Resources South East (WRSE) stakeholder event on 27 September – 'Delivering resilient water supplies for the south east'. The workshop set out WRSE's ambition to produce a multi-sector regional resilience plan for the south east. This is intended to go beyond just public water supplies, considering the water needs and challenges of other sectors with people, the environment and growth at its centre.

Performance update – figures for Q2 2019/20

AF summarised the Company's performance for the second quarter of the year.

The following key areas were discussed:

- The Company has achieved 99.94% compliance with the Drinking Water Inspectorate's definitions for overall water quality, which is below our target of 99.95%. While disappointing, this result reflects five sample failures at customers' taps, rather than any

issues with the quality of water leaving our treatment works or within our own mains network. However, we will still incur a financial penalty from Ofwat of circa £140,000 based on our annual performance for the 2019 calendar year

- At the start of the current five-year regulatory period the Company set itself particularly challenging annual targets to minimise the number of customers making contact about the taste, smell or appearance of their water. At the end of September, performance was within the maximum target limit and therefore forecast to meet this stretching target for the first time in this current 2015-2020 Asset Management Plan (AMP). SES Water continues to lead the industry in this area with regard to the low levels of contact relative to industry average
- Since 2015, 32,000 water meters have been fitted so the AMP target has been met although performance on both per capita consumption (PCC) and meter switching is behind target
- One pollution incident, reported to the Environment Agency in July and linked to a burst main, has been classed as significant due to the volume of water travelling through the surface water drainage system so is currently being investigated. BD asked if there had been any public concern about the incident and TK responded that he did not believe so but would confirm separately *(following the meeting it was confirmed that the incident is likely to have been called in by a member of the public but the Company is not sighted on the level of any public concern beyond this while the investigation is ongoing).*
- Bad debt is forecast to finish adverse to target at 1.7%. A review of underlying methodology is ongoing and being discussed with the Audit Committee
- The second quarter C-MeX results are expected in the second week of November
- Although complaint levels are now at a four-year low of just 4.67 per 1,000 properties per annum, and therefore heading in the right direction, the Company is not forecasting to meet the stretching target of 6.60 per 1,000 properties for the year to March 2020. The main reasons for not hitting the target relate to a significant road closure to carry out essential mains repair works and issues with the online billing system which have now been resolved

CH commented that the Company is being penalised for water quality performance despite this being due to customer pipework. AF responded that the Company has to accept this and will offer advice to customers in these instances, such as the assistance provided to replace lead pipes. AF added that the DWI's measure is being replaced next year with the Compliance Risk Index. BD asked if the Company carries out further random sampling in the rest of the properties in a street when an issue is detected and TK responded that he will check and respond separately *(following the meeting it was confirmed that it is usual practice for the Company to conduct both upstream and downstream sampling at adjacent customer properties following a failed sample. This is common practice across the sector and happened in this case with no additional failures being recorded.)*

JS stated that the EA believes the Company's PCC is higher than the figure given due to a differing calculation over the last two years. TK said that he was not aware of this issue but would investigate and respond separately *(following the meeting it was confirmed that this is*

a data interpretation issue and does not change the reported PCC over the last two years. This issue has been recently resolved and concluded at the Company's quarterly meeting with the EA on 18 November.)

There was a discussion about the use of Net Promoter Score (NPS) as a measure of customer satisfaction, including the limitations which includes customers not being willing to promote a service that they have no choice over receiving and cannot switch suppliers. DL added that some companies have made representations over the use of the NPS in Ofwat's C-MeX methodology.

Ofwat's Service Delivery Report 2018/19 was discussed, with SES Water being classed as a 'middle performer' in the industry. GH asked what actions the Company is taking in relation to the report and AF responded that there were no surprises and the Company was already working to ensure strong performance during the final year of the AMP. PK added that the significant burst in Merstham in May 2018, which directly led to the supply interruptions target being missed, also impacted on other measures in the report, such as financial incentives. CaH confirmed that the Company had not been included in any of the media coverage about Ofwat's report.

PR19 Business Plan

PK summarised Ofwat's draft determination of the Company's business plan, including the key activities that have taken place since the representation was submitted on 30 August. A number of queries have been received from Ofwat which have been responded to through the formal process.

AF, PK, TK and GH gave their views on the Company's meeting with Ofwat on 25 September which was considered to be a constructive session, particularly with the presence of a non-executive director from Ofwat's Board.

AF said that the General Election may impact the timing of the final determinations (FD) but there had not been an announcement from Ofwat as yet (*following the meeting the date was confirmed as changing from 12 to 16 December.*)

PK presented a summary of the 25 performance commitments (PCs) included in the Company's representation, highlighting where a case had been put forward for changes. These include:

- Funding for leakage
- An alternative softening Outcome Delivery Incentive (ODI)
- Reinstatement and funding for the risk of supply failures PC

CH commented that the risk of severe restrictions in a drought PC seemed particularly stringent and TK replied that this is a common PC for all water companies.

CH asked how it was possible to outperform on the risk of the supply failures PC when the target is 100% and TK replied that this would be related to implementing the network resilience work more quickly than planned.

BD asked whether the Company has retained the Abstraction Incentive Mechanism (AIM) PC and if this is affected by the risk of supply failures PC being removed by Ofwat in the draft determination. TK responded that the AIM PC is still in the plan and although less options may be available to achieve it, it is an important measure to retain.

GH asked what the likely outcome would be if the requested retail funding is not received and if this would mean the transformation programme would stop? DL responded that the programme would continue as it is really important for the Company to invest in its digital services and ensure the department maximises the potential for further efficiencies. He added that the alternative would lead to a worse experience for customers than planned. AF added that the Company has already committed to investing in the programme this year.

PK highlighted the options that may be available should the Company not receive the full funding requested in the representation case.

PK then summarised next steps, including a call with the Board following publication of the final determination, the next CSP meeting in January and the deadline to accept, or not, the FD by 16 February 2020.

GH reiterated that the CSP would be looking to understand the customer impact of the FD at the CSP meeting in January and the various options the Company will be exploring.

Customer Transformation Programme

DL updated the meeting on the progress of the programme, included work underway to bring in a new billing and Customer Relationship Management (CRM) programme, as well as a new website. He outlined the aim of each project, current activity and high-level timescales.

Following previous consultation with the CSP on the proposed design of the new website, DL displayed the chosen homepage design on screen. HM asked what would happen for customers if the tasks they are looking to perform on the site are not one of the immediately visible options? DL responded that as the design was static screenshot it was not possible to show how the site will work in practice but there will be a mega navigation displaying all the options available. CaH added that the homepage will be regularly reviewed using in-depth analytics and updated to ensure it is enabling visitors to use the site in the way they need to.

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 reminded attendees of key elements of the proposed programme including success factors, potential audiences and activity examples. CaH then updated the meeting on activity that has taken place to progress the programme since the July CSP meeting which included carrying out a research audit and receiving an example proposal from a potential supplier, on

which to base a full tender specification. CaH then summarised the next steps up to starting year one of the programme in April 2020.

GH gave positive feedback on the plans so far and said that the CSP will look forward to a full update on the planned programme at the January meeting.

Water Resources South East (WRSE)

MG attended the meeting to give an update on the new regional approach to water resources planning. The presentation covered the development of a multi-sector, regional resilience plan, including:

- The role of regional plans, including the EA and Defra
- Development of the WRSE plan
- Reflections from the National Infrastructure Commission (NIC)

TK asked if the drought issues in the north west of England last year could have been alleviated through the proposed inter-regional approach? MG responded that water could be moved both up and down the country through the proposed regional cross-connections.

GH asked what the implications are for SES Water and AF responded that the Company is very much signed up to a regional approach and plan. MG added that WRSE will enhance the resilience of all water companies in different ways, which will depend on factors like raw water storage and sources, responsiveness of catchments and the impact of longer term droughts. He added that the Company's approach on strategic mains to make the network more resilient is industry best practice.

BD asked what the abstraction proportion is for each of the sectors referenced in the plan. MG replied with the volumes in megalitres per day for the water industry, as well as others like agriculture and gold courses. BD asked if the figures given related to actual usage or the allowance in the licence conditions and MG replied it was actual figures, whereas there is more headroom in the licence. BD asked how WRSE is working with the other sectors and MG responded that there is multi-disciplinary Board which had met in July, as well as planning workshops on the environment. BD asked how the plan will be tested with customers and MG replied that this is already starting, with each company collating their previous Water Resource Management Plan (WRMP) consultation activity to review similarities and differences. He added that there will be further engagement with the CSP going forwards.

GH said that one thing that struck him at the recent WRSE stakeholder event in September was the very small amount of treated water that is actually used as drinking water so are there plans for innovations such as dual systems and grey water recycling? MG replied that these are possible but not without challenges and will be included in the package of options that is tested.

TK highlighted the issue of which company's customers pay for regional infrastructure when there may not be a direct benefit for everybody. For instance, SES Water's WRMP shows there is currently a balance of supply to demand but greater connectivity to increase water

trading could impact this. MG agreed and said that this was one of the issues to be worked through.

BD asked how this is being communicated and MG said that the south east is good at coordinating messaging by companies and a working group is in place.

Any other business

TK updated the meeting on Brexit preparations (not minuted).

TK summarised the Company's current water resources situation: Despite some very wet weather this autumn and flooding in some parts of the country, over the last two winters there has been less rain than normal. This is significant as water companies depend on winter rainfall as underground aquifers usually only fill up between October and March when there is less plant growth and evaporation. Over the summer (April to September) there was slightly above average rainfall but last summer's heatwave really dried out the ground which delayed recharge last autumn and means that groundwater levels remain below average despite the recent rainfall. If another relatively dry winter between December and March does not sufficiently replenish groundwater stores ready to meet the demands of next spring and summer then a temporary usage ban (TUB) may be necessary early next year. The Company has enacted its agreed action plan for when groundwater levels go below certain levels and this has included starting up an additional treatment works and increased communication to stakeholders. The situation will continue to be monitored carefully, including liaison with other companies in the region to discuss emerging risks.

Post-meeting update: In the Chairman's half-year statement published on 29 November 2019, an update on the latest groundwater situation was included which, due to sustained rainfall during the first two months of the recharge season, had significantly improved. If average rainfall continues over the remaining winter months then restrictions will not be necessary in spring 2020.

TK updated that the draft terms of reference for the Environmental Scrutiny Panel have been circulated and updated following feedback from a number of parties. Activity is now focused on recruiting a chairperson, ahead of the first meeting of the panel in April 2020.

AF updated the meeting that the process to appoint his successor has been completed and an announcement is being coordinated with the individual's current employer. He will start in the post in the new year.

PK said that the Company Monitoring Framework (CMF), a regulatory requirement intended to provide oversight on the information that water companies provide to customers and other stakeholders, is still taking place this year but Ofwat's formal review has been paused due to Ofwat's wider vision and strategy review. The Company will be consulting with customers through the online community on the materials it intends to produce, as well as sharing with the CSP.