Joint meeting of South Staffs Water Customer Challenge Group (CCG) and Cambridge Local Water Forum (LWF)
held by video conference in Walsall and Cambridge.
11am, Wednesday, February 26th, 2014

MINUTES

Members:

Yve Buckland	Independent Chair
Richard Franceys	Consumer Council for Water
Tom Marshall	Lichfield District Council
Greg Marshall	Environment Agency
Bernard Crump	Consumer Council for Water
Ian Butterfield	Natural England
Colin Greatorex	Lichfield District Council
Brian Jackson	Wilbraham River Protection Society
Jean Swanson	Cambridge City Council
Steve Grebby	Consumer Council for Water
Mandy Smith	Cambridgeshire County Council

Attendees:

Keith Marshall	Managing Director, South Staffs Water
Rachel Barber	Customer Services Director, South Staffs Water
Matt Lewis	Regulation Director, South Staffs Water
Annalise Lister	Communications Manager, South Staffs Water
Sir James Perowne	Non-executive Director, South Staffs Water
Adrian Page	Chairman and Chief Executive, South Staffs Water

1. A private session between members was held at the start of the meeting.

2. Apologies

Apologies were noted. Rachel Barber reported that Doreen Ryan (representing COPE) had resigned from the group and also Steve Morley has now left the Company.

3. Review of minutes and actions from last meeting

The minutes from the joint South Staffs CCG/Cambridge LWF meeting on November 15th were agreed as a true record. The majority of actions from the meeting were taken forward to the final business plan and no further action was required.

4. Review of headlines from 18 final business plans and Ofwat's revised process

Matt Lewis summarised elements of the paper relating to companies proposed price changes, retail margin and WACC.

Matt also confirmed that Ofwat would announce Companies who reached pre-qualification for "enhanced" status on March 10th. He confirmed there are to be two types of "enhanced" status:

- "Clean", meaning the business plan is accepted without change.
- "Conditional", meaning some changes are asked for.

For those companies that pre-qualify, they will have until March 17th to decide if they accept Ofwat's risk and reward guidance and to make any necessary changes to their business plans, for example incentive proposals, otherwise they will be given "standard" status. Water only companies will also need to justify the small call premium and how it benefits customers.

5. Meeting of CCG Chairs with Ofwat
Yve Buckland reported the key elements of the meeting.

6. Risk and rewards guidance published by Ofwat
Matt Lewis referred to the paper circulated to members. He confirmed that at the last price review SSW had 5.5% cost of capital. This time, Ofwat has set it for the whole industry at only 3.85% (compared to 4.5% in the Company's business plan) and there was still a question mark over whether WoCs would be given a small company premium. In addition slides were circulated to all members regarding the small company premium. Adrian Page confirmed that if offered enhanced status, the Company could reject the offer if they cannot agree on the risks and rewards.

The CCG raised the following, for the Company to consider:

- To demonstrate "scientifically" that the company has performed well as a result of having the small company premium previously.
- Are customers paying more for better service as a result of the small company premium?
- What are the customer benefits of the small company premium. A compelling case for customers.
- To show that the company is outperforming neighbouring WASC's on a level playing field, since the company does not have to deal with sewerage, and it is this that probably is of most concern to customers.

7. Discussion regarding the company's proposed response to the guidance, specifically on outcome delivery incentives
Yve Buckland asked if it could be assumed that the company was either looking to cut back the investment programme set out in the business plan, or to take back the Social Package, some of which is to go to the Charitable Trust. Adrian Page replied that neither should be assumed, but if the company was put in either the "standard" or "resubmission" categories, then the totex figure could be looked at again. Once the final determination is known, then the company would have to consider investment, but it would lead to some unpalatable decisions on discretionary spend. David Wurr then warned that the CCG assurance report may have to be withdrawn, since it was based upon investment set out in the business plan.

The group discussed a number of options on the outcome delivery incentives with a view to adding £1m-£1.5m of rewards, and around £0.5m of penalties on top of the business plan proposals. Each 50p realises £300k, so this is four or five extra rewards and one or two new penalties.

Idea	Specific Proposal	Comments
1	In the existing leakage reward and penalty, change from a three year rolling assessment to a one year position as this is easier for customers to understand and reflects the customers' desire for leakage levels to fall.	Limited support from the CCG. The suggestion of a weather adjusted one year figure (reviewed by an external expert) was not well received – customer bills would go up and the company would need to pay an expert to verify the approach.
2	Introduce a new band into the leakage reward. For example, SST reward of 50p at 66.6 Ml/d, then further 50p if 64.4 Ml/d achieved. CAM triggers at	The CCG said some other companies were considering a straight line gradient here to give marginal rewards. It was suggested to narrow the deadband. An enhanced leakage

	12.35 Ml/d and 12 Ml/d. Leakage was the issue which featured most in customer surveys, suggesting this is the KPI to focus upon.	reward received some support.
3	Introduce financial incentive for acceptability of water to customers (WQ contacts per thousand). This is currently reputational. Either reward and penalty or just a reward. One or two bands of payments could apply. Water quality is a key issue for customers. It could be general contact, or something specific such as discolouration (not linked to individual customer preferences, whereas taste etc. can be).	The CCG preferred the discolouration idea over a general WQ contact metric. But would expect the company to be doing all it can to minimise discolouration events, with or without an ODI. They also noted it affects so few customers would all customers want their bills to rise for this?
4	Environmental progress – can a measure be identified which incentivises extra activity in this area? An alternative approach is a mechanism to promote more activity/investment in the environment rather than a penalty in the form of a bill reduction.	The idea of a 2-tier reward was put forward: • An initial reward for involvement in projects/partnerships • A larger 2nd tier reward for delivery of an environmental solution. CCG had commented in their assurance report to Ofwat that this was an area where the company lacked ambition, but also recognised the metric / milestone difficult to agree. They want to encourage the company to show more involvement / leadership in environmental projects and social/community engagement. Ideas at the meeting were i) number of new partnerships active; ii) improved km of low flow rivers; iii) number of catchment schemes; iv) water efficiency activity; v) pcc? or dis input reduction.
5	Replace proposal for rewards / penalties to be calculated and applied to customer bills at PR19 (net position of all changes) and instead apply as immediately triggered.	This is a Board decision, but the CCG reminded the company that with annual reviews the company would need to be confident to keep customer legitimacy of bill increases higher than Ofwat's initial allowance. **Challenge:** Would the faster cash outweigh the potential for customers to be annoyed the company was putting up bills for something it should have done anyway?
6	Introduce a new incentive for improving results from independent customer satisfaction surveys. This	One idea was an extra SIM incentive to stretch the frontier (n.b. unlikely Ofwat would accept this concept). Noted that surveys

	could be different from SIM, as the SIM surveys only currently apply to those with specific contact with the company. The survey could be about generic satisfaction, or something specific to target improvement.	were expensive and the company could be accused of survey bias. CCW favour the crunch question being “value for money”.
7	Given Ofwat wants to reward outperformance, i.e. doing better than other companies for the benefit, consider new financial reward to encourage further progress in energy efficiency (combining use/procurement or just one of these). Power is a major cost, so encouraging progress here is sensible. Also fits in with water efficiency drive. This measure could be comparative to industry performance.	Idea not liked by CCG. The company has put forward totex to improve power efficiency, so should not be rewarded twice. There is also a link to windfall sharing here (green levies reducing).
8	Consider a new reward for a reduction in bursts. Logic being that customers dislike bursts and if they are reduced, customer bills could reduce if less mains replacement spend is needed. The measure could be visible bursts only (not hidden ones) as these are the ones that inconvenience / annoy customers. Finding hidden leaks should not be discouraged by an ODI.	The definition of problems would be problematic – the company could say leaks not hidden so as to get the reward. Discussion moved on to leak repair times, but external influence of highway restrictions was a barrier to this. It was considered better to strengthen the existing supply interruptions ODI.
9	Consider a basket of potential rewards that exceeds £2.2m (£3.30/customer), but is capped at this level.	Not favoured (bending the rules too far)
10	*CCG idea: using ODIs to support the social fund or charitable trust.*	Some on the CCG would be interested if there was a way for some penalties to be in the form of extra funding for social packages rather than a bill reduction. But others noted this would be inconsistent with the customer research findings (here customers’ preference was for the merger savings to lead to lower bills).
11	*CCG idea: a metric around the number of customers receiving debt support (already part of the reputational package in our FBP)*	

Those with most support appeared to be:

- idea 2: leakage (adopt the existing one so it is a stronger reward);
- idea 4: environment or PCC
- variance to idea 8: supply interruptions (adopt the existing one so it is a stronger reward).

Action: If the company receives pre-qualification a teleconference to be held among some of the members to discuss the ODIs further.

8. Outcomes and measures action plans

Volunteers were asked for to look at action plans outcomes and measures some time after March 10th. The following members agreed to take part: Steve Grebby, Bernard Crump, David Wurr, Greg Marshall, John Thompson (appointed in absence), Ian Butterfield, Christina Blackwell (appointed in absence), Colin Greatorex, Brian Jackson.

9. Social tariff consultation

A working party is to be set up to look at further research on social tariffs. Agreed members should be: John Thompson, David Wurr, Bernard Crump and Rachel Talbot (nominated in her absence).

10. Role of CCG during 2014

Rachel Barber said that until the company hears on March 10th whether it has pre-qualified, it is unclear how much further work is to be done. Yve Buckland said she would be stepping down as chair, in favour of Bernard Crump, after April 4th.

Action: A teleconference to be held after March 4th.

11. AOB/Closed item

There was no further business and no closed item.

The meeting closed at 2.15pm.