

**Joint meeting of South Staffs Water Customer Challenge Group (CCG) and Cambridge
Local Water Forum (LWF)
held by video conference in the Stowe Room, Green Lane, Walsall and Fulbourn Road,
Cambridge.**

1pm, Monday, April 28th, 2014

MINUTES

Members:

Dame Yve Buckland	Independent Chair
Richard Franceys	Consumer Council for Water
David Wurr	Consumer Council for Water
Gemma Domican	Consumer Council for Water
Adam Lines	Environment Agency
Greg Marshall	Environment Agency
Bernard Crump	Consumer Council for Water
Ian Butterfield	Natural England
Colin Greatorex	Lichfield District Council
Rachel Talbot	Cambridge Citizens Advice Bureau
Jean Swanson	Cambridge City Council
Steve Grebby	Consumer Council for Water
Mandy Smith	Cambridgeshire County Council
John Thompson	South Staffs Water Charitable Trust

Attendees:

Phil Newland	Managing Director, South Staffs Water
Keith Marshall	Deputy Managing Director, South Staffs Water
Rachel Barber	Customer Service Director, South Staffs Water
Matt Lewis	Regulation and Planning Director, South Staffs Water
Annalise Lister	Communications Manager, South Staffs Water
Sir James Perowne	Independent Non-executive Director, South Staffs Water
Adrian Page	Chairman South Staffs Water

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

2. Apologies

Apologies were received.

3. Review of minutes and actions from last meeting

David Wurr pointed out that he had attended the previous meeting, though his name had not appeared on the minutes.

Rachel Barber reported that the company had not received pre-qualification of its business plan and a conference call meeting had been held to discuss this on March 4th.

4. Headlines (with presentation) of company specific feedback and SSC approach

Matthew Lewis delivered a summary of the Company specific feedback from Ofwat on the Risk Based Review. The Company will re-submit its business plan on June 27th, meaning the draft determination will be received at the end of August and the final determination in December.

The main points that need to be addressed in the amended business plan are:

- Overcoming the totex funding deficit
- Overcoming the retail (ACTS) funding deficit

- Outcome revisions
- SCP case given the customer benefits of this
- Explanation of the AMP 5 Legacy

Regarding Ofwat's approach and reference to Acceptability it is evident that Ofwat has been inconsistent in quoting responses to real / nominal questions, for example South West asked both like South Staffs and had 70% nominal and 84% real yet Ofwat quoted the latter. Matt Lewis reported that Ofwat had quoted the 59% acceptability figure (includes inflation) rather than the 82% (excludes inflation). The Company confirmed it would be undertaking further acceptability research.

The Company updated the group on the following:

- The Company has a meeting with Ofwat next week to discuss what is needed to address the AMP5 legacy.
- The Company is also having an external verifier review of AMP5 results compared to what was set out in the 2009 Final Determination.
- On outcomes, the Company needs to give specific metrics, rather than simply saying a "downward trend" for areas such as leakage.
- Ofwat has said the Company needs £398m to run the business over the AMP6 period – that is £11m lower than the Company's figure, however Ofwat has not identified where the £11m could be saved.

John Thompson expressed concern that the Final Determination may affect the Company's proposal around the Social package.

Bernard Crump stated that there appeared to be an emphasis by Ofwat on their models and not on the level of the bill.

Jean Swanson asked if the Company had undertaken any analysis between the uptake of meters, in areas of deprivation and customers in debt. The Company confirmed it had not.

Action: CCG report to make the point about the differences in how acceptability research has been viewed.

The CCG asked for the Company to request Mike Reid independently to provide a note of the totex shortfall and assurances on the values the Company quote in the revised business plan.

The Company to advise the Group if there are any significant variances once the Company has completed Ofwat's financial model

5. Meeting of CCG Chairs with Ofwat

Yve Buckland reported on key points from the meeting:

- Ofwat said the customer voice had been loud and clear with 250,000 customers directly involved in research.
- Ofwat admitted there had been too short a time to allow for a proper dialogue during the business planning process.
- Ofwat would like to see all of the regulators involved with CCG groups.
- Ofwat was categorical that there would be no change to risk and reward incentives and outcomes must be measurable and transparent.
- No intention that Ofwat will share best practice CCG operations or content or their reports.
- Ofwat would not be sharing specific feedback to the CCG on the content / quality or helpfulness of their report
- A further CCG Chair meeting is likely to be held in July.

6. Outcomes, measures and incentives (with presentation)

Matt Lewis outlined the proposed amendments as:

- Long term performance commitment on leakage and showing a reduction in AMP7 (as per WRMP).
- Moving from a three year to one year average for penalties on leakage target.
- Reduce the width of the deadbands for leakage.
- More challenging performance commitment for supply interruptions (15 mins instead of 25 mins).
- A reward for MZC if performance is within industry upper quartile.
- Currently reviewing if Acceptability of Water should become a financial incentive.
- Rewards and penalties will be applied annually rather than at PR19.
- Still working on ensuring that reward and penalty values are closely linked to the WtP values as per Ofwat's formulae. The WTP values were subject to minor changes due to the Company reviewing the latest Ofwat's guidance and the Company's intention to apply precise WTP values rather than round figures of 25p, 50p etc

Ian Butterfield said he felt the targets around leakage were being made too complicated and he did not like the weather adjusted element of this measure. Gemma Domican stated that customers do not like bills that go up and down. The Company acknowledged this but stated that annual adjustments were more transparent to apply shortly after they have occurred and the application of the small value each year would not be significant compared to a possible larger adjustment at PR19.

Challenge:

- To retain the three year rolling average for leakage targets or reconsider weather adjusted values.
- Consider PR19 bill changes to ODIs both annual changes
- Review if reward for supply interruptions commencing at 10mins is too close to current performance, although the CCG acknowledged that 10mins was very good compared to other water companies.
- Reconsider the idea of a new reward for MZC (water quality) since this was related to a statutory issue that the Company should strive to.

A challenge was made on the likelihood to achieve the rewards. The Company confirmed that adjustments had been made to the measures and performance commitments whilst no adjustments to achieve enhanced performance had been made within the business plan.

A further challenge was made for the Company to consider a reward for customer satisfaction. The Company responded to this challenge informing the group that SIM contained a reward / penalty and therefore did not believe it would be appropriate or Ofwat would accept an additional reward / penalty in this area.

The chair summarised that the rewards should not be developed to offset the fall in WACC. The performance commitments should be stretching and hard to achieve – they should not be rewarding the day job, such as a reward for the MZC

Action: To set up a subgroup to discuss further the ODIs. Members: Gemma Domican, John Thompson, Bernard Crump, Richard Franceys, Steve Grebby and a DWI representative.

7. Small Company Premium (with presentation)

Matt Lewis said that the SCP would add £1.90 (1.4%) to customer bills, totalling £1.6m in income. The company needs to demonstrate how customers benefit from paying this extra premium, and the list of benefits included were:

- 1st on SIM and high customer satisfaction.
- SST bill is £32 lower than SVT
- CAM bill is £67 lower than ANG
- Hosepipe bans avoided in Cambridge, when others in this region imposed restrictions
- Local community employment opportunities – employees, suppliers
- Local community activity and engagement

Taking five measures: leakage; water quality; hosepipe bans; SIM; supply interruptions, the £1.90 extra that customers would be charged compares to benefits of £12.65 based on our customers' valuation of the better service the Company provides to the WASCs

The Company would be undertaking further research among both household and business customers testing views on the SCP.

8. Acceptability testing

Rachel Barber reported that the original acceptability testing survey had been tweaked and piloted last week.

David Wurr said that in the original survey there was a question in three parts, asking people which they would prefer of:

- A small bill increase, with small increase in services
- No change in bill or service levels
- A small bill decrease with small decrease in services

However, later in the survey it was demonstrated that a small bill decrease did not lead to a decrease in services, therefore, this was a misleading question.

Actions: 1) Remove the question from the new research.

2) CCG to highlight in its next report to Ofwat that Ofwat is being inconsistent in penalising the company by taking into account the figure of 59% rather than 82% acceptability.

3) CCW to write to ICS Consulting over the questions of acceptability including and excluding inflation, as this is misleading customers.

9. CCG supplementary report

The chair confirmed that this would be a 2/3 page report. Further clarification is needed from Ofwat on when the report needs to be submitted. The report should highlight acceptability, outcomes, measures and incentives, the small company premium and anything that is being removed from the resubmitted business plan.

10. Review of the meeting

Members agreed that the use of the video conference was more successful than during the last meeting, though Jean Swanson said she had found it difficult to concentrate. Cambridge members thanked Keith Marshall for being there for the meeting.

11. AOB

Gemma Domican asked if there was a timeline for the social tariff.

Action: Timeline for Social Tariff research and development be provided by the company.

Greg Marshall asked for confirmation that the National Environment Programme parts of the business plan were not being changed. Keith Marshall said there had been no discussion to that effect. Greg Marshall also said he had a meeting tomorrow with Alex Martin to discuss environmental spend.

The meeting closed at 4pm. Next meeting in early June, date to be confirmed.