

# South Staffordshire Water PLC Customer Challenge Group Report

## **Note**

This report has been prepared by the Customer Challenge Groups (CCGs) for Ofwat and the assurances provided within are given to Ofwat only. The CCGs are in the main composed of lay people. They have relied on information they have received from the Company, third party research providers and an independent assurance advisor. This report is a summary of their opinions given in good faith and to the best of their knowledge and belief.

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# South Staffordshire Water PLC Customer Challenge Group Report

## 1 Foreword by the Chair

This report sets out the views of the South Staffordshire Water Customer Challenge Group and the Cambridge Water Forum (the CCGs) after a long and challenging period of engagement with the now merged South Staffordshire Water company.

We have set out our views in an evidenced based way which we hope helps Ofwat with its assessment. The CCGs have approached their work from the perspective of customers and other stakeholders. They have, in considering the overall balance of the Company's plan and the resulting price, inevitably considered issues such as efficiency and the timing of investment which are normally within the purview of the regulator. However, they recognised that Ofwat, as the regulator, will have sources of information (such as inter-company comparisons) not available to them and cross-sector perspectives on the critical issues of financing and cost of capital. What the CCGs have therefore sought to do is to inform themselves sufficiently to enable them to judge both the engagement the Company has undertaken and the lessons drawn from it, as well as the overall balance of the plan and how well it serves customers' interests in the round. As such this report should clearly be a valuable input into the regulatory process.

This has been a very challenging process. Not least because during it South Staffordshire Water was dealing first with the merger of the two companies, then with a change in ownership of the newly merged business. This has led, inevitably, to competing demands and priorities for senior executives. But also the joint forum has had to balance the sometimes differing priorities and views of customers in Cambridge and in the South Staffordshire area on important issues such as the Environment and ensure that the Business Plan enshrines a level of equity and fairness for customers across the two sub company regions.

The process has also been challenging in that there have been fierce debates with the Company on a number of important issues: the extent and timing of research; the appetite and ambition for investment in the environment; the proposals for increased levels of investment to maintain key assets and finally about the cost of bills for domestic and business customers in today's tough economic climate.

Our debates with the Company have gone right to the wire! However the Customer Challenge Group are pleased that the Board, in its final deliberations, has responded to our challenge so that this plan not only has the levels of investment in it to meet statutory requirements and meet customer priorities for a safe secure supply of water, but also has kept bill levels flat in real terms for household and non-household customers. This was a significant shift from earlier proposals for bill increases of up to 2% above inflation. We are also pleased to see the new proposals from the company to create a 'Social Package' of £1.5million over the price period for further investment to support customers who are struggling to pay and other community projects. We believe that this plan will be good for customers and builds on the excellent reputation that both South Staffordshire Water and Cambridge Water have built with their customer base through good service performance (with historically high Service Incentive Mechanism scores) and comparatively lower bills than most companies in previous years.

**Dame Yve Buckland**

Chair South Staffordshire Water CCG and Cambridge Local Water Forum

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## 2 Executive Summary

### 2.1 Purpose of Report

This report has been prepared by Dame Yve Buckland, Chair of the South Staffordshire Water and Cambridge Water Customer Challenge Groups on behalf of the CCGs. It comprises an assurance report to Ofwat which will provide an assessment of the Company's Business Plan as part of South Staffordshire Water's (SSW) submission to Ofwat under the Price Review of 2014 (PR14). In preparing this report consideration has been given to Ofwat guidance based on a workshop for CCG Chairs and companies on 13 May 2013 where it was stated that the CCG Report was required as a key input to Ofwat's review of Company Business Plans on:

- The quality of companies' customer engagement
- How well business plans reflected customers' view and priorities.

Ofwat stated that greatest weight would be placed on the CCG report where it demonstrated:

- Good evidence for its conclusions
- Evidence of thorough scrutiny of the customer engagement process
- Robust challenge of the Company's proposed outcomes package
- A view clearly independent from that of the Company.

This report has been shaped closely by the above guidance: the detailed assurance domains described in the next section are derived from further guidance from Ofwat regarding characteristics of an effective assurance report and are linked closely to the terms of reference of the two CCGs. Each assurance domain is supported by evidence described in the body of the report and the major challenges are included in the body of the report in Section 4. The full Challenge Log is available as a separate document.

The report seeks to present a balanced view ensuring that the range of opinions among different groups of customers are reflected fairly and proportionately. A single report has been prepared notwithstanding the recent merger of SSW with Cambridge Water (CAM) and the continuing operation of two CCGs during the period of this proposal. Many of the issues are common to both regions; where there are differences in priorities these are noted.

### 2.2 Summary of Conclusions and CCG Opinion

#### 2.2.1 Overall CCG Opinion and summary of assurance

In summary, the CCGs are able to give overall support for the SSW Business Plan being submitted to Ofwat under PR14. At the last joint meeting of the CCGs the key elements of the plan were presented by the Company but, following discussion, several substantive issues were challenged by the CCGs and were to be the subject of a further Board meeting of the Company. The Board responded to these final challenges by making very significant improvements from the draft Business Plan originally shared with the CCGs, which have served to overcome the substantive reservations expressed by the CCGs in their meetings.

The level of our support for the work of engaging customers in the PR14 process, and the extent to which the Business Plan has been shaped by this engagement is informed by a range of factors.

On the positive side, the CCGs recognise that SSW has a track record of excellent customer service as measured by the Service Incentive Mechanism (SIM) and combines this with low bills relative to other suppliers including many much larger water companies. It has managed the merger with CAM

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and subsequent change of ownership with no disruption to customers. The Business Plan proposals for incentives and penalties appear balanced, and likely to encourage Company behaviour that reflects customer priorities.

At the stage of the draft Business Plan the CCGs were disappointed that the Company were contemplating an above inflation bill increase. Whilst recognising the limits of their expertise, and that the final consideration would be for Ofwat, the CCGs attributed the need for these above RPI proposals to the Company's view at the time on the appropriate cost of capital. They also felt that a company serving populations with significant areas of deprivation should do more in supporting vulnerable customers who might increasingly struggle to pay.

The CCGs challenged on these issues over successive meetings.

The Company had originally agreed that the CCGs would be able to make proposals for the use of £500k per annum merger savings. At the last joint meeting of the CCGs this issue was debated at length, and the Company agreed to give further consideration to the balance of the use of these savings.

In the preparation of the Final Business Plan, the Company has responded fully to each of these challenges. It is now proposing a weighted average cost of capital (WACC) which the CCGs believe represents a fairer balance between the interests of customers and shareholders. This has resulted in the ability for bills, which are acknowledged by the CCGs to be amongst the lowest in the country, to be held to rise only in line with RPI.

The Company has decided to implement the majority views of customers in the acceptability research on use of the merger savings and is to pass back the full annual savings of £500k to all customers. However, reflecting the CCGs' challenge and discussions on establishing a "social package" for use of such monies, the Company has progressively proposed the establishment of a new discretionary fund of £300k per annum for the 5 year AMP6 totalling £1.5m. This fund will be used to equally fund £100k per annum for three purposes. These are:

1. Greater grant support to customers through the Charitable Trust
2. Debt advice to customers working with specialist agencies
3. Local environmental projects - beyond the National Environment Programme (NEP) and local community schemes

In addition the Company has indicated, in response to a CCG challenge, that extending the benefits of the Charitable Trust fund to Cambridge customers will commence in 2014 and will be funded by the Group not the Company. The CCGs welcome and strongly support this proposal which we believe will enable local environmental projects and schemes to be supported and will benefit customers who have affordability, hardship or vulnerability issues and contribute to containing or reducing debt and the cost burden that debt imposes upon paying customers.

The acceptability testing carried out by the Company was based on the earlier draft plan. The CCGs are pleased with the Company's decision to present in an even-handed and transparent manner, both the result that 82% of respondents agreed with the proposed price rise when using today's prices, and the result that this fell to 59% when inflation was taken into account. The CCGs believe that this latter figure does not compare well with expected levels of acceptability, but agree that it is reasonable to assume that further research on the basis of the new Business Plan proposals would be likely to be more favourable. The CCGs would urge the Company to conduct a final piece of

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acceptability research after the publication of final determinations, using a methodology agreed across the sector, to allow for greater comparability.

The merger and subsequent change of ownership did affect the business planning process and timetable. The CCGs themselves only came together in the latter part of the process and the Company revealed capital requirements relatively late in the process from the perspective of the CCGs. In the future the CCGs expect the newly-formed Board to demonstrate more proactive risk assessment and assurance of assets to match the very high quality of customer service.

## 2.2.2 CCG opinion on specific domains of assurance

The South Staffordshire Water CCG and Cambridge Local Water Forum have formed a view of the evidence, detailed later in this report, to support specific domains of assurance as recommended by Ofwat guidance as follows:

Topic	Assurance Domain	CCG View of strength of Evidence	Detailed Evidence Section
The Company's engagement process	The effectiveness of, or any concerns with, the Company's engagement with its various customers and with the local customer challenge group.	Adequate evidence. Initially the CCGs challenged the Company to be more transparent and timely in its engagement processes with them. After the merger of the two CCGs these processes improved markedly.	5.1
	Whether the level of engagement and assurance is proportionate to the materiality of the Company's Business Plan proposals.	Whilst accepting that research effort is proportionate for a small company the opportunity for customers to show their support for alternative solutions in the draft Business Plan was limited.	5.2
The Company's strategy and Business Plan	Whether the Company's longer-term strategy and Business Plan is an appropriate response to customers' views.	Strong for the longer term strategy, and for the Final Business	5.4

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		Plan since the incorporation of changes based on CCG challenge.	
	Whether the Company's Business Plan strikes a reasonable balance between the views of different customers and stakeholders.	Strong evidence	5.5
	Whether the Company has explored the range of cost-effective solutions and phased delivery of its various outcomes to maximise acceptability to customers.	Some evidence	5.6
	Whether the Company has actively considered the opportunities for more innovative and sustainable approaches to delivering the required or desired outcomes.	Some evidence	5.7
	Whether the Business Plan Outcomes, Measures and Incentives, and Penalties are appropriate.	Strong evidence	5.8
	Whether the Company's overall final Business Plan appears likely to be acceptable to a majority of customers.	The CCGs have assumed that the changes proposed by the Company in the final business plan, particularly on bills, will offset the comparatively low levels of acceptability expressed by customers on its original proposal	5.9
	Whether the Business Plan provides a good balance in meeting the needs of existing and future customers.	Adequate evidence	5.10
	Whether the Business Plan meets statutory requirements regarding environmental and water quality matters.	Strong evidence	5.11



## 3 Background and Context

### 3.1 The development of the Company and of the CCGs

This Periodic Review has coincided with a period of major change for the Company, and therefore for the CCGs. CCG activity started at a time when there were two companies, SSW and CAM, and a CCG for each company. An underpinning principle of the operation of both CCGs was the need to avoid capture by the Company, building a strong and challenging relationship with it yet remaining independent. In the main, CCG members were not specialists in the water industry and to ensure members had an appropriate level of knowledge a thorough programme of briefing for each member was secured including site visits and specialist training. This included extensive activity to ensure that CCG members were familiar with the range of customers and stakeholders in their Company's region and their likely priorities and concerns. In the initial CCG meetings each of the stakeholders had the chance to present their position and their reasons for wanting to be involved – the Environment Agency (EA), the Drinking Water Inspectorate (DWI), the Consumer Council for Water (CCWater), a large user, Natural England, and the South Staffordshire Water Charitable Trust took up these opportunities. CCG members also spent time early on learning how to work together and understanding the remit of the CCG and the contribution each member could make.

The issues the CCGs considered included:

- The recent history of the Company including the merger and change of ownership.
- Comparisons with the rest of the industry in terms of scale, customer base and services.
- The specific issues affecting customers in each region.
- The morphology of the region and implications for water supply – for example the South Staffordshire area has one of the hilliest areas in the country, whereas Cambridge is one of the flattest with consequent implications for energy usage.
- Demographics, for example, South Staffordshire has an area of high deprivation whereas Cambridge is relatively prosperous.
- Bill comparatives – e.g. this year (2013) the average bill in the South Staffordshire region is £144 and in the Cambridge region it is £130. The weighted average is £140 – the second lowest in the country.
- Wider data regarding customer views of the Company such as those provided by the Ofwat SIM surveys (a summary of SIM survey results is given in the Appendix at [9.9](#)).

An Appendix entitled 'Background to the Company and its Customers - further detail' is included at Section [9.10](#).

### 3.2 Composition and Governance of the CCGs

An important component of assurance is provided by the breadth of membership, level of skill and independence of the two CCGs. The terms of reference (together with membership) are attached as Appendices at [9.1](#) and [9.2](#)

The independent Chair of each CCG is Dame Yve Buckland. The roles of Deputy Chair were held by Colin Greatorex, a councillor from Lichfield for the South Staffordshire CCG, and Stephen Wolverton, of the Babraham Institute and John Bridge, Cambridge Chamber of Commerce, for the Cambridge Local Water Forum.

Each CCG shared a common purpose: to provide challenge to the Company on behalf of customers and to ensure that customers' priorities were understood and reflected in Company business plans. The CCGs' customer populations shared broadly similar priorities, as reflected in the outcomes

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developed with the Company, but there were differences of emphasis which are referred to in this report.

When the CCGs were formed they were mindful of Ofwat guidance that their membership should represent a diverse range of stakeholders and be sufficiently broadly based to be able to consider the interests of customers from both the business and domestic sectors as well as those customers with needs that might differ from the majority – such as customers experiencing difficulty paying their water bills. At an early stage they spent time considering the value of different perspectives and reviewed their membership accordingly.

CCGs were mindful of Ofwat guidance that they should seek to ‘extend their footprint’ by involving stakeholders beyond those represented by their membership. They sought to do this by using the networks that many CCG members belonged to.

Initially CCG members felt that it was important to maintain separate groups to ensure there was a region-specific focus for engagement and to provide a forum for the specific concerns of each region to be progressed. By the summer of 2013 it was clear to CCG members that following the decision to create a single Business Plan there would be substantial benefits in coming together and the CCGs decided to merge their activities beginning with a joint meeting in Kettering. This enabled all members to oversee work on a number of cross cutting issues, for example, affordability and the scrutiny of Business Plan measures, performance targets and incentives and penalties.

### **3.3 The Role of the Sub-Groups**

The breadth and complexity of the CCGs’ agenda was a significant challenge: credit is due to the CCGs’ sub-groups which carried out a great deal of the initial scrutiny of Company proposals and research activity.

The customer engagement / research sub-groups in both regions shaped the Company’s customer research programme and were instrumental in ensuring that there was strong quantitative as well as qualitative research. They also provided detailed oversight of the research process and findings on behalf of the CCGs.

The outcomes sub-groups worked actively with the Company driving the creation of the five outcomes which form the cornerstone of the Business Plan and which reflect customer priorities as evidenced by research. A group was also formed to scrutinise the Company proposals for Business Plan outcome statements, measures of success, levels of ambition in target measures, choice of measures to be subject to incentives and penalties, and incentive and penalty mechanisms.

The capital programme task group oversaw the scrutiny of the Company’s capital expenditure programme, shaping the work of the independent engineering advisors so that their activity was focused on the areas of the greatest concern to the CCGs and the areas likely to give rise to the most robust challenges.

In Cambridge there was, in addition, a water resources sub-group reflecting the specific concerns of customers in a highly water stressed region. This group also supported the development of the draft Water Resources Management Plan (WRMP).

### **3.4 Independent Assurance**

At the outset of the process Ofwat gave a clear steer that assurance activity should be proportionate as well as effective and independent. Both CAM and SSW made a strong case initially for a limited range of customer research, given the small size of the two companies and their existing effective relationships with customers and stakeholders and low levels of bills relative to the sector. The CCGs

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were mindful of this position, balancing it against the need for adequate independent evidence upon which to base customer priorities. They judged the initial customer research programme to be insufficient and exercised their influence to ensure that, for example, quantitative Willingness to Pay (WtP) research was carried out.

The CCGs oversaw the involvement of a range of independent market research consultants, including MVA Research, Community Research and ICS Consulting, providing evidence for customer priorities covering both qualitative and quantitative research. Monson Engineering provided scrutiny of the Company's capital expenditure proposals and made suggestions to each CCG regarding areas of potential challenge. The Consultation Institute provided an independent review of the Company's engagement work suggesting challenges to strengthen this activity.

While inevitably the CCGs relied upon the Company and independent experts for much detailed information, they took steps to test it and place it in a broader context. For example, members with experience of other CCGs used that insight to provide a frame within which Company proposals could be considered. There was regular participation in briefings and network meetings organised by Ofwat. The CCGs also ensured that market research was peer reviewed to give greater confidence in its findings. In addition, the WtP research was peer reviewed by Dr Ken Willis, Professor of Environmental Economics at the University of Newcastle.

### **3.5 The development of the CCG and Company relationship**

The CCGs built over time a strong and challenging relationship with the Company. Throughout this process the Company was involved in managing a number of demanding activities which impacted on its work with the CCGs. It had to deal with the merger of the two companies, creating the new Board and executive structure as well as post-merger activities such as assessment of systems and processes for the new organisation. Subsequently South Staffordshire Water was subject to a successful takeover bid and senior staff and the Board became heavily involved in work associated with the change of ownership. These demands absorbed a great deal of management and executive time and caused frustration for the CCGs as CCG work appeared to slip in priority, timescale and profile at the Company Board.

As time progressed the relationship between the CCGs and the Company became much more constructive and mature.

From around April 2013 the CCGs asked to have a non-executive representative at CCG meetings to ensure the Board understood clearly the CCG position and challenge on key issues and CCGs were appraised early regarding the Board's thinking. Significant contributions were made by Stephen Kay and subsequently Sir James Perowne, Company directors, who have provided the non-executive perspective from the Company Board. In addition valuable inputs were made by the Executive members of the Board including Rachel Barber, Steve Morley, Matthew Lewis, Colin Wayper, Keith Marshall and Dr Liz Swarbrick who provided an essential link between the CCGs and the Company. The role they played, together with that of others who were critical in supporting the CCGs, is summarised in Appendix [9.6](#).

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## 3.6 CCG involvement in the Draft Water Resources Management Plan (WRMP)

During the period of operation of the CCGs the Company involved them in helping ensure that there was effective customer engagement in relation to the draft WRMP. This activity included:

- The SSW CCG Customer Engagement Task Group Terms of Reference were extended to ensure consideration of requirements for the draft WRMP. The Cambridge Water Local Water Forum had a dedicated Water Resources sub-group.
- A customer focus group in the South Staffordshire area was held to gain qualitative views on the draft WRMP with a main focus on level of service, frequency of restrictions on use, metering and leakage.
- Water Resources Planning Workshops and meetings were held focusing on key components of the draft WRMPs including:
  - Supply demand balance conclusions and whether there is a surplus or deficit throughout the 25 year planning period
  - Sensitivity of the supply demand balance to key components of the supply and demand forecasts including economic impacts, climate change and sustainability changes
  - Level of service for restrictions on use
  - Metering levels and strategy
  - Leakage levels and strategy
  - Water efficiency strategy
  - Water trading
  - Customer engagement

The work on the draft WRMP was used to inform subsequent customer research e.g. WtP and the creation of the Business Plan itself. Whilst the focus of the work of the CCGs was on the PR14 process, they supported customer engagement in this related area of work.

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## 4 Summary of the most significant challenges made by the CCGs

Below is a list of the most significant challenges raised by the CCG members throughout the meetings.

### a) Challenge

There should be engagement with proportionate, representative examples of the Company's customer base.

#### **Outcome:**

Despite being done comparatively late in the process from the perspective of the CCGs, engagement was professionally delivered and provided useful information with active CCG involvement in its commissioning. Research has been carried out among a wide range of domestic customers, business customers and stakeholders including:

- Customer priorities research
- Focus groups
- WtP surveys
- Acceptability research
- On-line panels

Consultation has also been undertaken on:

- The Long Term Strategy
- The Draft Business Plan

### b) Challenge

Both regions should undertake WtP research which embraced a representative sample of the company base.

#### **Outcome:**

WtP research has been carried out in both regions and has provided useful insights into customers' preferences. A summary of conclusions is included in Appendix [9.8](#).

### c) Challenge

Throughout the research, references to prices should include inflation and be put into the context of the five year period.

#### **Outcome:**

This policy was adopted by the Company and their research partners following some initial survey work which did not include the likely effects of inflation, even though challenged in advance to ensure inclusion. Whilst the inflation aspect was included in the later surveys the Company was unable to respond to the challenge to justify the forward inflation figure used. The CCGs believe that for acceptability research the most prominent result should be that based on the full exposition of the impact of inflation on prices. The Company has agreed that both this result, and their preferred result based on prices expressed in real terms, will be quoted in publications.

### d) Challenge

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The Company should ensure the sample size used for the acceptability study is sufficiently large enough in order to drill down into the data for both regions.

**Outcome:**

A larger sample size of 1,000 was agreed.

**e) Challenge**

While the CCGs acknowledge that the Company has attended meetings with the relevant sewerage undertakers and agreed to share some findings, the Company should properly investigate/discuss options for direct joint customer engagement activity.

**Outcome:**

WtP research and Acceptability research specifically asked customers for their opinions on both the water only element of their bill and their combined water and sewerage bills. All companies have agreed to share research findings. The CCGs recommend that in any future exercises that this be done more collaboratively.

**f) Challenge**

Whilst the CCGs have seen the Executive Summary of the Final Business Plan, there has not been an opportunity for scrutiny of the full Business Plan. In the CCGs' view the draft plan which was available for customers had limited illustrations of choices and trade-offs.

**Outcome:**

The Company perspective is that the draft Business Plan did have five specific proposals presented to customers and stakeholders offering choice to customers, and that more were explored during WtP research and when customers were engaged in consultation research on the Business Plan.

**g) Challenge**

To enable the CCGs to form a view about the overall fairness of the Business Plan proposals they need to see, in a consistent currency, the returns expected during AMP 5, alongside the actual experience to date. The CCGs need explicit information about the Return on Regulatory Equity (RoRE) which the Company is including in the Business Plan and requires a commitment from the Company to explain to customers each year what has happened in reality, and if returns have been above expectations, to share those benefits with customers.

The Measure of Success should be the anticipated RoRE. This would allow the CCGs to compare this with other companies and industries to form a view about whether it is fair.

**Outcome:**

At the final meeting of the joint CCGs we were provided with evidence of the Company's returns in AMP 5. The Company agree to consider, in its final Business Plan, a measure of success in relation to RoRE.

**h) Challenge**

The Company should add an outcome, which addresses the environment.

**Outcome:**

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The CCGs' view is that whilst it accepts the Company response that a Board review of the outcomes agreed that the environment was covered in outcome four, 'Operations that are environmentally sustainable' with a specific measure for Biodiversity, it feels that an opportunity to have shown more specific ambition in this area of business was missed.

## **i) Challenge**

To ensure independent auditing of the investment needs of the Company is carried out.

### **Outcome:**

Mike Reid from Monson Engineers was appointed to review the engineering investment needs for both regions. A sub-group of members from South Staffordshire and Cambridge was formed in July and has met with Mike Reid to give feedback on his report.

## **j) Challenge**

To address concerns that a social tariff is not going to be implemented during the AMP period.

### **Outcome:**

The CCGs accept the Company's view that the issue of a social tariff is not constrained by the price review and that, while it is keen to explore this further, any commitments need to be carefully considered as the DEFRA guidance is that cross-subsidies should only be introduced following customer engagement to demonstrate their support. The CCGs welcome the proposals for a "social package" outlined in the Final Business Plan, and are committed to working with the Company to design its implementation.

## **k) Challenge**

To clarify if the Company will continue to fund the SSW Charitable Trust and extend Trust activities to the Cambridge supply area customers.

### **Outcome:**

The CCGs were pleased to see this commitment as part of the "social package".

## **l) Challenge**

The Company was challenged to explain its return on capital achieved and justify its proposed cost of capital in the next price period, to be summarised in a paper on the Cost of Capital which could be discussed in CCG meetings.

### **Outcome:**

A paper was distributed with the agenda for the CCG meeting on 23 July 2013 but not discussed. This led to sustained challenge from the CCGs. The CCGs welcome the company's response to this challenge with the adoption of a revised WACC.

## **m) Challenge**

Consideration should be given to how best to use the £500k per annum in cost savings as a result of the merger of SSW and CAM.

### **Outcome:**

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The CCGs welcome the conclusion reached by the company in balancing the wishes of those customers who expressed a preference for these resources to reduce all bills, with the views of those who advocated support for vulnerable customers, or additional investment in the environment.

## **n) Challenge**

The Company should justify the expenditure in its above ground assets programme against the level of risk, particularly given the possibility that savings may need to be made; for example, to reduce the overall investment programme for AMP 6 so that it becomes closer to that in AMP5.

### ***Outcome:***

The Company has explained that the increase in expenditure is due to the need to undertake the nitrate plant refurbishments and the reservoir replacement and that the remainder of the programme is in line with expenditure in AMP5. It has stated that it has taken a pragmatic approach with a bottom up identification of risks process and has been through several iterations of its baseline maintenance expenditure to ensure that the plan includes the minimum level of spend necessary to ensure secure, reliable and regulatory compliant supplies from the above ground assets during AMP6. The delivery of the overground schemes, specifically nitrates schemes, has been programmed for AMP6 to ensure that there is minimum risk to customer service. The programme reflects all work including programmed maintenance such as reservoir cleaning and consideration has been made with regards to strategic storage and maintaining appropriate deployable output levels to reduce any risks to the customer service.

The CCGs accept that the level of risk taken in approach to the AMP 6 programme is at or about that taken in AMP 5, particularly now that the number of nitrate plants to be replaced has reduced from three to two.



## 5 Detailed Evidence used by the CCGs to inform their conclusions

### 5.1 Evidence for the effectiveness of, or any concerns with, the Company's engagement with its various customers and with the CCGs

#### **Governance of the customer engagement process and the role of the CCGs**

To ensure that customer research activity was given in-depth oversight and scrutiny customer research sub-groups were set up and chaired by Colin Greatorex (SSW CCG) and Jean Swanson (Cambridge Local Water Forum). The composition of each sub-group and their terms of reference provides assurance that the customer research process was carried out in a way which was independent of the Company (while ensuring close working with it). Their remit covered all stages of the research cycle from commissioning consultants, to ensuring that the results are interpreted appropriately in the context the Company's Business Plan, and a report on their activity by their Chairs is included below.

#### **Reports from the Chairs of the Customer Research Sub-Groups**

##### ***South Staffordshire Water***

*The South Staffordshire Water's customer research task group was able to contribute a strong influence on methodology for obtaining the qualitative findings on customer service perception.*

*A teleconference allowed the task group to assist in the selection of the independent researchers (MVA Consultancy) from a shortlist of three, with no pressure from the Company to select the lowest cost tender. There was a good participation level from a pair of focus groups run in parallel involving the whole of the CCG. Discussions were moderated well by MVA Consultancy and task group members were able to advise on the service area headings for current and potential future delivery by the Company.*

*The group was able to be constructively critical of existing service provision; for instance, that of too heavy a reliance on being driven by Ofwat's SIM, with insufficient attention to customer needs. The Company was receptive to its suggestions for improvements to the survey design, e.g. improved information to customers to reassure them about the safety of the drinking water, alleviating the confusion of combined billing of water and waste-water and the need to ensure that the Company recognised the specific needs of the business community, especially large water users and those reliant on water for their service/product delivery.*

*Issues were experienced with short notice of task group meetings as additional discussion sessions became necessary. Some members of the task group would have preferred that information from the independent researchers and Company were sent for pre-read to meetings rather than provided only at the meeting itself. The Company attempted to comply with this request, once raised. Three members of the Company's staff attended most of the task group meetings which allowed good breadth of perspective and an instant response for information requests.*

*The consensus view of the task group was Company's approach to customer engagement was open, helpful and flexible.*

# South Staffordshire Water PLC Customer Challenge Group Report

## **Cambridge Water**

*Cambridge Water's Customer Engagement Sub-Group membership was drawn from a wide range of the Local Water Forum's membership which has benefited the work of the group. Community Research Ltd were appointed in the autumn of 2012 to prepare for Focus groups held in January 2013. The sub-group agreed the questions and the best approach. Four discussion groups were held with domestic customers (two from ABC1 socio-economic groups and two from C2DE socio-economic groups). These were well attended, observed by members of the group and had very good input by participants. This phase also included in depth telephone interviews with vulnerable domestic customers on the WaterSure scheme and with key business / non domestic customers, as well as interviews carried out at the Citizens Advice hub in Cambridge, with an adviser and a number of clients. Numbers were small but the responses were consistent. This activity seemed successful in itself and to give consistent messages to the Company.*

*The merger with SSW seemed to lead to a delay in activity and it was in June that the CEG went on to help in preparation of outcomes for the Company. Since then the group has been active in preparing for the combined acceptability of the plan survey through telephone conferences and meetings. These have worked well but have been done under time pressure which could lead to problems as the survey is actually conducted. These surveys will be conducted on line, face to face or by telephone. As with the Focus groups incentives were provided ensuring a commitment by those taking part to complete the process.*

## **Independent Assurance by the Consultation Institute**

In carrying out their role, the CCGs have challenged themselves regarding their own approach to scrutinising the Company's work and in particular commissioned work by the Consultation Institute to provide an independent input to their work. The Consultation Institute challenged the Company throughout the research and engagement activity and these challenges are recorded in the Challenge log (separate document available) and list of major Challenges at Section 4.

## **Summary of Concerns**

The quantity and quality of customer engagement gathered pace during the process, and does represent a much greater level of engagement than in previous reviews. The Company and its appointed research partners were responsive to the recommendations and requirements of the CCGs. There remain several concerns, some of which were outside local control.

Firstly, many CCG members found the terminology of the "Willingness to Pay" exercise unhelpful, in that the majority of the approach was about eliciting relative priorities from customers, rather than establishing what they were willing to pay as a consolidated bill.

Secondly, aside from in the stated preference exercises, the opportunity for customers to express their preference for alternative strategies or proposals offered by the Company was very limited. The Company consulted on a customer-focused draft Business Plan, and this was the basis for both acceptability research and for work to look at the views of those who responded to consultation. Whilst it was a well-written and clear document, and there was a gratifying level of response, there were few alternatives, or trade-offs for customers to consider within the document.

Finally, members of the CCGs were concerned about the clarity with which the potential impact of inflation was communicated to customers, especially during acceptability research. The level of inflation projected for this modelling, and the clarity with which the impact is communicated, can make a substantial difference to customer's understanding of their likely bill.

# South Staffordshire Water PLC Customer Challenge Group Report

## **Summary of the evidence**

In summary the CCGs regard the engagement of customers and work with the CCGs to be adequate for the purposes of this price review. They are cognisant of the small size of the Company and the challenges of merger and change of ownership, which placed a major burden on the management team. They have directly observed the very high quality of the day-to-day engagement of customers in the operation of the business, which was not adversely affected by the changes to the Company and is evidenced by the very strong SIM performance. The CCGs would encourage the Company to build on this engagement in their future strategic work with customers.

# South Staffordshire Water PLC Customer Challenge Group Report

## 5.2 Evidence relating to whether the level of engagement and assurance by SSW is proportionate to the materiality of the Company’s Business Plan proposals

### 5.2.1 Summary of Activity

The customer research sub-groups maintained oversight of customer research activities, the most important of which are summarized in the tables below:

SSW work is shaded gold and the CAM work green.

Research to test acceptability of the Business Plan is covered later in this report

#### Research Activity – South Staffordshire CCG

Research Provider	Nature of Research
MVA Research	Qualitative research to help understand customer prioritisation behaviour
CCWater and SSW	Customer satisfaction research
Community Research	Stakeholder Views on Customer attitudes / issues / aspirations – to help frame issues and service options (Qualitative Research)
ICS Consulting	Willingness to Pay research (WtP) – see note below <ul style="list-style-type: none"> <li>• WtP for unit changes in service: benefit/dis-benefit associated with a unit change in the level of service</li> <li>• WtP for an overall package of service change: benefit associated with a specific ‘shift’ in the level of service</li> </ul>

Both CCGs regarded “Willingness to Pay” as an exercise in eliciting comparative preferences rather than actual willingness to pay. This they believe explains the apparent dissonance seen between a number of strands of the research. For example, customers in one piece of work might be “willing to pay” for environmental improvements, but express a stronger preference for bills not to rise.

#### Research Activity – Cambridge Local Water Forum

Research Provider	Nature of Research
Community Research	Stakeholder Views on Customer attitudes / issues / aspirations – to help frame issues and service options (Qualitative Research)
ICS Consulting	WtP research <ul style="list-style-type: none"> <li>• WTP for unit changes in service: benefit/dis-benefit associated with a unit change in the level of service</li> <li>• WTP for an overall package of service change: benefit associated with a specific ‘shift’ in the level of service</li> </ul>

Research findings that the CCG consider most significant are included in Appendix 9.8 Further detail is available in the detailed research reports on the Company websites.

The sub-groups also oversaw wider engagement activity which is summarised as follows:

# South Staffordshire Water PLC Customer Challenge Group Report

## Wider Stakeholder Engagement Activity – South Staffordshire CCG

Stakeholder Group	Engagement
Wider Public - via website	The long term strategy and draft Business Plans are available on the website. It features prominently on the website, with a direct link from the home page. Both the website and the hard copies of the document include a questionnaire which can be completed either on-line or downloaded, printed and returned to the Company.
Multiple stakeholders - via Business Plan documents	A number of plans were sent out to a range of stakeholders
Local councillors, MPs and MEPs	The long term strategy and draft Business Plan have also been sent out to approximately 125 for consultation
Health centres, children's centres, citizens advice services, housing associations and faith groups	Approximately 140 of these groups have been sent posters for display, giving details of the Business Plan and website address
Customers	A message about the Business Plan inviting customers to give their views has also been included on half yearly bills, the IVR system and the new Twitter account.
Press	SSW will also issue a Press Release to the local press, and directly contact customers who are registered on this scheme to publicise the public consultation of the Company's long term strategy and business plan.
Online Panel	In addition, the Company will use the established SSW on-line panel to engage with domestic customers

## Wider Stakeholder Engagement Activity – Cambridge LWF

Stakeholder Group	Engagement
Business	<ul style="list-style-type: none"> <li>Contact was made with the Chamber of Commerce and an article encouraging participation appeared in their newsletter</li> </ul>
Health /older people	<ul style="list-style-type: none"> <li>One interview had been conducted as part of the customer research. Contact also made with Cllr Samantha Hoy of the Child Poverty Action Group</li> <li>An article was included in the COPE (Cambridge Older People's Enterprise Forum) which is circulated to 3000 members</li> <li>Talk given to a pensioner group</li> </ul>
Youth	<ul style="list-style-type: none"> <li>Contact made with Swavesey Village College, CRC and Hills Road Sixth Form College. Focus groups were subsequently carried out at CRC and Swavesey</li> </ul>

## South Staffordshire Water PLC Customer Challenge Group Report

	<ul style="list-style-type: none"> <li>• Talk given to a Mums and Tots group</li> </ul>
Wider Media	<ul style="list-style-type: none"> <li>• Your CH2Oice campaign – launched on website and via the media to encourage customer participation</li> </ul>
Customers on low incomes	<ul style="list-style-type: none"> <li>• Community Research has conducted interviews with customers on the WaterSure tariff and with clients and advisers at the Citizens' Advice Bureau</li> </ul>
Wider customer base	<ul style="list-style-type: none"> <li>• Two articles have appeared in the Company's Reflections Magazine, which is distributed to every customer</li> <li>• An advert has also appeared on the customer bill, encouraging members of the public to get involved with the Business Plan process</li> <li>• An advert appeared in the Cambridge Music Festival programme, which is an event designed to bring music to the lives of all people living in and around Cambridge</li> <li>• Two emails have been sent to every customer we have an email address for inviting feedback and comment on the PR14 process (30,000 emails in total)</li> <li>• Where relevant we have referred the customer engagement process in correspondence with customers</li> <li>• WtP research</li> <li>• Acceptability research</li> </ul>
Wastewater supplier	<ul style="list-style-type: none"> <li>• CAM worked with Anglian Water to share findings of customer research</li> </ul>
Environment	<ul style="list-style-type: none"> <li>• Meetings took place with the National Farmers Union, the EA, Natural England, RSPB and WWT to establish their views on proposals for PR14</li> </ul>
Wider stakeholder list	<p>Copies of the draft Business Plan and a publicity poster were sent to a wider stakeholder list which included representation from the following groups:</p> <ul style="list-style-type: none"> <li>• Key customers</li> <li>• Key regulators</li> <li>• Councillors and representatives from key council departments (environment/population/highways) at Cambridge County Council, Cambridge City Council, South Cambs District Council, Huntingdonshire District Council</li> <li>• Town and parish councils</li> <li>• Health centres and surgeries</li> <li>• Political groups (MPs/MEPS)</li> <li>• Charities/third sector organisations/ hard to reach groups (low income, disabilities, BME, religious groups, ethnic groups)</li> <li>• Trade and business organisations</li> <li>• Educational institutions</li> <li>• Environmental/nature groups</li> <li>• Housing associations</li> </ul>

# South Staffordshire Water PLC Customer Challenge Group Report

## **5.2.2 Linkage between customer engagement and Business Plan outcomes**

One of the sub-groups set up by the CCG was the Outcomes Task Group chaired by Tom Marshall, a CCG member. This group considered the feedback from customer research in detail and challenged the Company to ensure that customer priorities were reflected in Business Plan outcomes. This led to proposals for five customer priority outcomes, which were reviewed and confirmed by both CCGs and subsequently incorporated into the business plan.

The CCGs' view of the strength of evidence for each is shown in the table below:

Customer priority outcome	CCGs' view of Strength of Evidence
Excellent water quality (now and in the future)	Strong support
Secure and reliable water supplies (now and in the future)	Strong support
Delivering an excellent customer experience to customers and the community	Research did not support additional investment in these areas but the companies are already ranked very high in relation to their customer service
Operations that are environmentally sustainable	Strong support
Fair customer bills and fair investor returns	Strong support

## **Differences between the two areas**

Taking the evidence as a whole, there are many common priorities between the two regions. However, CAM's customers appear relatively more willing to pay for improvements than customers of SSW based on the overall values in the package. The Company responded to the view of the Cambridge CCG that the outcome they proposed on 'Delivering an Excellent Customer Experience', should be expanded to encompass the wider impact on the community.

## **5.2.3 Conclusions**

The CCGs consider the quantity of customer engagement and research to be appropriate for a small Water only Company.

# South Staffordshire Water PLC Customer Challenge Group Report

## 5.3 Role of the CCGs in scrutinising the SSW Business Plan

The CCGs used the following framework to assess the Company's business plan:

- An approach to delivery entailing enhanced efficiency and innovation - see Sections 5.6 and 5.7
- The development of outcomes underpinned by associated measures of success and where appropriate, incentives and penalties - see Section 5.8
- Proposals for additional investments and for the maintenance of the network and assets - see Section 5.4.1
- Proposals for investments required to meet statutory obligations and priority enhancements to the environment and drinking water - see Section 5.11
- Proposals for the financing of this plan - see Section 5.4.3

It should be stressed that the CCGs have not had the opportunity to amend their judgment through scrutiny of a final complete Business Plan, but rather have been shown and have challenged the most important discrete elements of the plan as they have gone through a number of iterations. Whilst the timing of the final Company Board meeting to sign off the final submission has precluded a meeting of the CCGs between this date and the deadline for submission, the Chair and members of the CCGs have been appraised of the significant changes being adopted, which they welcome.

As stated in the last section, proposals for five customer priority outcomes were reviewed and confirmed by both CCGs and subsequently incorporated into the business plan. Both CCGs provided challenge to the Company on behalf of customers and worked to ensure that customers' priorities were understood and reflected in company business plans. The most important challenges are included in this report at Section 4 with the Challenge Log available as a separate document.

As the CCGs began to work together and eventually merged, all members were able to oversee work on a number of cross-cutting issues; for example, affordability and the scrutiny of Business Plan measures, performance targets and incentives and penalties.

Some work was delegated to sub-groups. One scrutinised the Company proposals for:

- Business Plan outcome statements,
- measures of success and levels of ambition in target measures,
- choice of measures to be subject to incentives,
- penalties and incentive, and
- penalty mechanisms.

Another oversaw the:

- scrutiny of the Company's capital expenditure programme,
- shaping the work of the independent engineering advisors (Monson Engineering) so that Monson's activity was focused on their areas of the greatest concern to the CCGs, and
- the areas likely to give rise to the most robust challenges.

### The role of Mike Reid, Monson in supporting the CCGs

The CCGs asked Mike Reid, an experienced chartered civil engineer and former Ofwat Reporter, to assist them in gathering evidence and making challenges on the engineering-related investment proposed by the Company in the period 2015 to 2020. The Company agreed to this request and to Mike Reid's independence from them at all times. In undertaking this work the CCGs directed Mike to challenge and report upon the justification, timing and cost of specific areas and items in the



## South Staffordshire Water PLC Customer Challenge Group Report

investment proposals and how, in general terms, each proposal linked to customer views. Mike attended CCG meetings and gained first-hand the views and concerns of the Group on behalf of customers. He reported through a small task group drawn from the CCGs who were able to regularly check and confirm that scrutiny of proposed investment was targeted to the benefit of customers. The task group had direct input to the draft scrutiny reports before they were circulated for CCG meetings.

Mike produced an initial report based on the information provided by the Company in its presentation of investment proposals to the CCGs. From this initial report and the subsequent discussions at the Group Meeting the CCGs were able to direct the detailed scrutiny work to be undertaken in the areas that the Group felt were most crucial to customers and where the proposed expenditure was most likely to be higher than in previous years.

The main scrutiny reports, one for the Cambridge Region and one for the South Staffordshire Region, drew upon documentary evidence provided by the Company, the outcome of scrutiny visits and meetings with Company staff and the input of the CCG task group members. A total of twenty three investment areas across the two regions were scrutinised in detail and unresolved challenges were detailed in twelve of these. In addition, a further challenge was made in relation to the overall increase of investment proposed compared to that contained within the AMP 5 (2010 to 2015) programme.

This approach was very helpful in assisting the CCGs to reach final conclusions about their view on the overall shape and size of the capital proposals in the Business Plan.

# South Staffordshire Water PLC Customer Challenge Group Report

## 5.4 Evidence that SSW's longer term strategy and Business Plan is an appropriate response to customers' views

### 5.4.1 Overview including scrutiny of investment proposals

In this assurance period the focus was not on the Company's long term strategy, although the CCGs did have an opportunity to comment on it. The Company set its Business Plan proposals in the context of a refreshed long term strategy and the CCGs contributed to the development of that strategy to ensure that it was built around customer priorities.

The CCGs sought to scrutinise each aspect of the plan to test the extent to which each had been shaped by customer priorities, supported by the specific expertise of Mike Reid, Monson with regard to capital expenditure, and the input from colleagues from the EA and DWI with respect to statutory obligations.

In reviewing company capital proposals Mike Reid identified a number of AMP 6 investment proposals with links to SSW Long Term Strategy. These are organised around the Company's outcome areas in the examples below:

#### ***Excellent Water Quality***

- New nitrate plant
- Replacement of old nitrate plants
- Blending mains to reduce nitrate concentrations

#### ***Secure and Reliable Supplies***

- Targeted capital maintenance above and below ground
- Replacement and refurbishment of reservoirs
- Replacement of defective boreholes

#### ***Fair customer bills and fair investor returns***

- Continuing meter installation programme
- Replacement of meters to ensure accurate readings

### 5.4.2 Exceptions

While in most instances there was a clear linkage between customer priorities and the SSW Business Plan and long term strategy there were cases which did not fit this pattern which the CCGs noted as follows:

#### **Hard Water**

Hard water has consistently appeared as a major concern for all customers. In considering the importance of this priority the CCGs have taken note of guidance from DEFRA that there is some limited evidence of a relationship between water hardness and cardiovascular health which may be related to the beneficial properties of magnesium and calcium in the diet, and the Company's assessment that there are substantial costs associated with reducing water hardness. The CCGs have therefore accepted the Company's view that:

- notwithstanding the priority given to this issue by customers the costs to rectify the water hardness issue would be disproportionate to the benefits
- the likely customer preferences implied within the WtP research suggests that had customers been consulted on the cost implications they would not have pressed for the inclusion of any improvement schemes to reduce water hardness.

# South Staffordshire Water PLC Customer Challenge Group Report

## **Delivering an excellent customer experience to customers and the community**

Research did not support additional investment in this area but the companies are already ranked very highly in relation to their customer service. Researchers and CCG members were surprised with the relatively low priority given by customers in WtP research to this outcome. Having considered other evidence including qualitative research, CCG members concluded that this was due to the very high level of baseline consumer service by both companies.

### ***5.4.3 The Company's financing proposals including weighted average cost of capital***

At the initial stage of the draft Business Plan the Company had proposed a weighted average cost of capital (WACC) of 4.8% (vanilla). In the light of the sensitivity of the overall bill proposal to these assumptions, and in the knowledge of the signals being given by Ofwat in public statements about these issues, the CCGs sought to understand the basis of the Company proposals. They were told that, following the precedent of previous price reviews, the Company expected for it to be recognised that a small company would be unable to raise finance at rates comparable to larger companies. The newly merged company has a notional capital structure very close to that to be used by Ofwat in its final methodology with gearing of about 65%. The CCGs were told that 90% of the debt is held in long-term financial instruments, entered into in around 2004, at what were then favourable rates, and which the Company believe will be in the long-term interest of customers. The penalties to renegotiate these arrangements would be prohibitive.

With respect to the price of equity, the Company agreed under challenge from the CCGs to reach a final conclusion on their proposals in discussion with their Board. This resulted in changes to the final Business Plan, which is now based on a vanilla WACC of 4.5%.

The CCGs accept that their expertise in this area is limited, but regard these proposals as reflective of a more appropriate balance between customers and shareholders, which nonetheless recognises the legacy debt to which the company is exposed.

### ***5.4.4 Conclusion***

The CCGs considered that in constructing the Business Plan the Company reflected well many of the most important customer priorities as evidenced by research and wider consultation. They applied robust challenge to the Company's total expenditure and put pressure on it to maximise efficiencies and innovation. The changes in the last iteration of the Business Plan have resulted in proposals which the CCGs can fully support.

# South Staffordshire Water PLC Customer Challenge Group Report

## 5.5 Evidence that the Company's Business Plan strikes a reasonable balance between the views of different customers and stakeholders

Throughout the process the CCGs challenged the Company to balance the needs and to reflect the preferences of different elements of the customer base. This included the needs of:

- CAM customers and SSW customers
- Domestic and non-household customers
- Vulnerable customers
- Current vs. future customers – see Section 5.10.

### CAM customers and SSW customers

The CCGs noted concerns regarding a potential cross-subsidy of SSW customers by CAM customers, reflecting the higher level of total expenditure required in this and previous AMP periods for the South Staffordshire region, after allowing for the different sizes of the two regions. In his review of the AMP 6 investment programme Mike Reid concluded that there was a balance in the Business Plan between South Staffordshire and Cambridge Region customers as illustrated by the following activities:

- Capital programmes were developed separately
- Specific needs of customers in each region were considered separately
- Priority listing of schemes was undertaken separately for SST and CAM so priority for schemes in one region was not to the detriment of customers in the other region

In addition, the Company has provided assurances, based on the licence conditions following the merger, that the historical bill ratio between the two regions, which favours CAM customers, will be maintained.

The CCGs noted that maintaining the historical bill ratio between the two regions did not necessarily mean that CAM customers would not be subsidising SSW customers in the next price period due to the requirement for additional, only recently notified, capital expenditure in SSW region. No further information was forthcoming in response to questions.

### Domestic and non-household customers

The CCGs scrutinised the Business Plan proposals to ensure that there was no loading of costs onto domestic customers artificially to reduce retail costs for non-household customers. The retail margins proposed by the Company of 0.5% for domestic customers and 2% for non-household customers appear cost-reflective as the Company prepares for a more competitive environment for business customers.

### Vulnerable customers

CCG members made repeated challenges on behalf of vulnerable customers regarding matters such as a social tariff, advice and support and the extension of access to the SSW Charitable Trust to vulnerable customers of both regions. They pressed the Company to develop proposals for merger savings in these areas, and a paper with a range of proposals was discussed with the CCGs. The origins of these savings and a fuller discussion about this issue can be found in section 6.

During the acceptability research customers were asked if they supported the deployment of savings arising from the merger to support those who struggled to pay their water bill. The results suggest that a slightly higher proportion of customers would prefer that the savings support a lower bill for

# South Staffordshire Water PLC Customer Challenge Group Report

all customers than the benefits being used to support those who struggle to pay. Several members of the CCGs pointed to the limited nature of this element of the research, in that it had not been explained to customers that under existing billing arrangements they already subsidise those who do not pay. Others recognised that the partner organisations, which provide wastewater services to SSW customers, were formulating their own proposals for vulnerable customers, and that it would be helpful if these were harmonised with the plans developed by SSW. Members also debated the range of evidence on the likely growth in household incomes during the next AMP, and the extent to which these average figures were reflective of the likely experience of the lowest quintile of households.

At their final joint meeting the CCGs challenged the Company in finalising their Business Plan to consider the case for creating a “social package” of support and to address the range of concerns of those customers who did not find the Company draft Business Plan proposals to be acceptable.

The Company has responded in its final Business Plan proposals. Of the new discretionary fund, which amounts to £1.5M over the AMP6, they propose that £1M is used to assist affordability, hardship and debt advice issues of customers. Those matters together with the balance will create a social package with three elements:

- An investment into the South Staffordshire Water Charitable Trust, to supplement their existing Group investment, and the financial capacity to respond to more requests for support.
- An investment in providing, through partner agencies, debt advice, and
- The establishment of a mechanism to support further local environmental improvements, including those which might leverage in matched funding.

Each of these elements would be funded at £500k over the five years of the AMP.

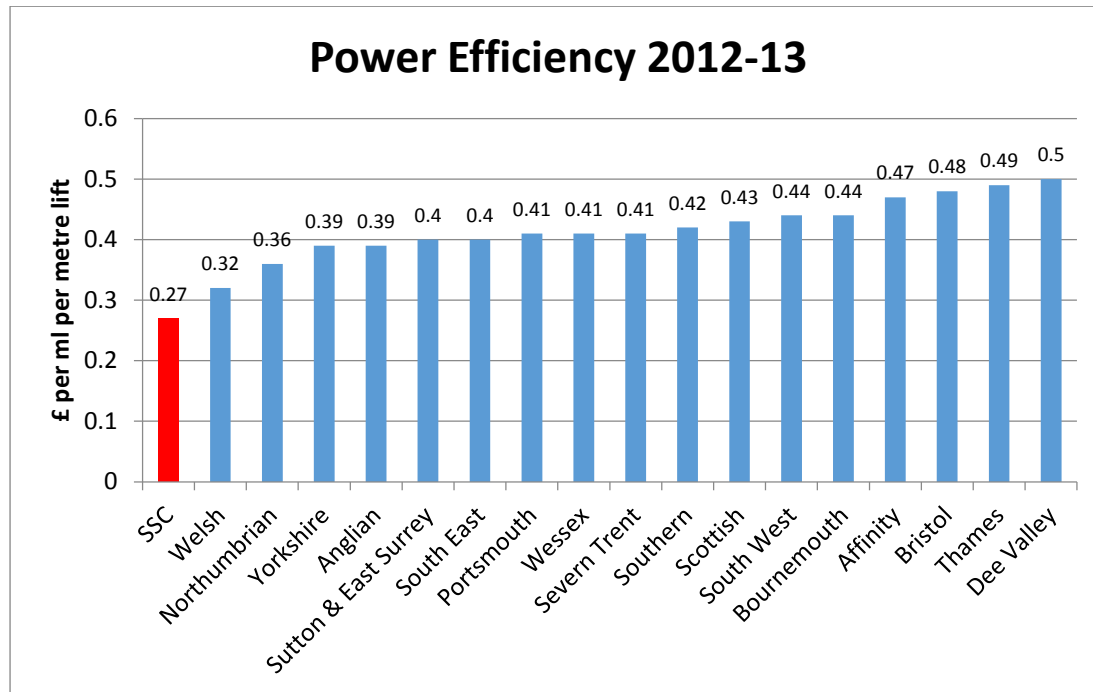
In addition, the Company is proposing to undertake a comprehensive assessment of progressing a social tariff which will be harmonised with the approaches being developed by the relevant wastewater supply companies.

The CCGs welcome these proposals, and are prepared to be involved in developing the implementation plans for them. These changes to the Business Plan are well targeted as mitigation of the concerns of those who expressed unacceptability of the initial draft Business Plan which was the basis of the programme of acceptability research.

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## 5.6 Evidence that the Company has explored the range of cost effective solutions and phased delivery of its various outcomes to maximise acceptability to customers

The Company has set itself a target of 0.75% annual efficiency gain within the Business Plan, which the CCGs regard as positive in the context of a company that already compares well with most of its competitors. For example, the slide below shows comparative cost of energy utilisation; a major cost driver given the topography of the areas served by the Company.



Source: Company

The Capital Investment sub group, advised by Mike Reid of Monson made the following assessment of the Company plans regarding AMP 6 Investment Proposals and concluded that:

- The Company were challenged on options and costs during scrutiny visits.
- Following responses to challenges the Company's solutions were appropriate and likely to be cost effective.
- The cost benefit of individual schemes was ranked using the SSW Investment Optimisation Tool to give greatest overall benefit.
- Timing of all work was set out in the programme in order to ensure that planned outages cause least possible risk and inconvenience to customers.
- The implementation date of some schemes was moved to a date later than AMP 6 after CCG challenge e.g. Barr Beacon Reservoir replacement.

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## **5.7 Evidence that the Company has actively considered opportunities for innovation and sustainable approaches to delivering outcomes**

The CCGs consider that innovation which benefits customers can include a spectrum of activity from ideation to the adoption of leading edge practice. It regards the ability of the Company to describe and measure the benefits of innovation for present and future customers as most critical and the value and breadth of those benefits as more important than the ability to demonstrate novel solutions.

In relation to innovation in the AMP 6 investment programme Mike Reid of Monson has identified the following examples:

- Innovation in processes and systems since AMP 5
- Strategic 25 year look at each treatment works site to establish maintenance needs against enhancement and abandonment
- Development of mains replacement model to allow modelling of various scenarios and maximise number of customers who benefit from the defined renewals schemes
- Improvements in live monitoring by installation of additional data gathering equipment such as meters on trunk mains to reduce reaction time to bursts etc.

With regard to the merger, the CCGs consider that the Company is beginning to demonstrate the adoption of good practice from each region to the other; this is summarised in Section [6.5](#).

# South Staffordshire Water PLC Customer Challenge Group Report

## 5.8 Evidence that the Business Plan Outcomes, Measures and Incentives and Penalties are appropriate

The CCGs received the Company's proposals for outcomes, measures, incentives and penalties later in the process than they would have preferred. It was able to offer robust challenge to the initial proposals, securing agreement to a number of improvements reflecting customer priorities including:

- The water quality penalty will now commence at a mean zonal compliance (MZC) of 99.94% (the deadband was previously 99.90% which the Board and CCGs highlighted as very poor performance).
- The measure for supply interruptions will now have a penalty that applies at 25 minutes rather than 30 minutes. This makes the reward/penalty symmetrical at 10 minutes difference from the performance commitment of 15 minutes
- The asset serviceability measure, will not give rise to a reward to the Company. It will be penalty only based on the AMP6 five-year period. It will be separated into two measures – one for infrastructure and one for non-infrastructure.
- For the measure “hosepipe bans” within the outcome “secure and reliable supplies”, the CCGs agree that this should be reputational rather than a penalty on the basis that it is a legitimate demand management tool regarding drought plans.
- For the leakage measure, the Company agreed to adjust its original proposals to discourage people from thinking that 64.4 MI/d for a reward is too easy in the SSW region. The YTD position in 2013/14 will be shown to help with this. Adopting a three-year position ensures any incentives reflect a proven and significant change (i.e. not resulting from weather influences). The Cambridge region reward will now kick in at 12.0 MI/d (not 12.5 MI/d).
- Under the outcome entitled “fair bills and fair investor returns”, the Company agreed to replace the measure of the Investment Grade Rating with a measure of customer satisfaction with value for money and with transparent monitoring of Return on Regulatory Equity; neither measure would be financially incentivised.

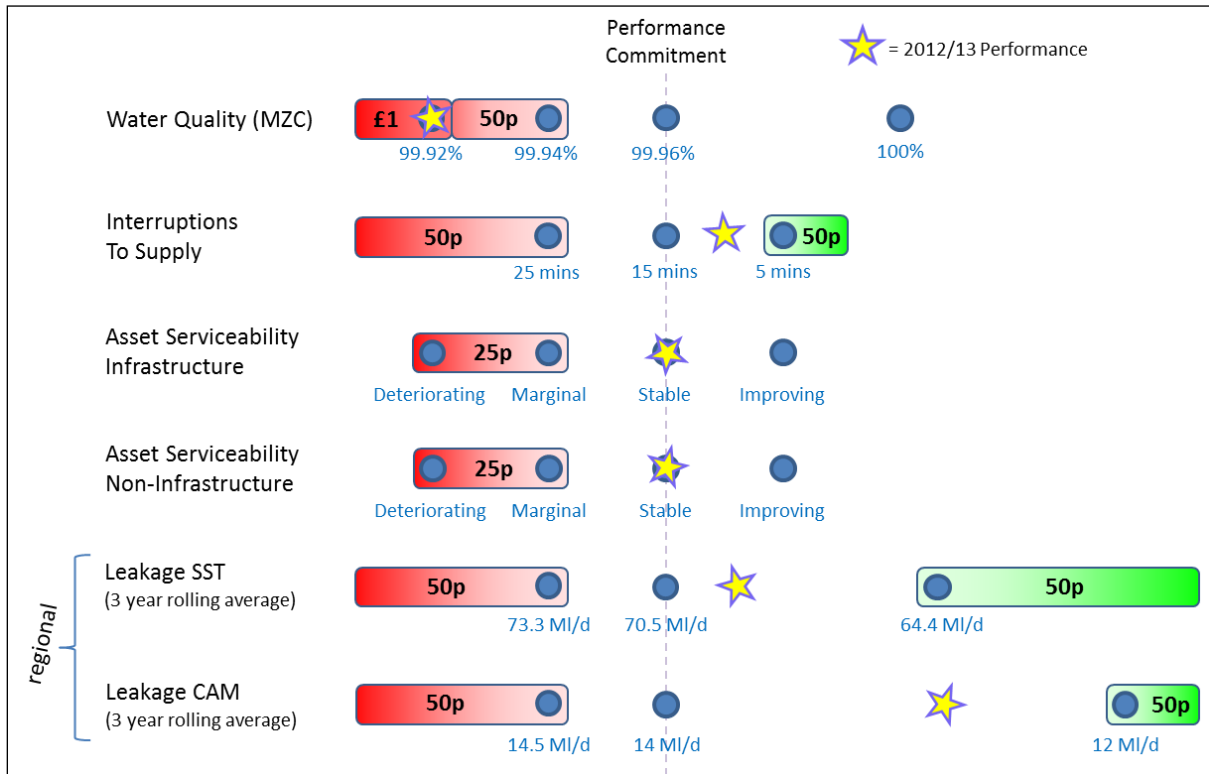
The resulting Business Plan outcomes and incentive proposals is as shown on the following slide and the CCGs' view is that there is significant evidence that:

- The outcome statements reflect customer priorities as evidenced by customer research and other engagement
- The measures of success are appropriate for the outcomes
- The level of ambition in the target measures strike the right balance between being challenging in customers interests and realistic
- The measures chosen to be subject to incentives are appropriate
- The incentive mechanisms should create the right conditions to increase the chances for the achievement of the Company's customer priority outcomes



# South Staffordshire Water PLC Customer Challenge Group Report

## Outcomes with Rewards and Penalties



Source: Company

# South Staffordshire Water PLC Customer Challenge Group Report

## 5.9 Evidence that the Company's overall final Business Plan appears likely to be acceptable to a majority of customers

The CCGs delegated the initial task of reviewing the Company's Acceptability Research (AR) to the Customer Research Task Group (CRTG) who met the Company and a representative from ICS Consulting, the researchers (see below for meeting summary) and Section 9.8.3 for a summary of the research.

### The CRTG Meeting: Key AR findings:

- Acceptability – overall 82% of respondents agreed with the proposed price rise when using today's prices, though this fell to 59% when the Company's view of inflation (3.0%) was taken into account.
- Importance of key activities – the research showed the majority of people were in favour of the proposed key activities, with slightly more in favour of activities around safe drinking water than for environmental improvements. Enhanced metering was less well received with 18% not agreeing to proposed changes; the Company is reviewing its metering investment in light of the research.

The CRTG also reviewed the draft Business Plan consultation and considered that:

- There had been a high response rate which was very positive.
- The results were in line with the acceptability research results.

### Summary and Conclusions

In this assurance area the CCGs / CRTG and the Company initially had a significantly different interpretation of the Acceptability Research undertaken with regard to SSW's Business Plan proposals with the Company arguing for the primacy of the 82% result and the CRTG and CCGs favouring the 59% figure based on an explicit estimate of the impact of inflation on bills. Under challenge, the Company accepted that both sets of data should be presented in an even-handed and transparent manner, and the CCGs supported this approach.

Whether the proportion of those customers finding the Company's proposals to be unacceptable is judged to be 18% or 41%, a key issue for the CCGs is for the Company to understand the concerns of those finding the plans unacceptable and to take steps to respond to these concerns.

Foremost in these are the level of bills that customers will be asked to pay, and in particular how the least well off will be helped.

Members also recognised that a number of customers found the proposals unacceptable because of the limited progress on environmental improvements. The Company was challenged to consider making a commitment to review milestones and measures of success for their outcome "Operations that are environmentally sustainable" after the final stage of the National Environment Programme has been completed in early 2015.

Following the changes proposed in the final Business Plan the CCGs believe that is logical to assume that this will mitigate the relatively low levels of acceptability.

## **5.10 Evidence relating to the extent that the Business Plan provides a good balance in meeting the needs of existing and future customers**

The company responded to a challenge from the CCGs to model the impact in future AMPs of decisions they were making in this Business Plan. The CCGs recognised that in responding to their challenge on the scale of the capital programme, some items had been deferred to a future AMP and that environmental investigations agreed during this next AMP might lead to results, which would drive investment in a subsequent period. The CCGs were reassured by the demonstration by the Company that their proposals did not pass costs forward to future bill payers by the manipulation of depreciation, pay as you go ratios or unnatural run off rates. The impact of any financial incentives, which fall due to the Company in AMP 7, are judged proportionate and modest.

The CCGs concluded that, whilst there may be some upward cost pressures in the future, there should not be any spike in bills into the AMP 7 period, arising as a consequence of decisions within this Business Plan. They noted that some of the long-term debt arrangements described in Section 5.4.3 should protect customers against any rise in the costs of borrowing that may occur as the economy recovers.

## **5.11 Evidence relating to the extent to which the SSW Business Plan meets statutory requirements regarding environmental and water quality matters**

The CCGs have had sight of the responses from the EA, DWI and Natural England which have been sent to the Company as a formal response to the Company's Business Plan.

The EA response is included at Appendix 9.3. They have also asked that the following statement be included in the CCGs' report: "From the information the company has provided we understand that they are planning to meet their statutory environmental requirements set out in Defra's statement of obligations. We welcome the commitment they have made to meet these. Whilst it is outside of our direct regulatory role to endorse wider, non-statutory components of the plan, we do support the process and engagement principles adopted and the associated comments of the CCG".

The DWI response is included at Appendix 9.4.

The Natural England response is included at Appendix 9.5

At meetings of the CCGs, the DWI and EA representatives gave assurance to the group that there were no outstanding issues that should be regarded as a material concern. Any caveats to the overall level of assurance are detailed in the letters themselves.

## 6 The CCGs' view on the use of merger savings in SSW's business plan

### 6.1 Background

When Cambridge Water was purchased by South Staffordshire Water plc the purchaser identified its plan to merge CAM with SSW. The merger was automatically referred to the Competition Commission who concluded that the merger would result in customers in the larger organisation benefiting from improved service, resilience and efficiency. As part of the process, South Staffordshire Water plc made a commitment to the Competition Commission that any savings explicitly arising from the merger of the two companies would be used to benefit the customer bases in either region. Further, following discussions with CCWater in particular, it was agreed that the respective CCGs would be involved in the process of deciding how to use this sum of money which arises from the removal of the Board in CAM and some other staff posts in both regions. This has been quantified as a reduction in operating costs of £500k per annum for each of the five years starting 2015. This is equivalent to 0.4% of the combined companies' revenue of £120m and as part of the normal price review process would result in a one-off reduction in bills at 1 April 2015.

The CCGs recognise that the merger has in addition created the potential for non-financial benefits: a summary is given in the final part of this section.

### 6.2 Options Considered by the CCGs prior to Acceptability Research Results

The CCGs, at their first joint meeting in September 2013, debated a range of alternatives to recommend to the Company for the deployment of these savings. These included options such as:

#### Customer payment support

- a. Reduce all customer bills by a permanent one off reduction of 0.4%, equating to 56 pence on the average bill of £140.
- b. Reduce bills for specific classes of customer e.g. Senior Citizens.
- c. Use the money to support customers who are in debt (expanding the current trust fund that operates in the SSW region to CAM or supporting of local agencies).
- d. Introduce a social tariff (which does not impact on others bills).
- e. Supporting those in debt e.g. through employing debt advisors or entering into a partnership with advice agencies.

#### Environmental / Operational

- f. Increase the number of supply pipe repairs and or focus lead pipe renewals for "sensitive" customers.
- g. Undertake greater environmental activities (over and above legal requirement).
- h. Provide points of water supply in the cities (water taps).
- i. Develop alternative energy sources – wind, photo voltaic.
- j. Look for opportunities which could leverage additional funds from alternatives sources on a "matched funding" basis.

The CCGs did not reach an overall conclusion on the relative merits of these proposals but did agree that, as part of the forthcoming acceptability research, the views of customers on these matters should be sought.

# South Staffordshire Water PLC Customer Challenge Group Report

## 6.3 Acceptability Review Research

The Customer Research Task Group (CRTG) met the Company and a representative from ICS Consulting, the researchers, and it was explained that the research indicated that customers would prefer the savings to be passed on to all customers through lower bills, though if the savings must be invested, they would like to see the money used for supply pipes rather than for vulnerable customers.

## 6.4 Conclusions on the use of savings

At the final joint meeting the CCGs considered two alternatives:

**Alternative 1** In the light of the strength of feeling evident in the acceptability research and with the Company unable to produce bills acceptable to customers, the CCGs agree with the proposal to incorporate the merger savings into the final bill.

**Alternative 2** The CCGs believe that given the commitments made at the time of the merger the £500k savings should be invested in discrete proposals focused on support for vulnerable customers and small scale tangible schemes of an environmental and amenity nature. The CCGs believe that any impact on bills should be addressed by the Company in other ways.

The CCGs tasked the Company to consider these views and to come back with a package to reduce the overall level of bills and to provide some targeted support for vulnerable customers and those struggling to pay (the challenge regarding vulnerable customers was reported in section 5.5 above). They were also asked to reflect the desire for expenditure on some community based environmental schemes. As mentioned in Section 5.5 the Company has responded to these challenges and has come back with a social package fund of £1.5M over the AMP period.

## 6.5 Non-Financial Benefits of the merger

CCG members recognise that the merger has created the potential for non-financial benefits to both of the legacy regions. The most significant of these are summarised in the table below:

Potential benefit	Particularly likely to help the region below:	
	South Staffordshire	Cambridge
Learning from nitrate treatment expertise	Yes	
Learning from expertise in integrated water systems	Yes	
Gaining access to a larger wider energy market		Yes
Learning from expertise in reusing own energy		Yes
Access to the South Staffordshire Trust to help customers experiencing payment difficulties		Yes
Learning from expertise in telemetry and GIS		Yes
Learning from a more sophisticated approach to the environment including bio diversity	Yes	
Learning from an area with a greater level of water metering	Yes	

## 7 Overall Conclusion

The CCGs have worked closely with the Company as it has undergone a period of major change, which has coincided with the preparation for this Periodic Review. The CCGs have challenged the Company strongly, on a wide range of issues. On most issues the Company has risen to the challenge, and has reflected this in improvements to its Business Plan.

The CCGs accept, even though some of the requirements for capital expenditure arose late on (from the CCGs' viewpoint) in the planning process, that these capital schemes are necessary, will benefit customers, and incorporate appropriate assumptions about cost benefit and efficiency.

In terms of the quality of drinking water the Company has had to respond to several issues during the preparation of this Business Plan, and has worked closely with the DWI to produce acceptable proposals for further improvements. On issues of the environment and biodiversity, the CCGs have pressed the Company to go beyond minimum requirements and show an element of ambition for improvement. Their proposals have the support of the EA and Natural England.

In finalising its Business Plan proposals the Company has addressed the major outstanding issues relating to the fundamentals of the level of bills for the average customer, and of the routes for support for those who most struggle to pay. The CCGs are fully aware that, as a starting point, the customers of the two areas served by the Company enjoy lower water bills than most other customers, including their neighbours. They commend the Company for its historical levels of efficiency and of customer service. The CCGs welcome the changes that the Company has made to their plans to reflect these challenges from the CCGs and can now give this plan their support.

# South Staffordshire Water PLC Customer Challenge Group Report

## **8 Acknowledgements by Dame Yve Buckland, Chair**

I would like to thank all CCG members who received no remuneration and who gave freely of their time, energy and expertise to serve the needs of customers. From the outset they were mindful that their activity was financed by customers and were careful to avoid inappropriate expenditure. They ensured that expenditure on hospitality was kept to very modest levels and travel costs were minimised. The depth of understanding that this report represents is a reflection of their contribution and energy.

Thanks should go to the Executive Team and Board of South Staffordshire Water who have responded to challenges from the CCGs and who provided an essential link between the CCGs and the Company. Thanks are also due to two independents: Mike Reid who provided technical assurance and Julian Denney who provided assistance with report drafting and project management. They have both helped clarify our thoughts and conclusions.

Finally, I would like to thank the many customers and stakeholders who contributed to surveys, focus groups and special meetings and whose contribution provided the evidence base for the customer engagement work.

***End of Report***

# South Staffordshire Water PLC Customer Challenge Group Report

## 9 Appendices

### 9.1 Terms of reference of the South Staffordshire CCG

The Customer Challenge Group (CCG) should ensure that the Company Business Plan reflects a sound understanding of customers' views and whether the phasing scope, and scale of work required to delivered outcomes is socially, economically and environmentally sustainable.

The Chair will be independent and their role is to facilitate the group's discussions and make sure every group member has a fair chance to contribute to the discussions. The chair should ensure the group is able to produce a report for Ofwat that provides proportionate assurance.

Memberships will include organisations with a statutory remit; Environment Agency, Drinking Water Inspectorate, Natural England and Consumer Council for Water. It will also include business customers and their representatives and other key stakeholders, including, local authorities and local community representatives.

Ofwat is not a member but is available to provide information and advice. The Regulator will be invited to attend meetings and will be kept informed of agendas, supporting information shared with the CCG and the minutes of meetings.

The role of the Challenge Group is to:

- Challenge the scale, scope and delivery of outcomes and obligations;
- Challenge justification and support for the overall plan; and
- Report to Ofwat on customer engagement and Company plans.

The CCG's views will inform and advise SSW in its work but they will not take direct decisions on the strategy of the business or the investment proposals / price limits in the Final Business Plan. This remains the responsibility of the Company. Their role is not confined to discussing PR14 issues, it can interact on general aspects of service delivery etc.

The CCG will produce a report for Ofwat that covers the following:

- The Company's engagement process:
  - Its effectiveness;
  - Whether it is proportionate to the materiality of the business plan; and
  - If the terms of reference for the group has been met.

Whether the Company's strategy and business plan:

- Facilitates the delivery of legal outcomes;
- Is innovative and cost effective;
- Provides an appropriate response to customers' views;
- Strikes a reasonable balance between different customers and stakeholders;
- Explores solutions and phasing to maximise acceptability; and
- Is acceptable overall.



## South Staffordshire Water PLC Customer Challenge Group Report

The Company will provide secretariat and administrative support and costs. Agendas and other materials will be provided five working days prior to each meeting in an accessible way to all members. Minutes will be kept and made publicly available after being signed-off by those present at the meeting. Confidentiality will be considered and agreed prior to the publication of minutes and supporting material. The frequency and timings of meetings will be agreed by the group. This will form part of each meeting agenda.

### List of Members

<b>Independent Chair</b>	<b>Dame Yve Buckland</b>
Consumer Council for Water	Christina Blackwell
Consumer Council for Water	David Wurr
Consumer Council for Water	Gemma Domican
Consumer Council for Water	Bernard Crump
Environment Agency	Adam Lines
Environment Agency	Greg Marshall
Environment Agency	Phillip Hulme (replaced by Greg Marshall)
Drinking Water Inspectorate	Jacky Atkinson (replaced by Elinor Cordiner)
Drinking Water Inspectorate	Elinor Cordiner
Natural England	Ian Butterfield
Beechdale Housing Association	Alison Cotton
Black Country Federation of Small Businesses	Ralph Tennant
Coors	Andy Baxter
Staffordshire County Council	Councillor Peter Davies
Lichfield District Council Stowe	Councillor Colin Greatorex
Lichfield District Councillor and South Staffs Water Charitable Trust	Councillor Tom Marshall
South Staffs Water Charitable Trust	John Thompson
Spirit Pub Company	Catherine Lund
Sandwell Metropolitan Borough Council	Councillor Ahmadul Haque MBE
Walsall Citizens Advice Bureau	Ray White

# South Staffordshire Water PLC Customer Challenge Group Report

## 9.2 Terms of reference of the Cambridge Local Water Forum

### Role

1. Advise and challenge the Company as it develops its engagement and research plans.
2. Advise and challenge the Company as it interprets customers' views and decides how to reflect them in its longer-term strategy and business plans.
3. Advise and challenge the Company and other regulators to consider:
  - the opportunities for using innovative or sustainable means of delivering the required or desired outcomes;
  - the scope, justification and cost-effectiveness of the preferred delivery mechanism; and
  - Phasing delivery or outcomes to maximise the affordability and acceptability of the Company's overall business plan.

### Output

Ultimately provide a report to Ofwat alongside the Company's business plan on:

#### a) The Company's engagement process

- the effectiveness of, or any concerns with, the Company's engagement with its various customers and with the local customer challenge group; and
- whether the level of engagement and assurance is proportionate to the materiality of the Company's business plan proposals.

#### b) The Company's strategy and business plan

- whether the plan delivers the required legal outcomes;
- whether the Company has actively considered the opportunities for more innovative and sustainable approaches to delivering the required or desired outcomes;
- whether the Company's longer-term strategy and business plan is an appropriate response to customers' views;
- whether the Company's business plan strikes a reasonable balance between the views of different customers and stakeholders, highlighting any areas where particular segments of current or future customers are likely to have outstanding concerns;
- whether the Company has explored the range of cost-effective solutions and phased delivery of its various outcomes to maximise acceptability to customers; and
- whether the Company's overall final business plan appears likely to be acceptable to a majority of customers, highlighting any areas of concern.

# South Staffordshire Water PLC Customer Challenge Group Report

## List of Members

<b>Independent Chair</b>	<b>Dame Yve Buckland</b>
Babraham Research Campus	Stephen Woolverton
CC Water Central & Eastern	Prof Bernard Crump
CC Water	Richard Franceys
Environment Agency	Richard Thompson
Wilbraham River Protection Society	Brian Jackson
Cambridge City Council	Jean Swanson
Countryside Properties	Nigel Borrell
COPE	Doreen Ryan
CC Water	Steve Grebby
Cambridge Chambers of Commerce	John Bridge
DWI	Elinor Cordiner
National Farmers Union	Paul Hammett
The Wildlife Trust	Martin Baker
Cambridgeshire County Council	Mandy Smith
Environment Agency	Iain Page
Scotsdales Garden Centre	Caroline Owen
Citizens Advice Bureau	Rachel Talbot
Anglian Ruskin University	Julie-Anne Hogbin
Cambridge University Environmental Consultancy Society	Mark Robinson

# South Staffordshire Water PLC Customer Challenge Group Report

## 9.3 EA Response

### Introduction

The final price review methodology confirms that Ofwat expect the Environment Agency to highlight in the Customer Challenge Group report whether your business plan will meet your statutory obligations (section 4.2.1 Setting Price Controls for 2015-2020, Ofwat, July 2013). As part of our engagement with your Customer Challenge Group, we have been working with you to be assured that your business plan is in accordance with these requirements.

The following report summarises our views of the evidence provided. These views are based on a high-level review of the processes as described in the letter explaining our expectations sent to you in August 2013.

This response covers the whole of South Staffordshire Water's operating area incorporating Cambridge Water Company.

### Overview

We are satisfied with the way South Staffordshire Water have approached Ofwat's changes to the price review process and have worked with my colleagues in Midlands in an open manner. There has been an undertaking of customer and stakeholder engagement which has resulted in a satisfactory standard of engagement and provision of information. This in turn has informed South Staffordshire Water in the design of your plan and the component parts have been constructed using this information. Your approach has been collaborative and we have been able to help shape the plan.

Your plan reflects customer preferences and there is a link between willingness to pay, acceptability research and the draft plan consultation.

The methodology and thinking behind your outcomes and measures of success has been discussed with stakeholders and early thinking on incentives has been shared. More work in this area is however, required before they can be fully endorsed.

For South Staffordshire Water we welcome your inclusion of all National Environment Programme (NEP) requirements within your business plan. For Cambridge Water we note that you were given an opportunity to review "no deterioration" investigations that may be needed under the WFD, but haven't yet done so, we encourage you to include these.

The environmental investment elements of the business plan remain to be fully tested for cost benefit by the company and subsequently further assurances will be needed before we can be assured that their inclusion is guaranteed to be delivered in AMP6.

In summary, the Environment Agency Midlands Region supports the plan that you have built for PR14 but feel that more could have been done in the delivery of environmental improvements. Opportunities have been missed to include measures of success which could have specifically addressed low flow issues in rivers and increased partnership working opportunities at a catchment scale.

### We support:

- Delivery of statutory and environmental requirements as defined in Defra's Statement of Obligations as a minimum requirement.
- Plans that include all measures identified within the NEP and their delivery options.

# South Staffordshire Water PLC Customer Challenge Group Report

In addition, we are pleased to note:

- The positive strides you are taking to include Eel screening measures in your plan. We recognise there is a need to work collaboratively in order to understand the best way of managing implementation. We are committed to working with you to ensure that the requirements of the Eel regulations are fully met in an appropriate timescale.
- Your commitment to continue with your Water Forum structure in the future and that you see the Environment Agency as having a key role in setting targets and performance assessment.

## **We do not support:**

- Proposals that would lead to a significant back-loading of river basin management plan obligations. Defra is looking for assurance of early delivery wherever possible.

## **We need to see:**

- Your company addressing the need to propose a change mechanism for any in-period changes to cover spend on environmental commitments as certainty increases during AMP6.
- The company reviewing reasonable assumptions about future statutory requirements which are currently uncertain. These include the measures likely to be included in second cycle river basin management plans within phase five of the NEP.

## **We have made more specific comment on the following areas:**

These are our observations on the replies you have made to the questions posed in response to the expectations letter.

### **1) Delivery of statutory and environmental requirements.**

We welcome the commitment you have made to meet your environmental obligations. We believe that you have presented sufficient information in your response to demonstrate how your business plan will allow South Staffordshire Water to meet the statutory environmental requirements set out in Defra's Statement of Obligations.

### **2) Measures identified within the National Environment Programme (NEP).**

We are encouraged by your agreement to include all of the measures set out in the NEP within your final business plan. We believe that the programme will allow you to deliver what is best for both the environment and your customers.

### **3) Evidence of options and proposals for reducing the impact of a company's abstractions from the most seriously affected sites.**

We are pleased to see that your company is putting forward options and proposals within your business plan to reduce the impact of its abstraction from the most seriously affected sites. We note that you have:

# South Staffordshire Water PLC Customer Challenge Group Report

- included the confirmed sustainability changes set out in NEP phase three in the water resources supply-demand component of its business plan.
- assessed whether planned increases in abstraction may cause deterioration in WFD water body status.
- considered which abstractions would fall within Ofwat's Abstraction Incentive Mechanism.

## 4) Alignment of the Water Resource Management Plan options and business plans.

Defra expects that the Water Resources Management Plan (WRMP) will form the water resources supply-demand balance component of the business plan. We welcome your assurance that the main water resources supply-demand components of your business plan will be consistent with your WRMP statement of response.

## 5) How the company is fulfilling its risk management authority duties?

It is important that your business plan demonstrates how you intend to secure compliance with your risk management authority duties. There is a real opportunity work with us on flood risk management plans and lead local flood authority strategy partners to deliver cost effective solutions for customers and the environment through effective cooperation.

Companies have statutory duties on flood risk management. You have described what you have been doing now on these new duties and your commitment to continue to do this in the in the future. We look forward to working with you on engagement during AMP6.

### Reservoir safety

We note your intentions to maintain reservoir safety. This is an important duty given the potential high impact your reservoirs pose to public safety. You have provided some information on the programme of work and your teams. Your continued maintenance and capital investment is essential for public safety.

Defra set out their expectation in the Statement of Obligations that companies will prepare reservoir plans. We would expect you to continue to develop and maintain on-site plans and we would recommend that you work with partners on off-site plans to manage the risks.

Under the Flood Risk Regulations, the Environment Agency is required to develop Flood Risk Management Plans for England that include objectives and measures to manage flooding from reservoirs. We look forward to working with you as reservoir undertakers to set out the measures and timescales for delivery.

## 6) What mitigation measures have been adopted to manage future risks?

We are satisfied with your response on climate risks and resilience. You have said you have followed relevant guidance from Ofwat and others, and provided evidence that you have done so. It is important to keep raising awareness of these issues so that the impacts are fully understood.

# South Staffordshire Water PLC Customer Challenge Group Report

## 7) Environmental outcomes

We are generally satisfied with the outcomes included in your business plan as they reflect the important role that your company plays in protecting the environment. However, we have not yet seen the full details of the measures and targets and would like more information. We would of course be happy to work with you to improve these.

### **Delivery and incentives**

Your approach for setting delivery levels ambition and using incentives appears acceptable, and could ensure at a minimum that environmental outcomes are achieved. However, the lack of detail means we cannot comment on whether your ambitions are sufficient or your incentives strong. Balancing the results of quantitative research on customer preferences with your own incremental costs is essential to ensure sufficient ambition. Strong incentives should, wherever possible, financially reward or penalise delivery in line with customer preferences. Measures of success need to ensure that the company, rather than your customers hold delivery risks, so that the outcomes delivered are the one that customers agree to pay for.

## 8) Change mechanism.

At previous price reviews, Ofwat have used the “change protocol” mechanism for managing in-period changes to the risks and costs. This time you are being asked to put forward proposals for dealing with such changes. It is imperative that new statutory commitments can be delivered whilst maintaining levels of ambition around customer priorities, so we want to see a clear process for dealing with predictable but, nonetheless, uncertain new commitments you could face during AMP6. This was missing from your submission.

Interim determinations of K provide a route to deal with genuinely unforeseeable events that meet Ofwat’s materiality criteria, and of course you have more discretion over expenditure than in previous price reviews. However, to be assured that important “discretionary” outcomes are not prejudiced by additional legislative requirements, we believe you do require an explicit change mechanism for dealing with such changes and we would welcome your assurance that you are developing one.

## 9) Eel regulations

We are committed to working with you to ensure that the requirements of the Eel regulations are fully met and welcome the positive strides you have taken to include Eel screening measures in your plans.

You have sought clarification regarding the costs and benefits associated with the implementation of Eel Regulation measures. For all existing intakes or outfalls, we are adopting a phased approach to requiring action for eels depending on position in the catchment, useable eel habitat obstructions, amount of water abstracted and the predicted presence of eels. Any scheme can be put through cost benefit to validate the approach being proposed at any given site.

This will always require a very site specific discussion for each scheme. Current water company trials are giving a positive outcome and are proving to be a cost beneficial to continue.

## Concluding remarks and recommendations

## South Staffordshire Water PLC Customer Challenge Group Report

In conclusion, we would like to thank you and your company for the way you have engaged during the PR14 process. This has helped build a foundation for environmental improvements in Midlands over the AMP6 period.

At a specific level, we request that we are involved in the refinement of measures of success, targets and incentives to ensure risk and reward are balanced effectively.

We also ask that we receive written board assurances regarding the delivery of the National Environment Programme at the earliest opportunity. This is the final piece of information required which will enable us to fully confirm our position (in our regulatory role) when communicating with Defra.

We look forward to working closely with you over the next few weeks to finalise your business plan so we can ensure delivery against statutory obligations and facilitate the achievement of better environmental performance.

**Greg Marshall**  
**PR14 Co-ordinator Midlands**  
**30 October 2013**



# South Staffordshire Water PLC Customer Challenge Group Report

## 9.4 DWI Response

### Drinking Water Inspectorate Statement for South Staffordshire Water's Customer Challenge Group (incorporating Cambridge Water's Local Water Forum) report to Ofwat

#### Introduction

The Drinking Water Inspectorate (DWI) is the independent regulator of drinking water quality in England and Wales. We protect public health and maintain confidence in public water supplies by ensuring water companies supply safe clean drinking water that is wholesome, and that they meet all related statutory requirements. Where standards or other requirements are not met, we have statutory powers to require water supply arrangements to be improved.

We publish information about drinking water quality and provide technical advice to the Secretary of State for the Environment, Food & Rural Affairs, and to Welsh Ministers.

For PR14, water companies are expected to ensure that their business plans make provision to meet all their statutory obligations, including the need for public water supplies to be safe, clean and wholesome, and that provision is made for a sustainable level of asset maintenance to maintain public confidence in drinking water quality. Ministers summarised these requirements in Defra's Statement of Obligations<sup>1</sup>, and in their further guidance on PR14 matters to Ofwat. In addition, the Inspectorate set out in **DWI Information Letter 01/2013 – The 2014 Periodic review of Prices – Guidance for water companies**, published on 1<sup>st</sup> February 2013 supplementary guidance to companies on the regulatory framework for drinking water quality, statutory requirements, the Inspectorate's role in the Price Review process and our requirements for companies seeking technical support. The Inspectorate also published separate PR14 guidance on a range of specific issues. All of the Inspectorate's published PR14 guidance is available on the DWI website.

It is worth noting the particular emphasis that Ministers placed in their Guidance on the resilience of supply systems, and that the Inspectorate placed on existing duties to manage the introduction of new sources and to plan supply arrangements to protect consumers and ensure no deterioration in the quality of their supplies.

The Inspectorate has a position on all of the water companies' customer challenge groups in England and Wales. The Inspectorate's representative on South Staffordshire Water's Customer Challenge Group and Cambridge Water's Local Water Forum has supported the process by acting as an independent member with the overall remit of ensuring that the Company business plan proposals reflect the views of consumers and place drinking water quality at the forefront of such plans.

#### Formal Drinking Water Proposals Requiring DWI Technical Support

As with previous periodic reviews, water companies seeking technical support from the Inspectorate must demonstrate the need for each proposal. The case for justification must be accompanied by evidence of the company's options appraisal process to identify the most robust, sustainable and cost-effective solution, with evidence that the preferred solution will adequately address the risk and deliver the required outcome within an appropriate timescale.

South Staffordshire Water (including Cambridge Water) submitted 6 formal proposals for drinking water quality to the Inspectorate, listed in the table below:

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<sup>1</sup> <http://www.defra.gov.uk/publications/files/pb13829-statement-obligations.pdf>

## South Staffordshire Water PLC Customer Challenge Group Report

PR14 DWI Ref.	Scheme Name	Quality Parameter(s)	Scheme Type	Preferred Option	DWI Final Decision
CAM45	Fowlmere WTW	Nitrate	Treatment	Ion exchange	Regulation 28 notice
SST46	Churchill PS	Nitrate	Treatment	Blending	Regulation 28 Notice
SST47	Chilcote PS	Lead	Treatment	Phosphate dosing	Regulation 28 notice
SST48	Hampton Loade and Seedy Mill WTWs	Metaldehyde	Catchment	Various catchment activities	Undertaking
SST49	Lead strategy	Lead	Other	Various	Regulation 28 Notice
<b>SST50</b>	Disinfection by-products	Regulation 26(1) (a)	Other	Various	Commend for support

The Company submitted its proposals to the Inspectorate by the published deadline of 31<sup>st</sup> July 2013, however, the information provided was not sufficient. Guidance was provided and the Inspectorate also discussed the information requirements with the Company in some detail. A further submission was subsequently made by the Company by 16 October.

The Inspectorate met with the Company before the proposals were submitted therefore we were very broadly aware of the Company's plans for drinking water quality although there were not discussed in any detail. We are generally supportive of the Company's approach.

The Inspectorate has formally supported 5 of the 6 proposals with the remaining proposal being commended for support. Where appropriate we will put legal instruments in place to make the proposals legally binding programmes of work. Our final decision letters were sent to the Company on 31 October 2013.

The proposal for Fowlmere WTW, in the Cambridge region, is for nitrate removal via ion exchange treatment. There is also a scheme included in the NEP phase III to undertake catchment measures to reduce nitrate levels at Fowlmere WTW. The proposal for Churchill WTW is for nitrate reduction via increased blending capability.

The proposal for Chilcote WTW is for phosphate dosing to reduce the risk of lead contraventions in water supplied by the works. Other measures taken to reduce lead levels in supply across the Company's area are included in the Company's lead strategy. The proposed strategy is consistent with DWI PR14 Guidance for managing lead in drinking water in that it should form part of a risk-based programme of work that includes a range of measures to address lead in identified high risk areas, and target high risk properties and vulnerable consumers.

For the Seedy Mill and Hampton Loade WTW supply systems, the Company has proposed a number of catchment activities to address the risk of contravention of the pesticide standard, in this case metaldehyde, in water supplied from the works. The proposal for disinfection by products aims to investigate and better understand the causes for the occurrence of disinfection by products in the

## South Staffordshire Water PLC Customer Challenge Group Report

aforementioned works and we consider that this work will add to the Company's understanding of the contribution of the treatment processes and other factors towards the formation of disinfection byproducts, which will inform any future proposals for operational measures implemented to improve compliance with Regulation 26(1A).

It should be noted that these improvement schemes will make only a small contribution to enabling the Company to meet its legal obligations in respect of drinking water quality. These obligations are met overwhelmingly by the Company making sufficient provision for operational and maintenance requirements in its business plan, and by its use of those resources. These are matters for the Company to determine and deliver. For its part, the Inspectorate will continue to keep under review, and report on, the performance of the Company in meeting its legal obligations. Statutory powers are available to secure or facilitate compliance, if necessary.

The summary of improvement schemes above reflects the position at the time of writing this note. Further discussions are needed with the Company to finalise details. We will advise the groups of any material changes.

This note will be copied to Steve Morley of South Staffordshire Water. Any queries arising should be directed to Elinor Cordiner, Principal Inspector, Drinking Water Inspectorate via [dwicricereview@defra.gsi.gov.uk](mailto:dwicricereview@defra.gsi.gov.uk).



**Milo Purcell**  
**Deputy Chief Inspector (Regulations)**

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**17 November 2013**

# South Staffordshire Water PLC Customer Challenge Group Report

## 9.5 Natural England Response

### Natural England's assurance summary for South Staffordshire water PR14 submission

- 1) Introduction to Natural England role as an environmental representative of customer forum engagement

Natural England is the government adviser on the natural environment. Our remit is to provide practical advice about management of nationally and internationally designated sites for habitats and wildlife and working with others to safeguard a healthy and sustainable natural environment for the benefit of everyone.

In this role as an adviser of government, Natural England is a member of South Staffordshire Water's Customer Challenge Forum in the price review to assure how the business plan considers obligations and duties for the natural environment, further to the forum's primary function to assess customer representation and engagement. Natural England has also been representatives on several sub groups.

Natural England has been represented by the Environment Agency on the Cambridge Water CCG equivalent. We have attended the joint meeting of the combined CCG in our own right.

We have also had separate meetings to agree a process to discuss biodiversity duties, which cover both the South Staffordshire area and the Cambridge water area including facilitation of meetings with local conservation bodies. A board paper was prepared and agreed during the process

This paper aims to assure Ofwat of the business plan components contribution to the natural environment. Short assessment to assure Ofwat of how the Water company business plan will protect and enhance the natural environment based on government priorities.

To enable us to make this assurance, our approach is to consider the business plans regulatory and discretionary components and their contribution to the natural environment outcomes and priorities, in the context of government obligations and objectives of PR14 (details below).

This short assurance assessment refers to the SoO and Natural England's PR14 outcomes and priorities for the natural environment.

- 2) Background about the environmental objectives and outcomes from Natural England, an environmental forum member

The priorities and outcomes of PR14 for the natural environment are set out in the objectives listed below from Natural England. When opportunities have been made available these have been discussed with the forum and closely with the company.

1. Water quality will be improved and water resources more sustainably managed
2. Statutory obligations to conserve and enhance the most important water-dependant habitats, species and landscapes are met
3. The PR14 process will help water companies contribute to the delivery of Biodiversity 2020 objectives
4. Novel solutions and whole catchment approaches that are resilient to climate change will become increasingly commonplace

These are also embedded in the Statement of Obligations (SoO) ([SoO 2012](#)) and government expectations, through substantial references to CRoW Act 2000, NERC Act 2006, 'the Habitat

# South Staffordshire Water PLC Customer Challenge Group Report

Regulations 2010' (as amended) and Biodiversity 2020 (Biodiversity Strategy for England)<sup>2</sup>. The latter encompasses four outcomes for biodiversity (aquatic and terrestrial) delivery (terrestrial and aquatic) that all stakeholders, including water companies, can help the UK achieve its important vision to halt biodiversity loss (60% of species have declined in recent decades ([State of Nature 2013](#))) by 2020 and in the longer term move to a net gain in the value of nature.

### 3) Regulatory compliance

The national environment programme (NEP) delivery mechanism, coordinated by Environment Agency, contains schemes identified to secure compliance standards and meet obligations for drinking water and WFD failures including water quality, water resources and fish passage.

Natural England welcomes the business plan improvements in the NEP that the water resources will achieve to address their priority environment objective, they are also likely to contribute to wider range of benefits and other government objectives (SoO 2012

The company owns and manages a large area of SSSI at Blithfield reservoir. The company are in the process of developing a management plan for the site that will ensure that the site continues to move towards favourable condition. This plan will also seek to extend the current use of the site by the public so increasing the sites contribution to environmental education and access.

The company are further investigating the development of a catchment approach to the site designed to protect the water quality of the site. This will also help protect the nature conservation interest of the site and with good design could increase the biodiversity with the catchment as a whole.

The above schemes will enable this nationally important biodiversity asset to move towards favourable condition while and safeguard the habitat integrity. The schemes are an important contribution towards Biodiversity 2020 outcome 1A and the companies CRoW responsibilities.

### 4) Biodiversity Duty and the government Natural Environment White paper (NEWP)

Currently the company do not have a coherent position on biodiversity delivery across the company's land and activity. As part of the PR14 process the company have undertaken to

Produce an agreed biodiversity strategy this is intended to cover 5 areas and the company has confirmed financial support for its delivery.

These areas are

- Management of the Company's land holdings
- Operational activities – minimising impacts from operations and developments
- Supporting for biodiversity partnerships and projects outside of the company

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<sup>2</sup> Biodiversity2020: A Strategy for England's wildlife and ecosystem Services is the Government's strategy for people and wildlife. Published in 2011 following the publication of the Natural Environment White Paper (NEWP) it replaced the previous England Biodiversity Strategy Working With The Grain of Nature. Biodiversity 2020 forms part of the UK's commitments under the United Nations Convention of Biological Diversity.

'Biodiversity 2020' sets out an overall biodiversity vision for England by 2050 together with a list of four outcomes to deliver its ambition by 2020 "to halt overall biodiversity loss, support healthy well-functioning ecosystems and establish coherent ecological networks, with more and better places for nature for the benefit of wildlife and people". It commits to going further than halting biodiversity loss, moving to a net gain in the value of nature.

# South Staffordshire Water PLC Customer Challenge Group Report

- Catchment scale work, projects and partnerships
- Engagement and education.

The five areas of work closely reflect and understanding of the Company's biodiversity duty, its customer preferences and the opportunities that the NEWP identifies. Natural England welcomes these as a significant improvement on the company's current delivery in this area

## 5) Company engagement during the process and innovation

The company has responded to a strong challenge about its biodiversity duties and is committed to developing and agreeing a company- wide biodiversity action plan. This is designed to discharge its biodiversity duty but also to reflect customer feedback on relative priorities.

In addition to the Nationally designated site the company owns several very important areas of local biodiversity interest and is looking for ways to maximise the biodiversity value of these sites within the operation constraints the sites have. The company has recently committed to spending an addition 500k on developing partnerships within the company area and delivering environmental enhancement. This is a welcome contribution reflecting customer preferences

## 6) Summary of the business plan benefits to the natural environment

Natural England welcomes the environmental benefits the NEP schemes will deliver both for regulatory compliance and the potential range of wider multiple objectives intrinsic to the natural and urban environment.

Natural England feel the company has demonstrated that it is fulfilling its biodiversity duties through

Development of an agreed Biodiversity plan with a commitment of money into the plan

The extra work proposed at Blithfield reservoir SSSI relating to management of the site and appropriately increasing its public use

New work on catchment schemes looking for opportunities to develop Biodiversity gains into these schemes.

A commitment to work with local biodiversity partnership and projects outside the companies land holding.

Ian Butterfield

Senior Freshwater Advisor- Land Use Operations

Natural England

28 November 2013

# South Staffordshire Water PLC Customer Challenge Group Report

## 9.6 South Staffordshire Water PLC Key Representatives

### Directors

Name	Company Role	Role at the CCGs
Sir James Perowne	Independent NED	NED representative at CCGs
Stephen Kay	Independent NED	Alternative NED representative at CCGs if Sir James unavailable
Rachel Barber	Customer Services Director	Principal Executive Director contact for South Staffs CCG
Steve Morley	Compliance Director	Principal Executive Director contact for Cambridge LWF
Matthew Lewis	Regulation Director	Executive Directive responsible for Business Plan
Colin Wayper	Network Director	Executive Director responsible for asset management issues
Keith Marshall	Acting MD (since Nov 12) and Supply Director	Executive Director
Dr Liz Swarbrick	Managing Director (up to Nov 12)	Attended CCG meetings in 2012 prior to her long term leave from November 2012

### Others:

Name	Company Role	Role at the CCGs
Barbara Julye	Head of Customer Engagement	Co-ordinated the majority of the task groups and teleconferences
Karen Baxter	Communications Officer (South Staffs region)	Provided support (minute taking etc.)
Annalise Lister	Customer Communications Manager (Cambridge region).	Provided support (minute taking etc.)
Susan Cooper	Executive Assistant	Secretarial support

At times Senior Managers attended for specific issues, e.g. Alex Martin (Head of Water Strategy) attended for the sessions on the draft WRMP.

# South Staffordshire Water PLC Customer Challenge Group Report

## 9.7 CCWater Consumer Research

### Consumer Council for Water annual survey of consumer views on water and sewerage services in England and Wales

Since 2006, CCWater has commissioned research to understand the views of customers on the services they receive from their water and sewerage company and this has been repeated annually to track the changes in the views of water and sewerage customers over time. The most recent research<sup>3</sup>, carried out between November 2012 and January 2013, involved a total of 3,962 telephone interviews of which approximately 150 were customers of South Staffordshire Water and 150 customers of Cambridge Water. This research is useful evidence in that it allowed members of the CCG to make comparisons with its findings and those of the companies, and where appropriate challenge the companies on the results of their research. It also aided the CCGs understanding in regards to the two companies' positions when compared against the research findings of the average proportion for all Water only Companies<sup>4</sup> (WoC).

#### South Staffordshire Water

Overall satisfaction with water supply remains high with 88% of South Staffordshire Water customers being satisfied. 70% are satisfied with the value for money of water services. Both these results differed by only 1% compared to the WoC average.

In terms of company contact, 11% of customers had contacted South Staffordshire Water with a query in the last twelve months, compared to 9% the year before. 83% were satisfied with the way the query was handled, compared to a WoC average of 73%. 76% of customers are likely to contact South Staffordshire Water if they are worried about paying their bill. This compares to a WoC average of 74%.

Satisfaction with colour and appearance of tap water was 93%, the same as the WoC average, and 84% of customers were satisfied with taste and smell, which is lower than the WoC average of 86%.

#### Cambridge Water

Overall satisfaction with water supply is higher than the WoC average with 92% of Cambridge Water customers being satisfied. 79% are satisfied with the value for money of water services, which again is higher than the WoC average of 69%.

In terms of company contact, 10% of customers had contacted Cambridge Water with a query in the last twelve months. 74% were satisfied with the way the query was handled, compared to a 73% WoC average. 73% of customers are likely to contact Cambridge Water if they are worried about paying their bill.

Satisfaction with colour and appearance of tap water was 95%, and 90% of customers are satisfied with taste and smell, which is 4% higher than the WoC average.

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<sup>3</sup> <http://www.cewater.org.uk/upload/pdf/CCWtrackingsurvey1213.pdf>

<sup>4</sup> Average proportion for all WoCs is based on weighted data and all other data is unweighted.



# South Staffordshire Water PLC Customer Challenge Group Report

## 9.8 Summary of South Staffordshire CCG and Cambridge Local Water Forum Customer Engagement

Below is a summary of the customer engagement carried out by the companies and the main recommendations and findings coming out of that engagement.

### 9.8.1 South Staffordshire Water Customer Engagement

#### Qualitative Research – Community Research<sup>5</sup>

In January 2013, Community Research was commissioned by the Company to run a focus group of 27 customers to understand their views on the draft WRMP. Two CCG members viewed the focus group.

#### Focus Group key recommendations:

- a) Customers believed there was the potential to increase meter penetration through education and communication.
- b) SSW should set more ambitious leakage reduction targets than the SELL figure.
- c) The Company should maintain its current level of customer restrictions (one in 40 years).
- d) There was no broad support to pay more to support environmental improvements beyond those specified by the EA.
- e) There should be an increase in communications on water efficiency.

#### Willingness to Pay Research 2013 – ICS Consulting and etfec<sup>6</sup>

A survey of 506 domestic customers and 300 business customers was carried out to assess their willingness to pay for a package of service measures.

#### Priorities

If 'needs improvement' indicated - what are the priorities?

Priority	Domestic	Business
Highest	Hardness of tap water	Hardness of tap water
Second	Taste and smell of tap water	Taste and smell of tap water
Third	Water pressure	Level of leakage

#### Initial views on water bills and service

Majority think their current bill is about right or slightly too much BUT customers do not wish to see a decrease if service is affected.

<sup>5</sup> [http://www.south-staffs-water.co.uk/downloads/ccg/water\\_resources\\_management\\_plan.pdf](http://www.south-staffs-water.co.uk/downloads/ccg/water_resources_management_plan.pdf)

<sup>6</sup> [http://www.south-staffs-water.co.uk/downloads/ccg/WTP\\_Survey\\_results\\_presentation\\_180613.pdf](http://www.south-staffs-water.co.uk/downloads/ccg/WTP_Survey_results_presentation_180613.pdf)

# South Staffordshire Water PLC Customer Challenge Group Report

**Package WtP per household – Maximum WtP = £9.80**

Service Measure	£
Drinking Water Quality	£6.30
Hardness of tap water	£3.92
Water availability and environment	£2.66
Discoloured water	£1.55
Pollution	£1.12
Reliability of Water Supply	84p
Level of leakage	36p

## **9.8.2 Cambridge Local Water Forum Customer Engagement**

### **Qualitative Research – Community Research<sup>7</sup>**

Community Research were commissioned by Cambridge Water to hold four focus groups to identify household customers' views on water related issues and the Company's short and long-term strategy. Also, interviews were carried out with six Watersure customers, six non-domestic customers, an advisor at the CAB, and three CAB clients.

#### Key findings:

1. Many domestic customers who have had no reason to contact the Company, have little impression of the Company. Not needing to contact the Company is a positive.
2. There was an overwhelmingly positive view from those who have had contact (both domestic and non-household).
3. Domestic customers' main priorities are for the provision of a consistent supply of good quality, affordable water, encouraging the use of water meters and water conservation, tackling leakage, managing peaks and troughs and meeting future demand.
4. Non-household customers focus on the retention of competitive pricing structures, robust water resilience plans, and water conservation measures.
5. On other specific areas:
  - Leakage - Positive views of the Company's responsiveness to fixing leaks from those who have had an issue.
  - Water Meters - Some customers feel strongly that more focus should be placed on encouraging more water meters. Concern about poor communication about free installation and the trial period. Most feel that paying for water used is fairer but had no appetite for compulsory metering.
  - Tariffs and Affordability - Price and affordability are priorities for all. There is a positive response to the schemes helping customers manage debt on offer by the Company. Two specific policies tested did not resonate, relating compulsory contributions to a Hardship Fund and a change to seasonal pricing.

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<sup>7</sup> <http://www.cambridge-water.co.uk/home/local-water-forum#15>

## South Staffordshire Water PLC Customer Challenge Group Report

- Competition - The lack of competition in the domestic market was raised spontaneously by some. Some non-household customers were not aware of the introduction of competition in their market (or the timings). Most indicate that they would consider switching if this offered a better price, whilst others see switching as a potential risk.
- Water Quality and Pressure - There were few issues with water quality and no issues with water pressure.
- Environment, efficiency and water use restrictions - Very mixed views and behaviours amongst domestic customers. Generally there was a call for the Company to do more to educate and encourage conservation.
- Water Resources - All customers are concerned about the future security of supply. The vast majority are happy for water to be supplied to neighbouring companies if required as long as this does not jeopardise their own supplies.
- Communication - High level of satisfaction with responsiveness when contacted but feeling that general communication could be improved.

### Willingness to Pay Research 2013 – ICS Consulting and etfec<sup>8</sup>

A survey of 386 domestic customers and a number of business customers was carried out to assess their willingness to pay for a package of service measures.

#### Priorities

If 'needs improvement' indicated - what are priorities?

Priority	Domestic	Business
Highest	Hardness of tap water	Hardness of tap water
Second	Taste and smell of tap water	Level of leakage
Third	Level of leakage	Taste and smell of tap water

#### Initial views on water bills and service

Majority think current bill is about right or slightly too much BUT customers do not wish to see a decrease if service is affected

#### **Package WtP per household – Maximum WtP = £29.12**

Service Measure	£
Drinking Water Quality	£14.80
Water availability and environment	£14.32
Hardness of tap water	£8.53
Level of leakage	£6.32
Taste and smell of tap water	£5.10
Low water levels and flow	£3.95

<sup>8</sup> <http://www.cambridge-water.co.uk/home/local-water-forum#15>

# South Staffordshire Water PLC Customer Challenge Group Report

Discoloured water	£1.18
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## **9.8.3 Research into customer acceptability of the South Staffordshire Water and Cambridge Water draft Business Plan proposals** **Acceptability Research 2013 – ICS Consulting and etfec<sup>9</sup>**

Customer engagement with 841 household customers (319 in Cambridge and 522 in the South Staffordshire region) and 203 business customers (100 in Cambridge and 103 in the South Staffordshire region) was carried out by ICS Consulting on behalf of the Company.

### Conclusions:

1. Results suggest the proposed draft plan is acceptable to the majority of customers with 82% believing it is acceptable/very acceptable
2. The findings show a large difference when the draft plan is shown in today's and future prices – 59% acceptability when inflation is taken into account
3. Socio-economic group affects acceptability but the impact is small
4. Customers would prefer the merger savings to be passed on in the form of lower bills instead of being reinvested
5. A social tariff has a large impact on acceptability
6. Changes to sewerage bills in the ranges proposed in consultations do not impact on acceptability of the proposed water bill
7. Customers have mixed views on the bill profile but a steady increase is generally preferred

### **Draft Business Plan research – Community Research<sup>10</sup>**

Community Research engaged with 983 customers, of these 14 were business customers or other stakeholders, and more than half were from the Cambridge region.

### Key findings:

1. Outcomes - 87% agreed the outcomes are important to customers and 80% agreed with their measures.
2. Change of occupier metering - 82% agreed with proposals, with more from Cambridge region than South Staffordshire being in favour. Of those who disagreed, 13% wanted to see more metering.
3. Environment - 81% agreed with proposals. Of those who disagreed, 42% said more should be done.
4. Underground pipe maintenance - 80% agreed with proposals. Of those who disagreed, 74% wanted to see more being done.
5. Nitrate removal stations - Overall, 76% agreed, with more doing so in the Cambridge region, which may be because they are more aware of them due to the more rural nature of the area.
6. Storage reservoirs - 81% agreed with the proposals for investment.
7. Social tariff - Those respondents on high incomes and those on low incomes were more likely to be in favour. More than a quarter disagreed with the concept and felt it was not the

<sup>9</sup> [http://www.south-staffs-water.co.uk/downloads/ccg/CRTG\\_Conference\\_call\\_minutes\\_011112.pdf](http://www.south-staffs-water.co.uk/downloads/ccg/CRTG_Conference_call_minutes_011112.pdf)

<sup>10</sup> [http://www.south-staffs-water.co.uk/downloads/ccg/CRTG\\_Conference\\_call\\_minutes\\_011112.pdf](http://www.south-staffs-water.co.uk/downloads/ccg/CRTG_Conference_call_minutes_011112.pdf)

## South Staffordshire Water PLC Customer Challenge Group Report

responsibility of water companies to provide such a tariff, but that it should be through the benefits system.

8. Using merger savings to help customers struggling to pay their bill - 47% agreed with this, but some customers may have misinterpreted the question as meaning reducing costs for all customers or they may have had a different interpretation of 'struggling' than the Company intended to imply.
9. Proposed price increase - 52% agreed it was acceptable. However, the question included the inflation rate. Those on lower incomes were less likely to find it acceptable.

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### 9.9 Service Incentive Mechanism scores of South Staffordshire Water and Cambridge Water

The Service Incentive Mechanism is comprised of two elements. A quantitative element which is based on contacts with an escalating numeric penalty and divided by the number of connections, and four surveys per year based on resolved company contacts. Each component currently has equal weighting in the SIM.

South Staffordshire Water and Cambridge Water performance is as follows:

#### 2012-13

Company	Aggregate Survey Score	Quantitative Score (out of 50)	Rank	Total SIM score (out of 100)	Overall Position
SSW	4.69	42	2	88	1
CAM	4.54	43	6	87	2

# South Staffordshire Water PLC Customer Challenge Group Report

## 9.10 Background to the Company and Business Plan

### Background to the Business Plan and the Company

#### Hydromorphology of the region, including implications for water supply

##### Hydromorphology in the South Staffordshire region

In the South Staffordshire region the Company supplies 300 million litres of water every day to 570,000 homes and businesses, through 6000km of pipes.

Water is obtained from three sources: Blithfield Reservoir, the River Severn and groundwater. Approximately 60% of the total water available is taken from the two surface water sources, and the remaining 40% from groundwater. (Ofwat data records 58% surface water/ 42% groundwater).

**Blithfield Reservoir** is an impoundment reservoir with a capacity of approximately 18.2 billion litres. It was formed in 1953 by the construction of a dam across the River Blithe. Raw water is taken out of the reservoir by pipeline to the treatment works at Seedy Mill near Lichfield before going into the distribution network.

**The River Severn** is a regulated river. This means that at times of low flow, it is augmented at its head by water from reservoirs or groundwater, in a process that is closely monitored by the Environment Agency. Water is taken from the river at Hampton Loade, and stored in the Chelmarsh Reservoir before being treated and distributed. The river has a maximum output of 215 megalitres per day, of which 20% is traded / exported to Severn Trent Water.

**Groundwater** is abstracted from the Triassic sandstone aquifer, which is mainly situated in the southern and central areas. The Company has 62 boreholes located at 26 groundwater sources, which are all linked to an integrated supply system. As the sandstone is very porous and able to hold large quantities of groundwater, levels do not fall very far in dry periods, making this a very reliable source for the Company.

The topography in the South Staffordshire region is very hilly. The resulting energy costs associated with pumping the water are generally much higher.

##### Hydromorphology in the Cambridge region

The Cambridge region supplies 72 million litres of water a day to 131,000 homes and businesses through 2300km of pipes.

All the water is abstracted from an unconfined chalk aquifer, which is typically replenished by rainfall between November and March.

In places the chalk aquifer is important in supporting wetlands and the flows in chalk rivers and streams. A number of these river flows are already augmented at times of low flows, and this is taken into account by the Environment Agency when licensing abstractions.

Some abstractions may still impact the available flows and where this is the case investigations into environmental impacts are carried out, and mitigation measures implemented where necessary.

The topography of this area is relatively flat, with a few river valleys in places, typical of rolling chalk uplands.

# South Staffordshire Water PLC Customer Challenge Group Report

The area is dominated by arable land use for agriculture, and this has historically led to leached fertilizer nitrate appearing in groundwater. As there is a limit to the concentrations allowed for public water supply this needs to be treated in some cases.

## **Combined factors affecting the water supply**

South Staffordshire is one of the hilliest areas in England and Wales and, as a result, needs to raise water to a high level in order to be able to distribute it through its network.

This ability to raise water up is known as the pumping head. At 198.74 metres the South Staffordshire region has the highest pumping head of all the water and sewerage companies.

At the other end of the scale, the Cambridge region with its flatter, fen landscape has a pumping head of 69.10 metres. This is the lowest of any of the water and sewerage companies in England and Wales.

When combined together, the two regions have an average pumping head of 172.42 metres, which ranks the Company with the third highest pumping head in England and Wales behind Sutton and East Surrey and Welsh Water.

The higher the pumping head, the more the Company needs to spend on energy to pump the water through its network. At South Staffordshire Water, energy costs account for around 20% of the overall operating costs, meaning the Company is acutely susceptible to changes in energy prices which have doubled in the last seven years.

While the Company is working closely with energy companies to beat market prices by 5%, forecasts suggest they will go up another 20% by 2020.

The graph below illustrates the effect higher power costs could have on the overall impact of the bills.

(n.b. numbers above are currently for illustration only, they are not precise as the modelling is continuing).

In total the Company has 8300km of underground pipes and replaces around 70km each year.

At the end of AMP5 (2014/15), 32% of customers in the South Staffordshire region and 68% of customers in the Cambridge region will be metered. The Company will continue to install meters so that by 2040, around 72% of households in the South Staffordshire region and 87% in the Cambridge region have a meter on which their charges are based.

Overall, average demand for water in both regions has fallen significantly over the last seven years, with the increase in demand from population growth being cancelled out by improved leakage figures, metering and reduced demand from business customers due to the current economic climate.

The Company's latest predictions suggest demand will increase by around 7% by 2040.

## **Demographics, including incidence of deprivation**

ACORN (A Classification of Residential Neighbourhoods used extensively for market research purposes) has been used to characterise the status of people living in the Company's catchment



# South Staffordshire Water PLC Customer Challenge Group Report

area. ACORN classification comprises 56 types, which are subdivided into 15 groups and five categories. The groups and categories are defined as follows<sup>11</sup>:

Wealthy achievers	Urban prosperity	Comfortably off	Moderate means	Hard pressed
Wealthy executives	Prosperous professionals	Starting out	Asian communities	Struggling families
Affluent greys	Educated urbanites	Secure families	Post-industrial families	Burdened singles
Flourishing families	Aspiring singles	Settled suburbia	Blue-collar roots	High-rise hardship
		Prudent professionals		Inner-city adversity

<sup>1</sup> [ACORN](#) data for the South Staffs and Cambridge Region

In the South Staffordshire region, the Company supplies a population of 1.29 million, over an area of 1500 square kilometres. It serves 531,000 household properties and 29,000 commercial properties.

- The area is characterised by its high proportion of struggling families. These make up almost 25% of the population compared to 13% nationally.
- The area also supports a proportionately high number of secure families (almost 20%) compared to just under 15% nationally.
- Asian communities are almost twice as common in this area as they are in the rest of the country.
- The most under represented categories are educated urbanites (just 5% of that in the UK), prosperous professionals, aspiring singles and inner-city adversity. These categories are mostly associated with London and other large cities, so their low rates in the South Staffordshire region are unsurprising.
- Sandwell District, which sits within the South Staffordshire area, is ranked as the 9th most deprived local authority (out of 326). Walsall District is ranked as the 35th most deprived local authority. At the other end of the scale the local authorities of South Staffordshire and Lichfield are ranked 247th and 237th respectively. East Staffordshire District is ranked 160th and Cannock Chase District is 123rd[1]

## Demographics of the Cambridge Region

In the Cambridge region, the Company supplies a total population of 315,000 over an area of 729 square kilometres. It serves 121,000 household properties and 10,000 commercial properties.

- Over a third of the population (36%) are wealthy achievers, compared to a quarter (25%) nationally.
- Only 17% are moderately hard up or hard pressed, compared to over a third (34%) nationally.
- The local authority of South Cambridge, which sits within the Cambridge region, is ranked in the top five local authorities in the deprivation indices (321 out of 326), Cambridge is 188th and Huntingdonshire is 276th.

## Brief recent history of the Company, including a high level summary of the merger and change of ownership

# South Staffordshire Water PLC Customer Challenge Group Report

South Staffordshire Water is owned by South Staffordshire Plc, which is a leading operator in the UK water sector.

As well as South Staffordshire Water, it also owns SSI Services and Echo which provide non-regulated specialist services to the water industry.

The group acquired Cambridge Water on 3 October 2011, with a view to merging it with South Staffordshire Water. The Office of Fair Trading referred the potential merger to the Competition Commission in January 2012.

Following an investigation, the Competition Commission cleared the merger in May 2012 with no conditions. Ofwat then issued a unified licence on 25 March 2013 which came into effect on 1 April 2013.

South Staffordshire Water is now one business operating in two separate regions, although it has kept the Cambridge Water trading name.

South Staffordshire Water and Cambridge Water were both founded in 1853 to supply fresh water services to their local communities.

Over the past 160 years both have earned themselves a reputation for delivering high levels of customer service, coupled with low charges. This remains the ethos of the new larger business, which will operate as follows:

1. There will be a single business plan, encompassing both regions.
2. The Company will retain the existing price differential in the two regions. This year (2013) the average bill in the South Staffordshire region is £144 and in the Cambridge region it is £130. The weighted average is £140 – the second lowest in the country.
3. Any future price changes will reflect cost pressures. The intention is to apply the same percentage change across both regions in accordance with the new combined licence.
4. Most performance and financial data the company reports from 2015 onwards will reflect the overall business; however, some regional performance information such as the leakage levels in each of the two regions will still be available.

In July 2013, South Staffordshire Plc was acquired by the global investment fund firm Kohlberg Kravis Roberts & Co L.P. (KKR). The acquisition has not affected the Group's operation or employees and the current high levels of service will continue to be provided to the customers of each of its businesses.

## **Recent history regarding bills, including comparatives with the rest of the industry**

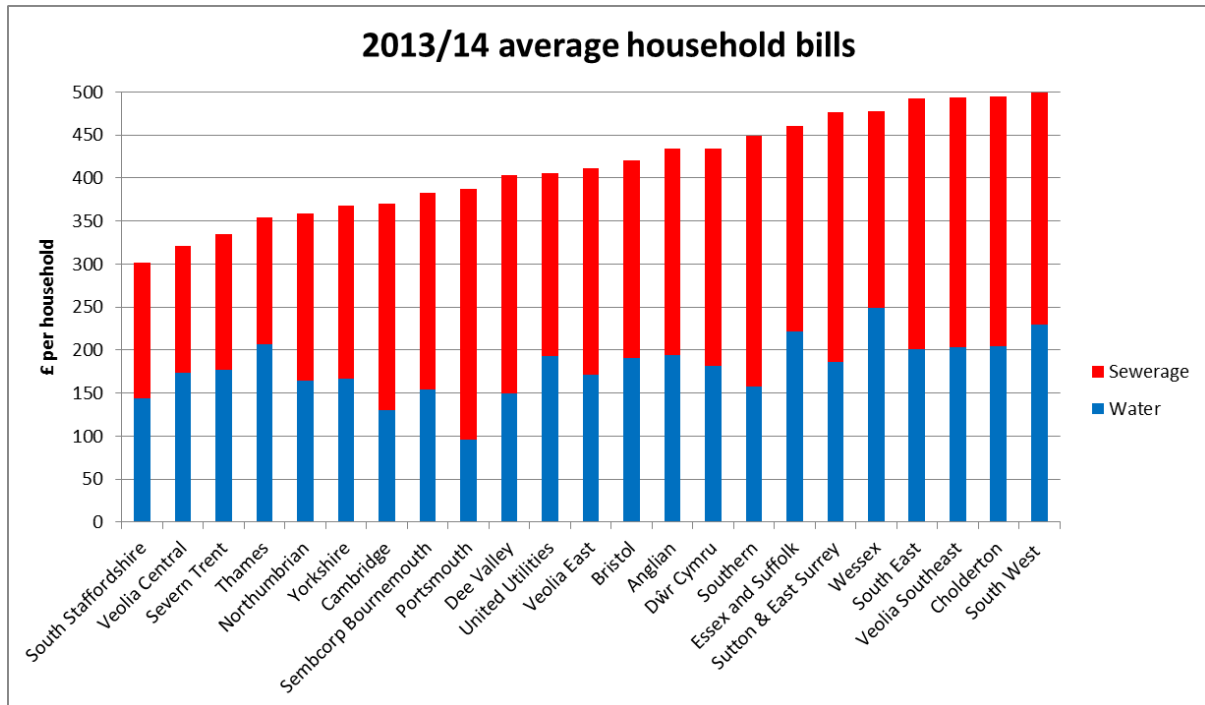
The Company is very proud of the low bill levels and high levels of customer service and is determined this will continue for the benefit of current and future customers.

It operates with the same regional challenges as its two neighbouring WASCs, however, the water element of its bills is £23 lower in the South Staffordshire region and £64 lower in the Cambridge region.

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The average water bill for the merged business is £140 – which is £46 (25%) lower than the weighted industry average (£186) and £109 lower than the highest water bill (£249).

The following chart shows the current levels of overall water and sewerage household bills in each company area<sup>12</sup>.



Source : Company

<sup>12</sup> [Ofwat PN 03/13 Water and sewerage bills to increase](#)