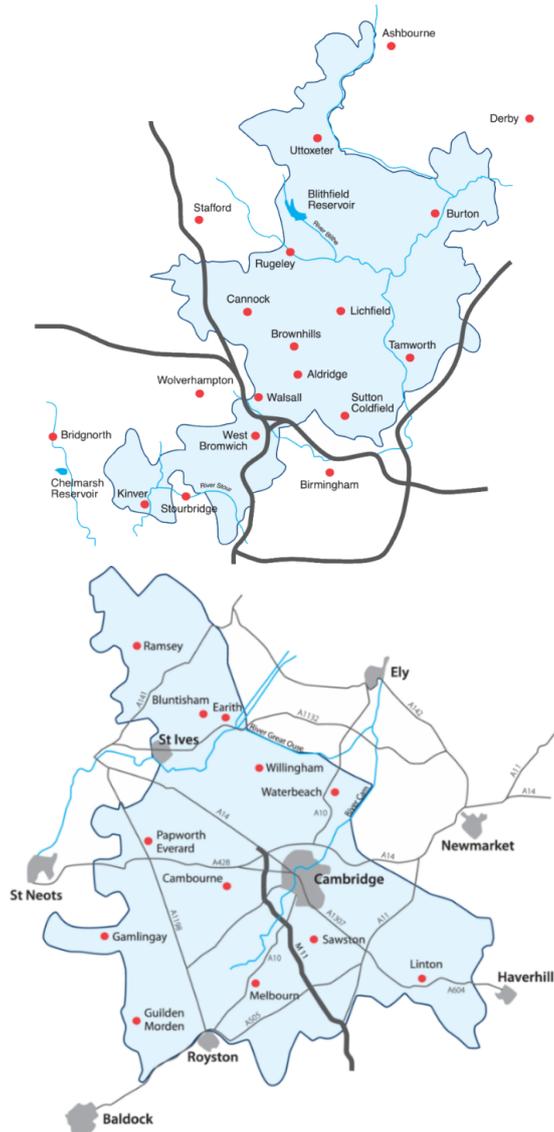


# SOUTH STAFFORDSHIRE AND CAMBRIDGE WATER CUSTOMER PANEL

## INDEPENDENT REPORT TO OFWAT

to accompany the PR19 Business Plan of South Staffs Water (SSC)



3 September 2108

# SOUTH STAFFORDSHIRE AND CAMBRIDGE WATER CUSTOMER PANEL

## INDEPENDENT REPORT TO OFWAT

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# SOUTH STAFFORDSHIRE AND CAMBRIDGE WATER CUSTOMER PANEL

## INDEPENDENT REPORT TO OFWAT

### EXECUTIVE SUMMARY

All water companies in England and Wales are required to establish an independent Panel, or Customer Challenge Group (CCG), to provide assurance to Ofwat that the company's five-year Business Plan has been the subject of effective customer engagement, and that customer preferences are reflected in the Plan. **This document** is the Panel's report to Ofwat, which is to accompany the PR19 Business Plan of South Staffs Water, incorporating Cambridge Water.

To ensure that this Report covers everything required of us, section 2 consists of a Compliance Matrix, which maps the contents of the Report against **Ofwat's Aide Memoire** on the role of CCGs.

We have gone further than most CCGs to ensure the **Panel's independence**, by establishing a Company Limited by Guarantee which owns the Panel. Our composition and method of working are described in the third section of this Report.

Although Ofwat does not require CCGs to **monitor company performance**, the Panel has regularly reviewed performance against the targets set for the current AMP. This has helped our understanding of the drivers behind the business and the regulatory framework within which it operates, and it has helped us to challenge more effectively the PCs and ODs proposed for AMP7.

**The Company has welcomed challenge**, has been open and transparent, and has logged and diligently responded to our challenges. This Report gives evidence of our challenges and the Company's responses, with examples.

The Company has made **a step change in customer engagement** between PR14 and PR19 in terms of scope, professionalism and cost. Specialist staff have been recruited, and more than £800K invested, compared with not quite £300K for PR14. Over 40,000 customers have taken part in the programme and a real effort has been made to give balanced attention to the two areas of operation.

The Company has gone to great lengths to encourage **Panel involvement in every aspect of customer engagement**, from developing the strategy through to research into business plan acceptability and affordability. We have helped with selection of some of the research agencies, attended project kick-off meetings, commented on methodology, critiqued consultation materials and questionnaires, tested online surveys, observed customer co-creation workshops and focus groups, and challenged researchers at project de-briefs.

The Panel was consulted on early drafts of the Company's Water Resources Management Plans (WRMPs). We have no reason to doubt that the Company has correctly followed the statutory and regulatory guidance in drawing up its Plans, but **we are concerned about the supply/demand balance in the Cambridge region**, and its sensitivity to assumptions about matters outside the Company's control. We support the alignment of timing of Drought Plans, WRMPs and Business Plans

Inevitably the influence that customer preference exerts over the Plan has depended heavily on the generation and application of triangulated data from

**Willingness to Pay** research. We have challenged aspects of that process with the researchers and their independent academic reviewer. The Panel believes the team has done its best to comply with Ofwat's methodology correctly. We have little confidence in Willingness to Pay as a credible way of ascribing monetary values to service improvements, and recommend that, if it is used in future, it should be carried out nationally so that less cost falls on the customers.

The Company's PR19 **CAPEX Plan** is for investment of £288m, compared with £205m estimated out-turn in AMP6. Most of the additional sum (£57m) is for upgrades to water treatment works in Staffordshire for which a Cost Adjustment Claim (CAC) is being made. This reflects the customers' top priority of water quality, and attracted 85% acceptability by customers.

The Panel has scrutinized the **processes used to compare investment proposals**, from Cost Benefit Analysis to support the efficacy and efficiency of the investments, to Multi-Criteria Analysis, which included customer preferences. Our investigations have included holding talks with the Company's external assessor.

In its investment plans, performance commitments and proposed ODIs, **the Company has reflected customer priorities as evidenced in its research**. Our report summarizes the process they have followed for triangulating a range of data from research and customer insight.

The Panel is not aware of any **regulatory concerns** that might threaten the viability of the Business Plan. We have benefited greatly from the membership and active participation of CCWater and the Environment Agency in the Panel. We are aware that the Drinking Water Inspectorate has recorded its support for the investments covered by the CAC.

We consider that the Company has put in place effective policies and systems to deliver on Ofwat's expectations for support for those facing **vulnerability**. Research results have been acted on promptly by introducing new support services without waiting for PR19.

The Company has been ambitious in its policy of aiming for **upper quartile performance in all PCs**. We have challenged in detail the 28 ODIs proposed for AMP7, resulting in a number of changes. In acceptability research, nearly 2/3 of participants considered that all the ODIs are sufficiently stretching, scores for individual ODIs being much higher.

The Company's customer research provides renewed evidence of the unpopularity of the **ODI incentive regime** and confirms strong customer preference for price stability through the five year period. We urge Ofwat to reconsider its policy of forcing price rises mid-term as a reward for over-performance. The reconciliation of customer preference with the RoRE range undermines the link between ODIs and what customers are willing to pay, which adds to our concerns about this flawed regime.

We reviewed the Company's **Assurance** Framework at our first meeting and the Assurance Plan annually thereafter. The Panel has interviewed the external auditors of the Company's Annual Performance Review (APR), who have agreed to share their reports with the Panel.

The Company asked the Panel to help make its **communications with customers** and the public easy to understand. We commend them for the openness with which

they report their performance on a web-based dashboard and have publicized on their website the results of PR19 customer research.

Research into **Business Plan acceptability and affordability** shows a high level of trust in the Company, with 67% of household customers giving scores of 8 or more out of 10. The Business Plan was acceptable to 84% of informed respondents, only 1% finding it unacceptable. 70% described the Company's proposed bill level as affordable, rising to 76% after being informed about the Business Plan.

## 1 INTRODUCTION

### 1.1 Purpose of this Report

This document is the Panel's independent Report to the regulator Ofwat, and accompanies the Company's PR19 Business Plan, submitted on 3 September 2018. Its purpose is to give the regulator independent assurance about whether the Company has adequately engaged its customers and the extent to which customer preferences are reflected in the Plan. Every water company in England and Wales is required to set up a similar panel, called generically a Customer Challenge Group or CCG. Ofwat's expectations of CCGs were helpfully collected together in an Aide Memoire published in March 2017. The Compliance Matrix in section 2 below maps those expectations against the contents of this Report.

### 1.2 Terminology

South Staffordshire PLC acquired Cambridge Water in 2011 and, after clearance by the Competition Commission, merged South Staffs Water and Cambridge Water into a single company which has operated under a unified license from Ofwat since 1 April 2013. In this report South Staffordshire PLC is referred to as 'the Group', and the merged water company as 'the Company'. We also use the three letter codes that Ofwat apply to each water company; in our case these are SSC for the operations of the whole company in both areas, SSW for the South Staffs area of operations, and CAM for the Cambridge area of operations. In SSW the company supplies 1.3m household customers and 35,000 commercial customers; in CAM the figures are 319,000 household and 10,000 commercial.

## 2 COMPLIANCE MATRIX

The following non-exhaustive list of issues, on which CCGs should include their views in their reports, is given at section 3.2.1 of Ofwat's May 2016 Customer Engagement Policy Statement and Expectations for PR19	
Ofwat's requirement	Panel Report
(i) Has the company developed a genuine understanding of its customers' priorities, needs and requirements - and where appropriate customer valuations – drawing on a robust, balanced and proportionate evidence base? Has the company engaged with customers on the issues that really matter to them?	The foundation research project (see 6.2) at the outset of the programme sought to identify customer priorities, and was tested and reinforced by the triangulation research project (6.15). For customer valuations, see especially section 8.
(ii) Where appropriate, has the company engaged with its customers on a genuine and realistic range of options? For example, in relation to a need to rebalance supply and demand, this might include increasing its own capacity, purchasing water from another company or demand management options. Where appropriate, has the company considered how customers could help co-create and co-deliver solutions to underlying challenges?	The WRMP research project (6.3) was aimed at engaging customers in the options for achieving supply/demand balance in the future. In the qualitative phase consisting of day-long workshops, customers took part in an innovative game based on Top Trumps to test their preferences for a portfolio of investments to balance supply, demand and cost.

<p>(iii) Has customer engagement been an on-going, two-way and transparent process, where companies are informing their customers as well as soliciting feedback from them?</p>	<p>Most of the research projects set out in section 6 included informed and uninformed discussion and/or surveys. The workshops on foundation priorities (see 6.2), WRMP (6.3), ODIs (6.16) and business plan acceptability (6.17) all involved two-way information flow. The Panel critiqued briefing materials for clarity or bias. Examples of two way engagement include customer workshops to help develop the WtP survey, and engaging customers who took part in earlier focus groups to user-test pilot surveys.</p>
<p>(iv) Has the company effectively engaged with and understood the needs and requirements of different customers, including those in circumstances that make them vulnerable? Has the company considered the most effective methods for engaging different customers, including those that are hard to reach?</p>	<p>A research project was devoted to segmenting customers in terms of attitudes and behaviour (see 6.8), with separate dedicated research into the needs of hard-to-reach customers (see 6.7). Subsequent surveys were analyzed by segment, where sample sizes allowed. For differentiated customer communication, see sections 12 and 15.</p>
<p>(v) Has the company effectively engaged with its customers on longer term issues, including resilience, impacts on future bills and longer-term affordability? Does the business plan adequately consider and appropriately reflect the potential needs and requirements of future customers? Wherever appropriate, has the company engaged with its customers on the long-term resilience of its systems and services to customers?</p>	<p>The WRMP research project (6.3) tested customer understanding of the need for resilience and their preferences for addressing it. Most research projects included future bill payers in their samples, and the Young Innovators Panel is aimed specifically at them (6.10). The Acceptability research (6.17) tested customer preference for bill profiles over AMPs 7 and 8.</p>
<p>(vi) Has the company effectively informed and engaged with customers on its current levels of performance and how does this compare to other companies in a way customers could be expected to understand?</p>	<p>Research into WtP (6.14), PCs and ODIs (6.16), and Acceptability testing (6.17) all involved comparing the Company's performance with others. See also section 15 on Communication with Customers. The Company has launched its own dashboard to customers on its performance and presents the results of ongoing customer engagement on its website.</p>
<p>(vii) Has the evidence and information obtained from customers (including through the company's day-to-day contacts with customers) genuinely driven and informed the development of the business plan to benefit current and future customers? What trade-offs (for example between different customers)</p>	<p>The Company has included in the Business Plan extensive Appendices detailing the journey from research, through triangulation with BAU data, to the PR19 Business Plan. We have observed the Company acting on customer insight without waiting for</p>

<p>have been identified and how has the company proposed to deal with these?</p>	<p>PR19, for instance through introduction of VAA technology or the opening of a community hub. The Panel gave particular attention to examining the journey from customer priorities and willingness to pay through to the CAPEX Plan. We report on that in sections 8 and 9.</p>
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The following 32 items are taken from Annex I in the Aide Memoire. They are requirements in PR19 Methodology for (a) CCGs to comment explicitly or (b) CCGs to challenge or (c) companies to provide evidence. The numbering is taken from the Annex 1.

Ofwat's requirement	Panel Report
<p>1. Customer challenge groups (CCGs) will provide independent challenge to companies and provide independent assurance to us on the quality of a company's customer engagement; and the degree to which this is reflected in its business plan.</p>	<p>The Panel's Report is devoted to addressing this requirement and includes copious examples of our independent challenge. We commend the Company on their high standards of customer engagement, within the limitations of the Ofwat methodology and reasonable resources. Customer priorities and triangulated WtP values have been used in the development of the investment plan and in setting of PCs and ODIs. The resulting Business Plan reflects customers' views.</p>
<p>2. Customer engagement will be a central part of the initial assessment of business plans. In assessing the customer engagement test, we will take into account evidence including, but not limited to, evidence from its CCG.</p>	<p>For the Panel's assessment of the Company's customer engagement, see section 5, and especially 5.4</p>
<p>3. We consider wholesalers should engage with <b>business retailers</b> as part of the customer engagement process to learn about their views and the views of their customers. (c)</p>	<p>For specific engagement with retailers, see 6.13. The Company is introducing its own PC to measure retailers' satisfaction level, called R-MEX (see paragraph on ODI 25 in Appendix 6)</p>
<p>4. Companies are required to provide robust evidence on how their approaches have, and will, deliver <b>affordability</b> for current customers, future customers, and those struggling. Our assessment on affordability will be supported by evidence provided by companies, the independent reports from CCGs, and evidence from other expert organisations. (a, b and c)</p>	<p>Affordability is tested continuously in the Tracking survey (see 6.1). The Acceptability research (6.17) showed that 73% of HH customers view the proposed bills as affordable, rising to 78% when informed about the Business Plan.</p>
<p>5. In assessing the <b>vulnerability</b> test, we will take into account evidence that the company's approach to vulnerability is targeted, efficient</p>	<p>See especially section 12 of this Report, and ODIs 13 and 14 in Appendix 6.</p>

and effective, including evidence from the independent CCG report. (a, b and c)	
5b. We are requiring companies to include at least one bespoke performance commitment for addressing <b>vulnerability</b> , after engaging with customers and taking on board challenges from their CCG. (a, b and c)	See especially section 12 of this Report, and ODIs 13 and 14 in Appendix 6, as well as Appendix 7 for the relationship with debt management
6a. CCGs will challenge companies on their approaches to setting <b>performance commitments</b> including how well they reflect customers' views and how stretching they are. (a, b and c)	See section 13 and Appendix 6 for highlights from the Panel's detailed review of every PC and ODI. The Company has energetically researched customer views on ODIs and targets (see 6.16 and 6.17)
6b. Companies should engage with their customers on their performance commitment levels, and challenge the <b>level of stretch</b> in their performance commitments with their customers, CCGs and other stakeholders. (a, b and c)	As for 6a above, see section 13, sub sections 6.16 and 6.17, and Appendix 6. The Company is targeting UQ performance in every PC. In the Acceptability research nearly 2/3 of all participants voted every one of the ODI targets as sufficiently stretching. Scores for individual targets were much higher.
6c. Companies will need to engage with their customers on the factors they take into account and will then explain how they have balanced these factors when setting their <b>performance commitment levels</b> using multiple data sources. The role of CCGs will be important in assuring this. (a, b and c)	As for 6a and 6b above. Please note also the Panel's challenges to Ofwat in the blue box at the end of section 13 about customer opposition to the incentive regime and in Appendix 6, ODIs 3 and 4, final paragraph, about a particularly perverse outcome.
6d. At PR19 we expect companies to forecast appropriate initial service levels for 2019-20, and for these to influence the level of their performance commitments. CCGs will challenge companies on their <b>forecasts for 2019-20</b> , as well as their performance commitment levels. (b and c)	The Panel's challenges to proposed PCs and ODIs included forecasting and past performance. See detail in Appendix 6
6e. We expect companies to have four <b>common performance commitments</b> on asset health: mains bursts, unplanned outages, sewer collapses and treatment works compliance. (b and c)	In Appendix 6, see ODIs 8 (mains bursts), and 9 (unplanned outage). ODI 15 (CRI) and 16 (delivery of WTW upgrades) are relevant to water treatment works.
6f. There should be no, or very few, exemptions included in the definitions of <b>bespoke performance commitments</b> and any exemptions need to be well justified and supported by customers. (c)	The company is proposing to meet customer preference for a flat bill over the planning period, and will not be applying either inflationary changes or performance incentives in period.
6g. Companies should propose their <b>AIM</b> incentives following engagement with local stakeholders, and assurance from the CCG. They should provide evidence of their engagement with the Environment Agency and Natural England in identifying suitable sites.	See ODI 11 in Appendix 6. The Panel did review the Company's approach to AIM in the Summer of 2016 and issued some challenges. The Company has been in difficulty identifying sites to designate, as have

(a, b and c)	other water companies. We question the value of this ODI. It is complicated to explain to customers and there are other regulatory requirements that protect the environment.
6h. We expect companies to explain how their five-year performance commitment levels and long-term projections for <b>leakage</b> take into account the views of their customers (with CCG assurance on how those views have been taken into account) and local stakeholders. (b and c)	See ODIs 1 and 2 in Appendix 6. Leakage has scored very highly in the customer research. The Company has responded with ambitious targets, especially in SSW, backed by capital spending plans.
6i. The Business Plan must explain how the company will disseminate <b>performance information</b> during the 2020-2025 period to customers, CCGs and other stakeholders. (b and c)	See section 15, particularly with reference to the Company's innovative performance dashboard on its website
6j. A company should engage with its customers and CCGs on any <b>scheme-specific performance commitments</b> . (b and c)	The only one relates to major WTW upgrades, the subject of the CAC. See ODI 16 in Appendix 6. Customers supported the CAC in research (see 9.4). The Panel was involved in devising this PC, which was tested with customers in the research projects on ODIs (6.16) and Acceptability (6.17).
7a. CCGs will challenge companies on how well their proposed ODI outperformance and underperformance payment rates reflect a suitably wide range of evidence on their customers' preferences. Companies can propose <b>reward caps and penalty collars</b> on individual ODIs, and propose <b>reputational-only ODIs</b> if supported by customer engagement, and if a PC is not well suited to a financial ODI. (a, b and c)	See section 13, and especially 13.5 and the blue box that follows. The Company has done its best to reconcile Ofwat's methodology with customer priorities and willingness to pay. We consider the methodology flawed.
7b. Companies would need to justify why <b>in-period ODIs</b> are not in customers' interests. The evidence should include customer research and views of the CCG. (b and c)	See 6f above. Customers are strongly in favour of price stability and against in-period increases. Please see our blue box at the end of section 13
7c. Companies can base their <b>ODI outperformance and underperformance payment</b> rates on the existing formulas, but amended, so as to use alternative customer valuations instead of only marginal stated preference WTP. (b and c)	As for 7a above
7d. We expect companies to obtain customer support for the overall <b>RoRE range for ODIs</b> proposed in their business plan and to propose approaches to protect customers in case their ODI payments turn out to be much higher than their expected RoRE. (b and c).	Ofwat's expectation of PCs targeted at UQ performance means that penalties are likely and rewards hard to achieve, which means that re-balancing as well as arbitrary scaling up are necessary in order to meet the

	RoRE range. See 7a above
7e. Companies should only propose financial ODIs related to <b>resilience performance commitments</b> if they reflect the particular resilience challenges facing them, are supported by evidence and by their customers and do not involve ODI outperformance payments that overlap with funding received through the cost allowances. (c)	The only resilience PC proposed is the reputational one mandated for all companies by Ofwat (see ODI 19 in Appendix 6)
7f. Companies should engage with their customers and CCGs on how their <b>asset health metrics</b> protect current and future customers and the environment. They can only propose outperformance payments for asset health performance commitments if they can show there are benefits for customers and their proposals reflect evidence of customer preferences. (b and c)	The Company is adopting the two common industry-wide PCs for mains bursts and unplanned outage, and is targeting UQ performance.
7g. The enhanced outperformance and underperformance payments are only appropriate for the common performance commitments, which are based on comparable data. This is so <b>enhanced payments</b> can be restricted to 'frontier shifting performance'. (b and c)	No enhanced payments are proposed
8. It is important that CCG reports highlight areas of <b>CCG challenge</b> , including how the company has responded to challenges and any areas of outstanding disagreement. We expect companies to take account of the expectations of the <b>Environment Agency and Natural England</b> . (a, b and c)	See section 4 on challenges and response. For EA, see section 11.
8b. We have introduced a new IAP test to require assurance from company Boards that their business plan will enable high levels of transparency and engagement with customers on its <b>corporate and financial structures</b> . (c)	The Company addresses this in chapter 7 of its Business Plan. No customer engagement has been deemed necessary on this.
9. Assessments of <b>resilience</b> should be informed by engagement with customers, to help companies understand customers' expectations on levels of service. (b and c)	The WRMP research project (6.3) tested customer understanding of the need for resilience, their preferences for addressing it, and the Panel's involvement.
9b. The company will need to demonstrate the incremental improvement of the proposed investment in <b>operational resilience</b> , that it considered a range of options, and that the proposed solution delivers outcomes that reflect customers' priorities, identified through customer engagement. (c)	In chapter 1 of the Business Plan the Company describes its approach to operational resilience and sets out the improvements it is committed to making over the AMP
10. In relation to <b>cost adjustment claims</b> , is there evidence – assured by the customer challenge group (CCG) – that customers support the	For customer support for the CAC, see 9.4 (and 6j above)

project? (a, b and c)	
11. We will look for evidence of customer support where companies take steps to address <b>financeability</b> constraints. (c)	No steps requiring consultation have been taken
12. Companies should take into account customers' views on the profile of bills over time, and understand their implicit views on the impact of <b>PAYG and RCV</b> run-off choices on bills, short term and long term. (c)	Customer views on pricing over AMPs 7 and 8 were tested in the ODI research (6.16) and the Acceptability research (6.17). In response the Company is proposing flat bills, even to the extent of taking the risk of assuming inflation. See also 6b and 7f above.
13. We expect to see customer support for proposed adjustments to the 2020-25 price controls, and evidence that the company has followed the <b>PR14 reconciliation</b> rulebook methodology. (c)	The Company's proposed PR14 reconciliation adjustments are incorporated within the flat bill they have presented to customers. For the customer acceptability and affordability test, see 4 above, and 6.17 below.
14. A <b>high-quality business plan</b> (bullet points most relevant to the CCG role): <ul style="list-style-type: none"> <li>• Is grounded in excellent customer engagement, with a wide range of evidence.</li> <li>• Should include stretching outcomes and performance commitments that reflect what customers want, and their relative priorities, and clear line of sight from these through the plan. It should also include evidence of consideration of customer participation;</li> <li>• Is affordable for all current and future customers, with appropriate assistance provided where needed;</li> <li>• Sets out the company's approach to effectively and efficiently identifying and providing support for customers in circumstances which make them vulnerable. (c)</li> </ul>	<ul style="list-style-type: none"> <li>• The Company's PR19 customer engagement programme has been a step change from PR14, actively involving five times as many customers, and costing a substantial £800K over two years (see 5.4 below)</li> <li>• For stretching outcomes, see 6b above</li> <li>• For affordability, see 4 above</li> <li>• For vulnerable customers, see 5 and 5b above</li> </ul>

### 3 THE CUSTOMER PANEL

#### 3.1 The Panel's predecessor

In the preparation of its business plan for the current five-year period, 2015-2020, the Company started out with two Customer Challenge Groups (CCGs), one for SSW and one for CAM. The CCGs were merged into one towards the end of the plan preparations. The combined CCG was chaired by Professor Bernard Crump, Chair of the Central and Eastern Region of the Consumer Council for Water (CCWater). After approval of the business plans of all the water companies and settlement of their prices for the current period, Ofwat reviewed and consulted on the effectiveness of CCGs and concluded that some improvements were needed. In particular, CCGs should have greater independence and should run continuously instead of being set

up for just one planning cycle. The Board of SSC determined that a new CCG should be created in order to effect these changes.

### **3.2 Establishment of the Panel**

Public advertisements were placed for an independent Chairman to set up the new CCG. In August 2015 interviews were held by a selection panel consisting of an independent Non Executive Director of the Company, the Regional Chairman of CCWater, and a search consultant. The initial job of the Chairman was to lead the design and establishment of a new CCG, independent of the company. The name adopted for the CCG was the South Staffordshire and Cambridge Water Customer Panel. A shorter name would have been better, but we could not escape the need to flag both of the areas the Company operates in. The title of CCG was not used, partly in order to signify a fresh start after PR14, and partly because 'Customer Panel' is clear to all, whereas CCG is familiar only to those in the sector. To establish the Panel as an independent entity, a Company Limited by Guarantee (CLG) was set up, whose principal object is to host, enable and support the Panel. The CLG is called South Staffs Customer Forum. It was incorporated on 24 April 2016, company number 10143207. The opening pages of the Articles of Association, including the Objects Clause, are given in Appendix 1. The full Articles and the Panel's Terms of Reference can be viewed on the Panel's website <https://www.customer-panel.co.uk>.

### **3.3 Panel Membership**

The Panel is chaired by a consultant with 30 years' experience as CEO of professional bodies and Chambers of Commerce, working at the interface of business and the government at local, regional and national level. In appointing the team, priority was given to customer representation over organizational nominees. Recruitment included advertising on the Company websites in SSW and CAM for customer volunteers. Appendix 2 shows the members of the Customer Panel at the time of this report. Individuals come from both areas of operation and are chosen for the variety of professional and personal experience they bring to the task. Since the Panel began, its members have included:

- A public health doctor, previously CEO of a Strategic Health Authority, now Chairman of the Consumer Council for Water (CCWater) region which includes the Company
- A company Director with a portfolio of major infrastructure projects, and responsibility for health and safety, quality, environmental, and security compliance
- Deputy Director of one of the largest of the 48 Rivers Trusts devoted to environmental protection of the Company's biggest water catchment area
- A Master Plumber, lecturer and examinations assessor, currently Vice President of the Chartered Institute of Heating and Plumbing Engineering
- An elected member of the County Council which covers the majority of the Company's customers, who is also an anti-terrorism specialist
- An ex-local authority CEO and Chairman of the Charitable Trust which provides financial support to the Company's customers in need
- A professional researcher and environmental consultant, usually working for CPRE, BEIS, DEFRA and/or DCLG, specializing in energy efficiency
- A consultant surgeon, university lecturer and Fellow of a Cambridge College
- A Group CEO whose businesses include construction, recycling, and sustainable farming
- A River Basin Account Manager for the Environment Agency (EA), with experience in compliance and enforcement roles as well as strategic planning.

### **3.4 Relations between the Panel and regulators**

Like other CCGs, the Panel has managed without the participation of the Drinking Water Inspectorate (DWI) – see 11.3 and 10.3 below. By contrast we have benefited greatly from the Environment Agency (EA) and CCWater, who both accepted places on the Panel. Both were encouraged to bring along members of their executive team to support them and help the Panel. We are indebted to them for their expertise, for the experience they bring of previous planning rounds, for their knowledge of lessons learned elsewhere in the country, for their own organisations' research and insight into customer needs, and for comparative data on water company performance.

CCGs have benefited from quarterly meetings between their Chairs and Ofwat staff, enhanced by regular attendance of the Ofwat CEO and, on one occasion, the Chairman. Although created on the instructions of the economic regulator, CCGs are independent of Ofwat and have held some lively debates with Ofwat about policies and methodology related to PR19 in general, and customer engagement in particular. Our own Chairman has attended all these meetings, and the Panel has been represented at virtually all the workshops, conferences and consultation events held nationally.

### **3.5 Relations with the water Company**

The Company has treated the Panel with openness, providing or seeking answers to our questions, and never challenging our reasons for asking. In return Panel members have signed Non-Disclosure Agreements. All Panel members were given induction of a day or more on Company sites, including briefings by operational managers, observation of a control centre, visits to water treatment works, and a tour of the Eddington site in Cambridge to view Europe's largest development incorporating rainwater harvesting and gray water. Initially our primary contact was the Customer Services Director, latterly the PR19 Lead. In the 18 months leading up to this Report, a close working relationship developed with the Customer Research and Insight Manager, who adapted his method of working to facilitate opportunities for Panel members to observe and challenge each component of his programme.

The following statement by the Panel Chairman appears in the Company's statutory accounts for 2017/18

"The Customer Panel has been set up at the instigation of the regulator Ofwat and is separate and independent from the water company. Our role is to give assurance to the regulator when they receive the Company's proposed five year business plan for 2020 to 2025 about whether customers' views have been adequately researched and how far the plan reflects customer preferences. As Chairman of the Panel, I am grateful to the Company for its openness, its respect for the Panel's independence, and its unfailing delivery of whatever information or practical support we need to carry out our role."

The Company has worked hard to support the Panel in fulfilling its role. Most Panel meetings have been attended by the Company's Managing Director, all of them by appropriate members of the senior management team. Three of our meetings were

observed, at our invitation, by a non-executive member of the water Company's Board of Directors, being respectively, the Group Chief Executive, an independent NED, and the senior independent NED just before his appointment as Company Chairman. The Panel Chairman has attended a Company Board meeting each Summer, and been invited to seek other meetings if required. The Company has respected at all times the Panel's independence. For example, although the Panel's Terms of Reference provided for the Chairman to report to the Company Board on initial appointments, when this was attempted, the Board's decided it would not be appropriate to interfere.

### **3.6 The Panel's method of working**

Until the last 12 months, the Panel held quarterly meetings. In the year leading up to this report, we met bi-monthly. After our first year of operation, in which we met alternately at Walsall and Cambridge, we trialed and adopted video conference (VC) for our meetings, using the Company's facilities at its two area offices, with one face-to-face meeting annually at a venue mid-way. Meetings started as half a day in duration but increased to a full day for the last two years.

Four Sub-Groups were set up so that, on behalf of the whole Panel, a few members could familiarize themselves in more detail with critical or complex areas of our remit. The first of these was a Vulnerability Sub-Group, set up as a joint venture between the Panel and the Company's long-established Charitable Trust, which awards financial support to customers in need. Two others focused on Willingness to Pay and Capital Expenditure (CAPEX), and a fourth led on Performance Commitments and Outcome Delivery Incentives. Sub-Groups have reported to each full Panel meeting, where their challenges have been offered for debate and adoption.

Between meetings, work has been progressed by VC, conference calls and email. From the start of the customer engagement programme, regular updates have been circulated by the Company highlighting forthcoming opportunities for Panel involvement. A Report Writer was recruited to help with Minutes and with assembling this report. On three occasions the Panel has engaged the paid services of a customer engagement specialist, to give advice on how the Panel might challenge more significant or complex components of the Company's research programme. The way the Panel has challenged the Company is summarized in the next section of this Report.

### **3.7 Financing the Panel**

Funds have been provided to the CLG by the Company to cover the costs of the Panel. The Chairman is remunerated, and so is the Report Writer. Members of the Panel are unpaid volunteers. Those who wish, are entitled to a day allowance for a Panel meeting or other day-long event, a half-day allowance for shorter attendance, and travel expenses at HMRC rate. Accounting services have been provided free of charge by the Group, so that the Company remains at arm's length from the Panel.

## INDEPENDENCE

The following steps have been taken to ensure the Panel's independence:

- The Company was in a minority on the panel which appointed the independent Chairman
- The Panel is owned and operated by a Company Limited by Guarantee, registered with Companies House
- The Panel's independence is enshrined in the Articles of Association of the CLG, and in its own Terms of Reference
- The Panel has appointed its own members, set its own agendas, written and published its own Minutes, and taken independent advice from third party experts as needed
- The Panel has its own separate website, not hosted by the Company, on which its purpose and work are open to public scrutiny (see <https://www.customer-panel.co.uk/about-us>)

## 4 CHALLENGES AND RESPONSES

### 4.1 Challenge Log

The Panel set out to compile a Challenge Log of all the challenges made to the Company, and their response. It was assumed that the Challenge Log would form an appendix to this Report. However, in the light of experience, we changed our mind for a combination of three reasons:

- whilst some of the Panel's challenges were substantial (such as querying the underlying strategy of a programme or interrogating the methodology of a project), others were simply seeking information, giving feedback, or matters of detail (such as suggesting more customer-friendly wording). All of that involvement helps keep the Company focused on its external stakeholders and customers, but not all of it is worth recording;
- in the Panel's first year the number of topics we reviewed, and the volume of challenges that resulted, were small. However, in the year leading up to this submission, our engagement has been substantially higher and the volume of challenges would have been too onerous to log;
- the Company kept a comprehensive log of internal and external challenges to the customer engagement programme, which is available to both the Panel and Ofwat, and which would have duplicated much of the contents of the Panel's Challenge Log.

## 4.2 Approach to challenges in this Report

This Report gives an account of the topics and initiatives the Panel has reviewed. In the various sections of the Report, a summary is given of the Panel's involvement, with a flavour of the challenges we raised. In two cases, in which we made significant strategic challenges that led to considerable dialogue, the challenges are set out in full, augmented by the Company's response, in Appendices. They are (a) the strategic challenges we made to the customer engagement strategy (see Appendix 3) and (b) a set of challenges to the Company's WRMP for the Cambridge region, triggered by the impending supply/demand deficit in the east of England (see Appendix 4). Throughout the customer engagement programme, the Company kept a log of challenges to each research project. Two examples are given in Appendix 5, related to (a) WRMPs and (b) Performance Commitments, ODIs and resilience. Our more substantial challenges were all recorded as emails to the Customer Research and Insight Manager and/or documented as an agenda paper for Panel meetings. We will gladly provide more to Ofwat if needed.

## 4.3 Company responses

The Company has dealt professionally with our challenges. They have actively invited Panel involvement – occasionally on matters which we felt outside our remit and declined to deal with. They have worked hard to give us responses to the majority of challenges in writing. They have made innumerable changes as a result of the Panel's suggestions or criticisms (for example from our critique of the quantitative survey about acceptability of the business plan, all but 12 of the 80 suggestions were actioned or remedies implemented). When deciding not to act on a suggestion by the Panel, they have been careful to give a rationale. They have always provided more information or done more analysis when requested, and frequently offered a further opportunity to influence the outcome at a later stage.

The Panel's task is to challenge the Company on its performance and, more particularly, on its engagement with customers over its Business Plan 2020-25. The Company has consistently invited and welcomed challenge, providing information and explaining rationale willingly, responding to challenges conscientiously and in writing, making countless changes and adaptations in reply to the Panel's suggestions. Technical challenges have been pursued with the researchers or with Peer Reviewers, sometimes leading to further analysis or supplementary research.

# 5 CUSTOMER ENGAGEMENT

## 5.1 Development of the Strategy

At the Panel's first meeting in April 2016, the Company's past approach to customer engagement was outlined. Its main components had been: insight gained from over 500,000 customer contacts received annually by the call centre; research carried out for PR14 into customer priorities, willingness to pay, and acceptability of the proposed business plan; SIM surveys carried out independently for Ofwat; complaints surveys carried out nationally by CCWater; and one-off research into issues of concern,

which had recently looked at website usability, bill design, and post-merger branding.

At our second meeting the Panel convened a sub-group to consider the Company's proposals for a new strategy for PR19, for which we recruited as an independent advisor the Managing Director of Conscious Communications, a Cambridge firm specialising in customer engagement. A meeting with the Company was held on 17 October 2016. In that discussion, the Panel challenged the Company on lack of progress so far, and advocated recruitment of an internal resource rather than an outsource supplier to lead the engagement programme. The Company agreed to appoint a Customer Research and Insight Manager, who started in April 2017. So it was not until July 2017 that a Customer Engagement Strategy was presented to the Panel. In the meantime the Panel was shown in January 2017 a high level timeline and the main research projects that would make up the programme. Since April 2017 the new manager has refined and delivered the strategy with diligence and skill, showing enthusiasm for involving the Panel at every stage, and responding conscientiously to our challenges.

### **5.2 Practical challenges to the Panel**

As the programme gathered momentum, the role of the Panel changed. Invitations to challenge materials or observe customer engagement initiatives multiplied. This brought two problems: first to manage the amount of activity being invited from our small band of unpaid volunteers, and second to maintain a clear focus on our role as a CCG. That role is not to help the Company in its customer engagement, but to challenge the thinking behind it, the choices made, the purpose and methodology of the research, the interpretation of results and, crucially, the influence of customers' views on the draft Business Plan.

To manage the workload a Programme Tracker was developed which showed all live research or insight projects week by week, with start and finish dates and milestones. The Programme Tracker was updated and circulated to the Panel regularly, drawing attention to up-coming requests and opportunities for involvement. For each project a one or two page brief was prepared as a ready reference to remind us of its purpose and methodology. These tools enabled us to plan and prioritize the multiple opportunities for the Panel to be involved, whether in challenging the methodology at a project kick-off meeting, commenting on survey scripts, show-cards or pre-tasks, observing and giving feedback on focus groups, reviewing the content and structure of questionnaires, testing pilot surveys, joining Company colleagues in interim or final de-briefs, or challenging the interpretation of results at a Panel meeting.

### **5.3 Strategic challenges to the Company**

Conscious of the danger of getting too close to the detail, and to the Company team who were working so hard to deliver the projects, the Panel consulted its external advisor and formulated a set of 11 strategic challenges in September 2017. Ideally these challenges would have been issued before the programme was under way, but they had to wait until the newly appointed Customer Research and Insight Manager had taken control and given the programme strategic direction. That delay conferred the benefit that the Panel had by then seen the research programme in action and been involved in early projects. The 11 challenges related to:

1. The clarity of objectives for the research programme
2. The adequacy of the budget and its comparison with PR14 and, if possible, with other water companies

3. The likelihood of duplication between the many projects making up the programme
4. Collaboration with the waste water companies who share SSC's customers
5. Whether the programme was innovative enough
6. How research results would be fed into the business and how the outcome would be monitored
7. The proposed methodology for triangulation
8. Whether there was scope for flexibility as the programme developed
9. How the effectiveness of briefing material given to participants could be tested
10. How inter-generational fairness would be addressed
11. And how the impact of the programme would be evidenced to customers and stakeholders.

The Company gave a thorough response to these challenges at the Panel's seventh meeting in October 2017, and has updated us at every meeting since. These strategic challenges are central to the Panel's assessment of the customer engagement carried out by the Company. They are therefore shown in full, with the Company's response, in Appendix 3.

#### **5.4 Quality of the Programme**

The Company's customer engagement programme for PR19 marks a step change from PR14. The next section of this Report summarizes the Panel's involvement in 17 different projects designed to engage customers. Over 40,000 customers have been engaged with directly in the programme, five times as many as were involved for PR14. As mentioned above, the Company recruited an engagement specialist from the retail sector to drive the programme. Ten professional agencies have been contracted for the research, compared with four for PR14. Over this year and last, £800K will have been spent, compared with £300K for PR14. The range of techniques employed is impressive. The Panel has particularly welcomed: innovative approaches (such as the Top Trumps game in the WRMP research and the WaterSmart pilot in Cambridge); the flexibility which has been shown in adapting research briefs to address unexpected results (such as a wave 2 survey in the WtP project); the involvement of customers in co-creation (such as hard-to-reach customers co-creating the Extra Care programme, or focus groups helping design more user-friendly bills, or workshops that helped shape the WtP survey); and the willingness to take initiatives in response to customer feedback without waiting for PR19 (such as introducing VAA links and an APP for online communication).

In the Panel's view the Company's customer engagement has not been driven by regulatory requirements but is an integral part of a strategic review of the business. The review has been aided by the secondment for a year of a specialist consultant experienced in retail strategy, whom the Panel invited to its eighth meeting in January 2018. The emerging strategy embraces many components of the PR19 agenda, such as segmentation, vulnerability, affordability, debt management, and customer communication; but it also has wider objectives such as business development and corporate culture change. Whilst these may extend beyond the Panel's remit, they provide a context for customer engagement by placing the customer at the heart of the Company's strategy.

## 6 CUSTOMER RESEARCH

### 6.1 Customer tracking survey

Before the PR19 customer engagement programme began, the Company was already running an annual tracking survey, which assesses customer views on the Company, the quality and affordability of service, and the level of customer satisfaction. The research for 2017 to 2019 was contracted to Accent and was based on 600 telephone interviews (400 HH and 200 NHH) carried out in March and April. The Panel was invited to comment on the draft survey script and made 20 challenges, including the length of the survey, the balance of questions, the need for plain English, the relevance of Net Promoter Scores for a monopoly service, and the implications for the NHH survey of retail competition. A written response was provided by the Company to each of our challenges.

The survey evidenced continuing high levels of trust and satisfaction, especially from HH customers, with useful pointers in the brand awareness questions to areas that required improvement, such as a low level of knowledge about the support available for vulnerable customers. Overall satisfaction was at 98%, and the combined score for value-for-money and affordability was 90%, both of these equal to the Company's Performance Commitments. The 2018 full year report was previewed by the Panel at its 10<sup>th</sup> meeting in May 2018. Overall satisfaction had fallen below target to 97%, but the score for value-for-money and affordability among household customers had risen to 94%. The Company has made important improvements to the survey by making it continuous rather than annual; from June 2017, 50 interviews will be carried out every month, with quarterly reports.

### 6.2 Foundation research into customer priorities

The PR19 customer engagement programme began with research to establish a baseline of HH and NHH customer priorities, uninfluenced by Company proposals for PR19. The agency selected was Accent and the fieldwork consisted of 10 pre-tasked 90-minute focus groups, 6 in-depth interviews with household and small business customers, 4 in-depth interviews with large NHH customers, and 15 at-home interviews with vulnerable customers. Panel representatives took part in the inception workshop in April 2017, and critiqued the draft Topic Guides that followed. We challenged the balance of focus groups between Cambridge and Staffordshire, the criteria for sampling, and the choice of pre-task exercises. We favoured segmentation by lifestyle rather than age, and advocated that the discussion should include the responsibilities of customers and the community as well as of the Company. Panel members observed some of the focus groups. Results were presented to the Panel in July 2017. Overall top customer priorities were fair and accurate billing, water quality, customer service and continuity of supply. Other important areas were education, and investment in infrastructure for now, with smart meters and provision for population growth for the future. Comparison with research done at the time of PR14 suggested that top priorities then are now considered as hygiene factors.

### 6.3 Water Resources Management Plan (WRMP)

In May 2017 the Company issued a project brief for research in two stages with the twin objectives of (a) testing customer and stakeholder support for key policy decisions in the two draft WRMPs for SSW and CAM, and (b) providing customer preference data to feed into the Multi Criteria Analysis of investment options for PR19. The Panel declined an invitation to take part in selection of the agency on the grounds that we should not interfere with the Company's procurement process and that our concern was with the methodology and interpretation of results. The Panel took part in the stakeholder review session on 26 June with the Company and the appointed agency, Community Research. The purpose was to agree the content of

two day-long workshops with 32 people at each, which were to be followed by 500 online interviews, two re-convened customer workshops and two half-day workshops for large business customers and other stakeholders. The day-long workshops and reconvened workshops included HH customers, future bill payers, SMEs and vulnerable customers. The workshop sessions featured a Top Trumps style game for identifying customer preferences by balancing a variety of outcomes against costs. The Panel challenged aspects of the sampling and the adequacy of environmental content, observed workshops and reconvened workshops, took part in the interim review session, critiqued the online survey, and received a de-brief from the research agency at our seventh meeting in October 2017. The challenge log compiled for this project is one of two example logs shown in Appendix 5 below. For the way in which the output from this project influenced the Business Plan, see section 9 of this Report on CAPEX and the CAC.

#### **6.4 Metering uptake**

In July 2017 the Company engaged Qa Research to help them understand the barriers which prevent customers switching to a meter. Water meters are used by 33% of HH customers in SSW and a very high 70% in CAM. The research was targeted at a broadly representative sample by age, gender, SEG, and urban/rural location, all of them in households that should benefit financially from a switch. 202 telephone interviews were made. The results have been triangulated against data on customer views about metering collected in several of the subsequent research projects.

#### **6.5 Retail household services**

The Company drew up a research brief in September 2017 inviting bids for seven proposed work-streams, which would contribute to a new retail strategy to accompany the PR19 business plan. It was open to bidders to offer the whole package, or parts of it. The components were: what service level customers expect in their different touch-points with the Company; what forms of communication and access customers prefer; what services and support should be given to vulnerable customers; how can customers best be segmented; how can bills be more user-friendly; what are the views of future bill payers; and how to establish an online resource for continuous engagement with customers. Since the nature of the bids would determine not just the methodology but the number and scope of projects, the Panel agreed to participate in the selection of contractor/s by contributing to the scores on methodology. Agencies were interviewed on 2 and 4 October 2017. The resulting projects are summarized in the following five paragraphs, except for the online community for customers, which is yet to be launched in 2019.

#### **6.6 Customer journey**

The first two work-streams in the retail framework were combined into a single project. The contract was awarded to Explain Market Research. Its aim was to get customers to describe their experience of dealing with the Company at certain key junctures such as moving house or reporting a leak, and to help the Company devise ways to improve the experience. The research included what service levels and response times customers expect, which channels of communication are preferred for which purposes, and whether these answers differ between current and future bill payers or between customers in SSW and CAM. A three-stage methodology started with two five-hour workshops involving 62 HH customers, followed by 700 CATi interviews to quantify and validate the findings of the qualitative work. The third stage (after submission of this Report) will be dissemination of findings by a customer journey mapping expert at an all-day Company workshop devoted to improving the experience of a customer moving house. Panel members attended the kick-off meeting in January 2018, but were unable to observe either of the workshops. We reviewed the pre-task and materials for the workshops, critiqued the draft questionnaire for the quantitative phase 2, and were represented at the final de-

brief. At the Panel's first meeting after submission of its PR19 Business Plan, the Company has agreed to report on the proposed improvements to customer experience and communications arising from this research.

### **6.7 Hard-to-Reach Customers**

The sampling specification for most of the quantitative surveys in the Customer Engagement Programme has included substantial numbers of customers facing vulnerability. But in October 2017 DJS Research was contracted to carry out research aimed specifically at learning how to engage hard-to-reach customers, what services and support they most need, and how to plan service improvements for them, given the transient nature of many vulnerabilities. Stage 1 consisted of 20 two-hour interviews in customers' homes, 13 of them with a carer present, plus five one-hour teledepth interviews with organisations which help such people. In stage 2, two co-creation workshops were held, one in SSW and one in CAM, at which selected customers from stage 1 helped the Company devise a suitable support package. Members of the Panel's Vulnerability Sub-Group attended the project kick-off meeting, critiqued the recruitment screener, the pre-task, and the discussion guides, attended an interim review on 14 December 2017 to discuss top-line learnings and ideas to take forward in stage 2, observed the co-creation workshop in the Cambridge region, and attended the final de-brief on 8 May 2018. Throughout the project, pen portraits of customers' views were shared with interested Panel members.

### **6.8 Customer Segmentation**

Previously the Company segmented only by HH and NHH, and by whether households had a meter or paid on the basis of Rateable Value. The purpose of this project was understand the differences between customers in terms of their behaviours and attitudes, and to form a basis for tailoring services and communication to their different needs. Accent Research, was appointed at the beginning of October 2018. The methodology was 800 telephone and online interviews to identify potential segments, followed by focus groups for each segment to test and refine the definitions, and then 420 interviews by telephone and CATi to elaborate the algorithm, measure the size of segments and work out golden questions for allocating a customer to their segment. The final stage will comprise workshops in-company to disseminate the findings among the senior team. Panel members critiqued the scripts for both the quantitative surveys and for the pre-tasks and discussion guides for the qualitative focus groups, as well as observing some of the focus groups, and attended the interim de-brief. A presentation on the results was made to the Panel at its ninth meeting in March 2018. Subsequent research, such as that into acceptability of the Business Plan, has been designed so as to enable analysis of response by customer segment, which is a useful test of the model. Early results are providing reinforcement for the segments as devised.

### **6.9 Billing**

The need for this project was illustrated by the finding in the Tracking Survey for 2017/18 that over 50% of household customers have difficulty understanding their bill. Qa Research was commissioned to find out more about: what customers want from their bill; how do they use it; how often and by what method would they like to get it; how can it be made more customer friendly; how effective are extra communications enclosed with it; and how can take-up of e-billing be increased. Methodology consisted of eight 90-minute qualitative focus groups leading to a quantitative survey of 1000 household customers. The Company plans to supplement the quant survey later in the year by face-to-face interviews with vulnerable customers who might not be reached online. The focus groups were held in June 2018, with 59 respondents selected to provide a representative sample of household customers in both areas. The groups were pre-tasked to look at their

water bill and other household bills and say what they liked and disliked most. The groups helped co-design the quantitative survey to test ideas and options for designing and issuing bills. Panel representatives attended the kick-off meeting, critiqued the pre-task and discussion guides for the focus groups, viewed and gave feedback on the focus groups, participated in the interim de-brief, reviewed and suggested amendments to the quant survey. The final de-brief will take place three days after this Report is lodged.

#### **6.10 Young Innovators Panel**

Many of the research projects included future bill payers in survey samples and focus group workshops. This project exclusively engaged young people, and is an example of the Company acting on customer views identified early in the research programme without waiting for Business Plan approval. Education of present and future customers ranked high in customer preferences, especially among participants in projects that involved briefing them on supply/demand issues. For this project, 19 16-to-18 year-olds were selected from mixed backgrounds across 13 schools in South Staffordshire to take part in a day at the Company's headquarters learning about water and then, split into teams, to work on a task over the Summer holidays whose objective is 'to change the way your generation thinks about how it uses water'. Teams will present their solutions to a Dragon's Den style judging panel in October. The Panel were consulted on the material to be used on the day at Company headquarters, and will take part in the judging panel.

#### **6.11 Developer Forum**

Following changes in charging rules introduced by Ofwat on 1 April 2017, the Company engaged DJS Research to facilitate two developer workshops in October and November 2017, one in SSW and one in CAM, to consult on a new charging framework covering connection charges, requisition charges and infrastructure charges. The forum was designed for developers, Self Lay Providers (SLPs), New Appointments and Variations (NAVs), and other stakeholders like housing associations. The Panel observed one of the workshops. Although the new charges being driven by Ofwat fall outside PR19, the forums were relevant to the Panel's concern for customer engagement in that they reached out to stakeholders who are often ignored. Participants were appreciative of the Company's treating them like customers, and welcomed the suggestion of occasional repeat events. They compared the water industry favourably with other utilities, and SSC favourably with other water companies. Although outside the scope of the charging consultation, the need for regulatory initiative to unlock water efficiency in new housing was a lively topic of discussion.

Partly to follow up that discussion, a second event was organized for 4 July in Northampton. 24 people accepted. Although only 14 attended, the group included the full range of stakeholders invited and a high level of satisfaction was registered for the event with an equally high demand for a future repeat. Developers liked the new charges, because they are simpler. They were glad to meet the Company's Developer Services Team and favoured introduction of account managers, as long as they are knowledgeable enough to answer enquiries themselves. The proposed D-MEX measure was appreciated, though developers would prefer it if all such processes were shared between water companies. The proposal for redress after a service failure was welcomed but the amount was considered too small to be effective. A similar response was given to the proposed incentive to build water efficient homes.

#### **6.12 WaterSmart trial**

A number of the focus groups and surveys generated by the engagement programme have revealed customer attitudes to the use of meters. It is our view that

the concept of metering has been set back by a historical decision to market it as a way for some lucky households to reduce bills, instead of as a way to ensure that all households are charged fairly. However, households are now used to smart meters for electricity and gas, which give them real time information, and hence greater control of their consumption. One day, smart meters will be available for water, and many customers already see smart meters as part of the solution to managing demand. They include environmentally aware customers, younger customers, some hard-to-reach customers, and, not surprisingly, many who fall in the “savvy switchers” customer segment.

SSC is one of the first UK water companies to team up with the US firm WaterSmart in a one-year trial with over 15,000 households in CAM to test the efficacy of frequent meter reading and regular communication about usage, as a means of reducing household consumption. Results will not be available until there is a timeline of data from which to compare the behavior of households taking part with that of a control group. The Company's WRMP forecasts depend partly on the success of measures to reduce per capita consumption, particularly in CAM. The Panel welcomes the WaterSmart initiative which will provide a valuable test for the assumption that information and communication can reduce per capita consumption. Two members of the Panel joined the WaterSmart trial as participants, critiqued the registration questionnaire, user-tested the online portal, and commented on the half-year survey of participants carried out in May 2018.

#### **6.13 Non Household Retailers**

In February 2018 the Company appointed Qa Research to carry out 30 in-depth interviews with retail suppliers to non-household customers, following the introduction of retail competition for NHH customers in April 2017. The purpose of the research was to gain insight into the service level preferences of NHH retailers (whether current SSC customers or not), and to inform the development of a bespoke Performance Commitment. Panel representatives critiqued the survey questionnaire, and attended the final de-brief in April. To judge from other CCG Chairs, this initiative by SSC may have been unusual, both in consulting NHH retailers and in proposing a retail customer satisfaction measure (R-MEX). The 11 retailers who took part appreciated the consultation but made it clear that the top priority for them was standardized processes across the industry, their margins being too tight to focus on anything but process efficiency.

#### **6.14 Willingness to Pay research**

Ofwat's PR19 methodology gives Willingness to Pay (WtP) a central position in the customer engagement process and makes it a key determinant of the CAPEX content of a PR19 business plan. We have therefore added a separate section on WtP in this Report (section 8). For completeness however, the research project and the Panel's involvement in it are summarized here, along with all the other research initiatives. The Panel was again invited to play a part in the selection of a contractor. Unlike for the WRMP project, we agreed this time, because (a) this would be the biggest contract in the customer engagement programme (b) the result would be a key input to the evaluation of investment options for AMP7, and (c) the choice of agency would determine the methodology, which was a primary focus of the Panel.

At the heart of the methodology proposed by the successful agency (Impact Utilities) were 6 Engaged Customer Panels (ECPs), each to be convened twice into focus groups whose task would be to help create a quantitative customer survey that would be piloted with 600 participants, and then completed by 2,000 HH and NHH customers, in a mixture of online and face-to-face. The Panel attended the project kick-off meeting, helped with stakeholder consultation over the methodology, reviewed the discussion guides and observed some of the ECP focus

groups, critiqued the quantitative survey and show-cards, commented on the results of the pilot, and attended the interim de-brief on 4 December 2017. The Panel challenged aspects of the analysis of results, and it was decided to run a re-test consisting of two ECP focus groups, a pilot and a main survey, covering nearly 1000 customers split between the two areas. Again Panel members reviewed the questionnaire and show-cards, and attended the re-test de-brief on 17 May 2018. (See section 8 of this Report headed Willingness to Pay.)

#### **6.15 Triangulation research project**

In February 2018 the Company engaged Accent, partnered by PJM Economics, to carry out a project to apply the four principles set out in CCWater's June 2017 report "Defining and Applying Triangulation in the Water Sector" to seven sources of data derived from research and customer insight, in order to develop (a) a robust hierarchy of customer priorities for demand and supply side options, with variations by geography if any, and (b) a proportionate evidence base for the level of investment favoured by customers to achieve the performance they expect in the forthcoming AMP. These two outputs would be fed into the Investment Optimisation tool and used to help determine ODI incentives. Given the technical complexity of this project, and its impact on the Company's ability to reflect customer preferences in its Business Plan, the Panel engaged independent advice once again from Conscious Communications to help formulate effective challenge to the triangulation project. The result was a set of challenges, 2 strategic and 8 specific, to which the Company gave written response. The Panel took part in the phase1 de-brief and the final de-brief, as well as interviews with the research manager and Peer Reviewer. (For the application of this research and the Panel's challenges to it, see section 8 of this Report headed Willingness to Pay and section 9 on CAPEX and CAC.)

#### **6.16 PCs, ODIs and resilience**

In January 2018 the Company appointed Explain Market Research to carry out research into customer reactions to the Company's draft Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs) for 2020 to 2025. At the same time, the Panel formed a Sub-Group to focus on this critical part of the Company's Business Plan. It was subsequently decided to extend the scope of the research to include customer support for the Cost Adjustment Claim (see 9.4 below, in the section on CAPEX and CAC.) The research methodology consisted of all-day workshops in each area, involving 46 HH and 8 NHH in each, making 54 people in all. Learning from the workshops was used to design an interactive online tool which allowed customers to express preferences for stretching PCs in the context of an average water bill. The survey was completed by nearly 800 people and included 80 face-to-face interviews with vulnerable customers and 36 NHH customers. The workshops received high satisfaction scores from participants.

The Panel Sub-Group reviewed the recruitment screeners and slides for use at the customer workshops, observed and gave feedback on both workshops, user-tested the online survey tool, and participated in the project de-brief on 9 May. Sub-Group challenges included: geographical and NHH sample sizes; interpretation of customer reaction to dropping the PC on carbon emissions; calculation of upper quartile performance; the choice of default settings for the online inter-active tool (which led to further testing of the slider); and the likely effect of layering on the quantified results. The Company produced a log of every challenge with a written response; this constitutes the first of the two example challenge logs shown in Appendix 5. See also section 13 below, on Performance and ODIs.

### **6.17 Acceptability and Affordability of the Business Plan**

With the customer engagement programme approaching completion, the Company let a contract to Accent Marketing and Research in April 2018 with the objective of testing customer acceptability of the preferred business plan, as well as its short-term and longer term affordability. The methodology was based on 10 two-hour discussion groups with pre-tasks (74 people took part), followed by 1,200 online and face-to-face interviews with HH and NHH customers. The Panel attended the kick-off meeting on 23 April, critiqued the pre-task, and observed a number of the discussion groups in SSC and CAM. Panel representatives attended the interim de-brief on 4 June 2018 to review the findings of the discussion groups and plan for the quantitative survey. Panel members gave guidance on how best to seek uninformed customer views, tested the online survey, submitted detailed challenges, and attended the final de-brief of results from household customers.

Highlights of the research findings are:

- ✚ High levels of satisfaction with service currently received, with 69% of householders giving a score of 8 or more out of 10
- ✚ 3 in 5 HH customers give a score of 8 or more for value for money
- ✚ 63% of HH customers give a score of 8 or more for trust
- ✚ 80% find the Business Plan acceptable, rising to 84% of informed customers
- ✚ only 5% of customers find the Plan unacceptable (1% when informed)
- ✚ 70% find the bill affordable, rising to 76% on being informed about the Business Plan
- ✚ 80% prefer a flat bill profile over AMP7
- ✚ the high level promises in the Business Plan reflect the view of 68% of households (64% of NHH)
- ✚ nearly 2/3 of participants found all of the ODI targets sufficiently stretching; scores for individual ODIs were higher.

### **6.18 Triangulation**

The Panel welcomes the encouragement Ofwat gave in its PR19 methodology to the use of multiple research and data sources, which brings with it the need for triangulation of different results. The Company employed specialist researchers and academic reviewers to carry out triangulation of willingness to pay values with customer priorities (see 6.15 above). By contrast with this highly technical procedure, the Panel was keen to encourage the in-house triangulation of research results with knowledge gained from day-to-day contact with customers, so as to analyze differences, and bring informed judgement to bear on interpreting the results. Unlike the research programme, the Panel had little involvement in this activity, which was concentrated into a short timescale at the end of the engagement programme, although we were able to challenge an early example of this triangulation applied to the development of the Company's Vulnerability Strategy drawing on input from vulnerable customers included in samples for many of the research projects. A set of appendices to the Business Plan detail the data sources and insight which were generated at each of the five stages of the engagement programme, and tell the story of how they were triangulated, interpreted and fed into Business Plan decision making. These appendices were available for review by the Panel only briefly before the deadline for submitting this Report.

## **7 WATER RESOURCES MANAGEMENT AND DROUGHT PLANS**

### **7.1 Drought Plans**

In August 2016 the Company invited the Panel's views on pre-consultation drafts of its two Drought Plans for the SSW and CAM areas. Following detailed discussions between a Panel representative and the Company, the Panel agreed its response at

its third meeting in October 2016. Many of the suggestions we made for clarity and consistency were adopted in the later draft, on which the Panel was duly consulted again in September 2017. We responded that we thought it unlikely customers would find fault with the service level proposed or the planned frequency of restrictions, but questioned whether the forecasts were based on historic records and took adequate account of the possibility of deteriorating weather patterns because of global warming. Our earlier challenges had included the apparently excessive delay of up to 9 weeks before issuing temporary restrictions of use, and the inadequacy of planned communication to customers. The Company had now strengthened the communications plan and reduced the notice period for a hosepipe ban in SSW from 9 to 5 weeks. Noting the confusion that arises for customers, especially customers of a water only company, from different drought measures being taken by different water companies, the Panel's view was that different policies are reasonable for different catchment areas and that the existence of usage bans elsewhere might stimulate welcome additional water saving.

## **7.2 Water Resources Management Plans**

At its October 2017 meeting the Panel was presented with Baseline Assumptions for the Company's draft WRMPs for 2019. Although this may be outside the core role of a CCG, the Panel expressed concern about what appeared to be a possible supply/demand deficit in dry year average conditions in the CAM region as early as the end of AMP7. Impelled by this anxiety, the Panel submitted in November four sets of challenges, addressing respectively: the reliability of past and present forecasts; the vulnerability of the Company to planning decisions about population growth, regulatory provisions about housing development, and the reliability of official forecasts; the evidence for assuming success of planned efforts to reduce demand; and the possibility that increased environmental restrictions might prevent the exploitation of new sources. The Panel's challenges and the Company's responses are shown in full in Appendix 4.

## **7.3 CAM short term risk**

In subsequent discussions, the Panel and the Company exchanged sensitivity analyses of the supply/demand balance, and the Company substantiated its confidence that there will not be a deficit in AMP7. We remain worried about the sensitivity of the forecast to matters outside the Company's control. Three main assumptions under-pin the WRMP demand forecasts, relating to growth of population and housing, per capita consumption (PCC), and leakage. Government's announcement in March of up to five garden towns in the Brain Belt between Cambridge and Oxford is an example of the vulnerability of current planning assumptions on housing. As for PCC, the recent annual update of the comparison website Discover Water shows that PCC in CAM, already higher than all water companies but one, rose from 138 l/p/d to 154 l/p/d over the previous year, while leakage, which is targeted to reduce by 15% in AMP7, has risen for the last two years and is behind target so far this year. The Company has plans for addressing these risks, reinforced by PCs and ODIs, as outlined in Appendix 6. These include the commitment to review the assumptions annually and adapt the WRMPs in the light of events.

## **7.4 CAM long-term deficit**

The Panel's concern is not limited to the short-term possibility of deficit in AMP7, but is reinforced by the lack of firm plans to address the inevitable deficit in the longer term. The Panel member representing the Environment Agency briefed the Panel at its June 2018 meeting on the work of Water Resources East (WRE) of which he is a member. WRE has forged collaboration between water companies, stakeholders and users, and in its first phase has established consensus about a significant water

deficit by 2060, which will require not only aggressive demand management but also major infrastructure investment across geographical and political boundaries. This finding was not in time to inform 2019 WRMPs or PR19 business plans. The next task for WRE is to find an agreed solution. The Panel has challenged the Company to include in OPEX a provision for contributions it might be called upon to make to the WRE project in AMP7, such as feasibility studies or site investigations etc.

## 7.5 Customer research

The Company has gone to considerable lengths to consult customers on their preferences for addressing supply and demand issues in AMP7 and beyond. A dedicated research project focusing on WRMP and on options for achieving sustainable future supply/demand balance is described in 6.3 above. The learning from this research has been triangulated with the results of other projects including the Foundation Research project (see 6.2), the PC and ODI research (see 6.16), and the Business Plan acceptability research (see 6.17). Appendices to the Company's Business Plan describe for each WRMP region the triangulation that has been applied to the WRMP research both to feed WtP values into the Multi Criteria Analysis tool and to use data collected more widely from research and customer insight for sense-checking the WRMPs and Business Plan.

The Panel's experience of engagement with in the Company's Drought Plans and WRMPs leads us to conclude that changes should be made to the regulatory framework for these important processes:

- We support an integrated timetable for WRMP, Drought Plan and five-year price review
- Critical assumptions about regional or global issues which under-pin these local plans should be researched and developed nationally
- The water sector should do what it can to harness current social and political pressure for a big increase in house-building to ensure that planning policies have to take account of immediate and longer-term availability of water and that effective standards are set and enforced for water efficiency in new developments, including firm targets for rain water and grey water harvesting.

## 8 WILLINGNESS TO PAY

### 8.1 Purpose of this section

This section contains a fuller account of the Willingness to Pay research than we have given to other projects in the Company's customer engagement programme. Our reasons are these: Ofwat is prescriptive about the use of this specific technique, leaving companies to choose between other forms of research or insight as they think best; this project was the most extensive and expensive which the Company undertook in its customer engagement programme; WtP is a complex technique, depending on theoretical constructs and mathematical manipulation which are obscure to most people, including water customers. A summary of the research

project and the Panel's involvement is given in 6.14 above. Here, we describe more fully the Sub-Group's challenges and the efforts of the Company, the Peer Reviewer, and the researchers to get the most reliable outcome they could.

## 8.2 Panel Sub-Group

The purpose of the Willingness to Pay (WtP) research project was to collect quantitative data on customers' willingness to pay for a range of services. The end use of the data was to support cost benefit analysis of investment options and to set incentive levels for meeting performance targets. Because of the critical role assigned to WtP in the PR19 methodology, the Panel decided at its eighth meeting in October 2017 to set up a Sub-Group which would give focused attention to challenging the design and conduct of this project and the interpretation of its results.

## 8.3 Selection of research agency

The Panel was involved in the WtP project from the start. We were invited to contribute our views on choice of supplier back in April 2017, and engaged an independent expert to help compare the three short-listed proposals. As part of the Company's procurement process, the Panel was given 75% weighting in the score for the methodology. Panel representatives attended presentations by the bidders on 9 May 2017. The overall winner, Impact Utilities, was also the one favoured by the Panel. We liked their emphasis on pre-consultation with stakeholders, co-creation of the survey by means of Engaged Customer Panels, piloting and testing. They offered the biggest sample size for the quantitative survey, and the most thorough approach to consulting vulnerable customers.

## 8.4 Methodology

Data was gathered in three main phases:

- Wave 1 customer workshops and surveys, ending November 2017
- Wave 2 sensitivity testing, addition of some new services, more customer workshops and surveys, ending May 2018.
- Triangulation with other data sources, ending June 2018.

The methods used in the first main survey (MaxDiff and Discrete Choice Experiments, see box) were chosen based on the efficiency of several alternatives which had been discussed in the qualitative workshops and piloted in a smaller survey. Also the materials used in the main survey were co-created with customers in workshops and interviews. This helped to ensure that materials were understandable, avoided jargon, and gave sufficient context to make the options understandable.

**MaxDiff:** from a set of 5 or 6 options, which do you like best and which least?

**Discrete Choice Experiment:** from two packages of service improvements and price, which would you choose?

In Wave 1, the main survey involved 2000 interviews and surveys (255 hard to reach); Wave 2 testing involved 1000 surveys (100 hard to reach). Samples were grouped by region with more from SSW, reflecting its larger population. However there were more than enough households (though possibly not business customers) from CAM to ensure significant results from both groups. At our request an analysis was done to compare results from the two regions after weighting by factors such as age and socio-economic group. It transpired that there were significant differences, with CAM giving generally higher value to supply/demand issues (drought restrictions, leakage and metering) while SSW was more concerned about quality and service issues (hardness, safety and low water pressure).

## 8.5 Limitations of stated preference WtP

The variations between Wave 1 and Wave 2 clearly illustrated the limitations of the stated preference approach.

Examples of limitations in the stated preferences approach.

- 1) Different results at different times - In cases where wordings were similar and only service levels had changed the results from wave 2 were only broadly consistent with wave 1 and there was a surprising increase in value for metering that we are unable to explain.
- 2) Anomalies in scaling to affected properties - In the case of softening hard water, there was a change to the way that the service was defined between wave 1 and 2 that led to a decrease in WtP value but when scaled to the number of properties affected, the WtP result was massively increased.
- 3) Sensitivity to context - for example, whether or not people are reminded that hard water has health effects, or that children are particularly vulnerable to lead piping. It is not always obvious which wording is correct.
- 4) Scaling effect – when customers are offered more services, WtP tends to decline with each successive offer.

Anticipating these limitations, the Company carried out a lot of sensitivity testing. This included:

- comparing 'public' wording (a temporary use ban at your home) against 'private' wording (a temporary use ban for many households). Private wordings generally yield higher WtP values.
- different service levels – two service levels were compared in both waves but the Wave 2 levels were lower, with Wave 2 high comparable to Wave 1 low.
- revised wording for some services giving different context
- telling some customers that their bill would be lower to start with, so the increases would be from a lower base.
- having two surveys at different times of the year (possibly not intended for sensitivity testing but nonetheless useful)

However, all this variation has meant additional complexity in the analysis phases. A number of our challenges were related to the way that the results had been distilled down to numbers to be taken forward. For example, following challenges from the Panel, the Company ran scaled and unscaled figures through their Investment Optimiser tool (see 9.2 below). The consultants advised simply to ignore package scaling, mainly on the grounds that the overall bill is expected to decrease anyway. We did not find this reasoning entirely convincing, though it has some merit. We queried the way that public and private were handled; in the end only public wording cases were used for the main data but private wording was fed into sensitivity analysis. Also we challenged the way that results from the two service levels were combined; ultimately only the higher service level was used.

## 8.6 Triangulation

The Company put a great deal of effort into mitigating the unreliability of stated preference WtP by triangulating the results with a number of data sources which differed in method, time and context. The triangulation methodology was to select a variety of comparable data sources and combine them using weighted averages,

with weights reflecting the theoretical and statistical validity of each source. Two separate analyses were made, one for WRMP priorities and one for WtP on a wider range of options. The datasets added for triangulation included WtP data from other companies at both PR19 and PR14, plus other Company data-sets from customer engagement and from complaints. These often measure subtly different things in different contexts, for example priority versus marginal utility, household versus regional context, short term versus long term, and the degree to which customers are informed.

**Example 1: the difference between priority and marginal utility**

Although 'water not safe to drink' always ranked high, the difference was much greater in the customer priorities data-set and the MaxDiff tests from WtP; arguably these measure the overall importance of the safe water, rather than the marginal utility of reducing the already small number of incidents when it is not.

**Example 2: customer service data**

WtP analysis included datasets extracted from customer complaints data and customer service tracking. These were combined with customer experience to see what impact, if any, incidents have on customer satisfaction. The expectation was that these data-sets would bring in useful revealed preferences data but in the end it was given a low weighting because it is affected greatly by the quality of customer service. It transpired that customers who had experienced an interruption to supply were more satisfied rather than less!

The variation in sources should make the overall results more robust. However, choosing the weights to use is non-trivial. The Panel made several challenges in this area and commend the Company for carrying out extensive testing with different weighting schemes to check the sensitivity of the final results. The academic reviewer (Professor Giles Atkinson) criticised the lack of a theoretical framework for the weightings. However when we asked him what would be involved in constructing a suitable framework he said it would take a much larger research project. In our view this is impractical. SSC has allocated a large budget and engaged an impressive number of customers in this research, given the size of the company.

## **8.7 Conclusion**

WtP stated preference results are very sensitive to a range of factors, some internal, some external, which are not well understood. SSC has mitigated this by incorporating data-sets from different times and regions. They have also used revealed preference data from other sources such as customer complaints and satisfaction surveys; however, these data-sets are influenced by factors other than those we are trying to measure. We have been impressed by the rigour applied to developing the survey method and materials. In our view the Company spared no effort to extract the most meaningful result achievable within a realistic time-frame and budget. We therefore have high confidence in the overall rankings, though there is still uncertainty in the absolute values.

We have little confidence in Willingness to Pay as a dependable way of quantifying customer support for a service proposition, and we question the reliance which Ofwat requires companies to place on it in their Business Plans.

If it is persisted with after PR19, we feel that customers should be saved the cost of funding multiple WtP projects in every water company. Instead resources should be combined to do a large survey, with extensive sensitivity testing, preferably within a national framework, allowing results to be pooled and compared regionally and nationally.

## 9 CAPEX AND COST ADJUSTMENT CLAIM

### 9.1 CAPEX Sub-Group review of methodology

In September 2017 the Panel set up a Sub-Group on PR19 Capital Expenditure (CAPEX). Business members of the Panel took the lead and challenged the Company to explain its process for deciding priorities and selecting investment options. A briefing was held at the Company HQ in October about the Company's approach to deciding short and medium term investment priorities. The Company formed a dedicated team under the PR19 Lead to develop the CAPEX plan. Workshops were held with teams responsible for managing groundwater extraction, distribution and storage assets, to identify risks to a seamless continuity of supply. Post mitigation risk scores were used to prioritize improvement schemes, and the output of this process was fed into the overall supply risk modeling for each supply area.

At a second visit in November the Sub-Group was briefed on the long-term plan including the proposed Cost Adjustment Claim. The Chair of the Panel's Willingness to Pay Sub-Group joined the briefing for an understanding of the Multi-Criteria Analysis (MCA) tool, which would have a critical role in aligning the CAPEX plan with customer preferences. The Company shared the full detail of how the tool models the various scenarios and the options for addressing them. In all 138 options were assessed, 44 of them related to improvements at the two Water Treatment Works (WTWs) in the South Staffs region. Pass/fail criteria screened out options that did not meet the requirements for water quality or volume of supply.

A third meeting took place in March 2018 to review progress and for an introduction to the reasoning and justification for a Cost Adjustment Claim (CAC). The Sub-Group was shown a run-through of the whole process from long-term plan, through investment options and risk analysis, to use of an Investment Optimisation Tool which married each of 170 needs with between 2 and 5 possible solutions, each solution accompanied by a cost benefit analysis. Cost estimates were externally assured by Costain. The Sub-Group challenged the exclusion of asset benefits beyond 40 years, and the proposal to limit network replacement to only 0.5% per annum, which implies an asset life of 200 years; as a result the Company subsequently revised the length of mains replacement in the final portfolio.

At its fourth meeting in July, the Sub-Group focused on how customer preferences identified in the triangulated WRMP and WtP data had been taken into account in the CAPEX Plan. This was followed by a meeting between the Panel and Jacobs UK who had been contracted by the Company to give independent assurance on the process and on the approach adopted for developing the TOTEX Plan. Jacobs confirmed that there were no show-stoppers and commented that the Company has applied greater rigour than a number of other companies in their bottom-up approach to developing the Plan. The Sub-Group gathered a large measure of confidence from these exploratory meetings, and has reported on its ongoing discussions with the Company at every full meeting of the Panel.

### 9.2 Customer preferences

The MCA tool took into account triangulated data from WRMP, customer priorities and Willingness to Pay in identifying volume and supply solutions. The scenarios assessed by the MCA tool were reduced to a smaller number for customer consultation in the WRMP research project (see 6.3 above), and outputs from the customer workshops were used to weight the options. Whilst this process did not allow customers to select their own blue-sky options, we believe the Company is best placed to present realistic scenarios, and the Panel was encouraged to find that the

options selected for consultation were not the cheapest, but those thought to reflect customer priorities. Early runs of the Investment Optimisation tool had preceded the WRMP research but the triangulated research data proved consistent with the previously used data, apart from the preference by customers in the CAM area for a new reservoir, which does not form part of the PR19 plan.

The IO tool took outputs from the MCA and generated Cost Benefit Analyses (CBA) into which customer preference from the Willingness to Pay research is factored. The base CAPEX package so derived used WtP values without any correction for package scaling, a methodology which the Panel challenged. Comparative runs with and without scaling did produce differences in discreet data, but the overall prioritization was not affected. Whilst these procedures undoubtedly brought customer preferences to bear on the CAPEX Plan, the Panel challenged the Company to present the customer preferences associated with schemes that had been removed from the optimum plan.

### **9.3 The CAPEX plan**

At its January 2018 meeting the Panel considered a preliminary cut of the Company's preferred investment portfolio, based on WRMP requirements, customer preferences and MCA. For each area of supply, least-cost optimisation was shown for comparison with the preferred portfolio. The CAPEX Sub-Group had reviewed the maximum resilience optimisation as well. The main components of the capital plan are introduction of two stage filtration at Seedy Mill and Hampton Loade WTWs, negotiations with Severn Trent on supply resilience, re-introduction of three boreholes in CAM, works to reduce the risk from single points of failure, treatment improvements at four ground-water sources, remedial works at four reservoirs, and network renewal or rehabilitation. At May's Panel meeting, an update was given to the CAPEX programme, with revised capital expenditure, to which a preliminary figure for operating expenditure (OPEX) was added to produce an initial forecast for total expenditure (TOTEX). Latest figures are £288m CAPEX, compared with estimated £205m in the current AMP6.

### **9.4 Cost Adjustment Claim**

It was always apparent that if the upgrades to the two Water Treatment Works (WTWs) in South Staffordshire were to be included in PR19, the Business Plan would exceed Ofwat's model for TOTEX. The Company therefore flagged up early their intention to submit a Cost Adjustment Claim (CAC, previously known as a Special Cost Factor) and included a draft in its 3 May submission to Ofwat. The total capital cost of the Claim is £57m for an upgrade to the Company's two water treatment works (WTWs) at Seedy Mill and Hampton Loade in Staffordshire, accompanied by strategic mains flushing to remove accumulated sediment.

Consultation with customers was carried out as part of the WRMP research project (see 6.3) and the PC/ODI/resilience research project (see 6.16). Customers attending the workshops as part of the PC/ODI/resilience project voted 83% in favour of the CAC investment, with CAM customers voting 65% in favour even though the WTWs are in Staffordshire. In the online quantitative survey of over 800 customers that followed the workshops, 77% supported the upgrade, plus 6% with no strong opinion, making 83% acceptability; only 8% were against. Support for the CAC was at 84% among HH customers and 63% for NHH. The Panel challenged the Company to adopt a Performance Commitment related to OTIF delivery (on time and in full) for both developments, and this was supported by 58% of customers. In the later Business Plan acceptability survey, 90% agreed that this was the best approach for the ODI. The draft CAC document was reviewed by the CAPEX Sub-Group in March 2018, who challenged aspects of the presentation. The final draft was circulated to the whole Panel shortly before the deadline for submission. The Panel Chairman

sought the Panel's interim approval, later formally endorsed at the Panel meeting on 12 March, for the following statement which appears in the submission:

**Statement by the Panel for the CAC submission**

"The Company has been fully transparent with the Customer Panel in respect of the proposed Cost Adjustment Claim, and our CAPEX Sub-Group has reviewed the approach to the development of this proposal in detail. The Company has engaged widely with its customers, via both qualitative and quantitative methods, to seek input into the development of options and to seek confirmation of the acceptability of this proposal. The Company is proposing to introduce a Performance Commitment to protect its customers, and has accepted our challenge, which is backed by insight gained from customer research, to target the PC on completion in full measure as well as on time. On this basis the panel believes the Company has taken adequate steps to ensure that the Cost Adjustment Claim reflects the views of customers."

## 10 WATER QUALITY

### 10.1 Customer priority

Quality of water is consistently rated the top priority of customers. It was one of the five key priorities identified in research for PR14. The qualitative phase of the Foundation Research for PR19, which included 10 extended customer discussion groups (see 6.2), showed that all five are now considered as hygiene factors across both household and business customers, including hard-to-reach customers and future bill payers. This finding was tested in the quantitative phase consisting of an uninformed online survey. The results were re-weighted to reflect the age and gender breakdown of all bill payers, and reduced to a priorities scale based on an econometric model called Rank-Ordered Logit. Providing safe, high-quality water attracted the greatest priority, scoring 26% in SSW and 24% in CAM, way ahead of the second priority (no supply interruptions) which scored 6% and 8% respectively. In the all-day workshops comprising the qualitative phase of the WRMP research project, 'ensuring water quality' came out as one of the top three priorities. And in the follow-up online survey, 'water quality and affordable bills' dominated the priority ranking, with water quality top. In the quantitative Wave 1 stage of the WtP research, which included Discreet Choice Experiment (DCE) and MaxDiff, the relative priority given to 17 different service measures was reduced to an index in which 'water not safe to drink' stood out in both regions (SSW and CAM), accounting for over a third of the total priority for service improvements (loss of supply came second and lead pipes third).

### 10.2 Company performance

The Discover Water comparison website, updated in July 2018, shows the Company (SSW and CAM combined) as performing at exactly the average as measured by Mean Zone Compliance, though better than average in customer complaints about taste and smell, or appearance. MZC is to be replaced by the Compliance Risk Index (CRI) for which 100% compliance is the target required by DWI for all companies. The Company is targeting upper quartile performance for customer

contact about water quality. Since 2015/16 SSC has delivered around 15% year on year improvement, and is committing to continue this, until a step change targeted for 2023/24 in order to reach UQ. The step change is based on the improvement in water quality which should arise from the investment package contained in the Company's Cost Adjustment Claim (see 9.4 above).

### **10.3 DWI support**

Ofwat forwarded to us on 31 May 2018 a letter from DWI to the Company dated 30 May expressing the Inspectorate's support for four investments in water treatment works, namely Ion exchange at Ashwood and Kinver-Cookley and, critically, the proposed upgrades at Seedy Mill and Hampton Loade. In respect of the last two we understand that Section 28 Notices have been received, about which the Company is in dialogue with the DWI. (Regarding the Panel's relationship with DWI, please see 11.3 below, in the section on Regulatory Matters).

Water quality has, not surprisingly, come out at or near the top of customer priorities and is the objective of a major investment by the Company which is the subject of the Cost Adjustment Claim. This investment is supported by customers in the Cambridge region as well as in Staffordshire, and is supported by the Drinking Water Inspectorate.

## **11 REGULATORY MATTERS**

### **11.1 Ofwat**

The Panel has benefited greatly from the relationship which Ofwat has nurtured with CCGs in England and Wales, principally by means of quarterly meetings with CCG Chairs held in London or Birmingham. Our Panel Chairman has attended all these workshops and reported to the Panel at each meeting. Ofwat has worked hard to keep a right balance between supporting the Chairs with guidance and updates whilst respecting CCG independence. The workshops have provided regular opportunities for discussion with Ofwat's CEO, and one with its Chairman. Ofwat has used the workshops to trial future plans, to seek views on matters under consultation, to update CCGs on sector developments (such as the Discover Water website managed by Water UK), to host discussions between CCG Chairs and other regulators (Environment Agency and Drinking Water Inspectorate), and to introduce CCGs to stakeholder organisations or sources of expertise (such as Blueprint for Water and WaterSmart). And they have been a channel for clarifying the role of CCGs and the regulator's expectation of CCG reports on PR19 Business Plans, leading to the useful Aide Memoire.

Most CCG Chairs are drawn from outside the sector and Ofwat's support has helped them to acquire familiarity with sector priorities and with the national context against which to compare their own water company. CCG Chairs have met together in private as a group after each of the workshops with Ofwat. Informal exchanges between Chairs have been of help in sharing experience. CCG Chairs have been appointed for their ability to lead an independent challenge to their companies, and have taken naturally to challenging Ofwat at the workshops. They decided early that it was not appropriate to formulate any collective view, but there have been some issues on which consensus emerged naturally, such as the opposition of

most CCG Chairs to Ofwat's perverse incentive regime on the grounds that it results in the regulator imposing mid-term price increases instead of preventing them, and undermines customer engagement by forcing customers to pay more than they agreed for company performance above the level they preferred. Chairs were also critical of Ofwat's response to government on retail competition in the household market, which was based on skewed research that ignored risks and over-stated benefits.

### **11.2 CCWater and Environment Agency**

Unlike the Drinking Water Inspectorate (DWI), CCWater and the Environment Agency have been represented on CCGs for PR19. They have been invaluable contributors to the Panel, bringing experience of PR14 and earlier, expertise in matters contained in the Panel's remit, and knowledge of what goes on in other companies and other parts of the country. Strictly speaking they might both be considered conflicted, in the sense that they have a direct regulatory relationship with the Company as well as an indirect relationship through the Panel, but they have squared that circle willingly. As a result the Panel has felt confidence from knowing that regulatory concerns about environmental or customer-related issues form a context for our discussions. The respective Panel members have been Professor Bernard Crump, Central and Eastern Regional Chair of CWater, and John Giles, River Basin Account Manager for the Environment Agency. In both cases the Panel Chairman invited them to involve appropriate members of their staff in the Panel's work and meetings, so that the Panel would not be dependent on their personal availability, and so that we could benefit from the input of experts in both organisations when appropriate. CCWater in particular provided the most diligent and competent support in the person of Christina Blackwell, Policy Manager, assisted latterly by Yvonne Davies, whose tireless work enabled the Panel to review and comment in detail on a large quantity of research material and to attend or observe a good proportion of consultation events and research briefings.

### **11.3 Drinking Water Inspectorate**

The DWI's decision not to join CCGs for PR19 left a vacuum in relation to water quality issues. In October 2016 the Panel made contact with the DWI Inspector with responsibility for the Company to ask for a meeting about the best way to work together. Their response was to seek delay pending the outcome of ongoing discussions between DWI and Ofwat about the relationship of DWI with CCGs nationally. DWI's decision was to deal with generic issues with CCG Chairs as a group, and company-specific issues by telephone or email with the relevant CCG Chair. DWI has subsequently attended Ofwat's workshops for CCG Chairs to explain this position, to outline their expectations of company Business Plans for PR19. The Panel has had no direct contact with DWI.

### **11.4 Regulatory compliance**

In discussions with Ofwat, CCG Chairs have made it clear they feel it inappropriate to intervene, still less to mediate, between the Company and its statutory regulators. However, the Panel notes Ofwat's request, given to CCG Chairs in the workshop on 11 July 2018, that a CCG should "be very aware of any regulator's concerns that might threaten the viability of the Business Plan". We know of none. We are assured that the EA would alert us should it be necessary. We assume the DWI would do likewise, and are aware of their support for the planned WTW upgrades.

The Panel is aware of no regulatory concerns that might threaten the viability of the Company's Business Plan. The Environment Agency and CCWater have been valued members of the Panel. DWI has written to the Company to support the WTW upgrades contained in its CAC.

The participation of CCWater and EA has strengthened the Panel greatly, through their experience of PR14, their knowledge of what is going on elsewhere in the country and, especially in CCWater's case, the practical support of their professional staff.

Ofwat has worked hard to give CCGs, through their Chairs, guidance on their role, and briefing about regulatory developments. The CCG Chairs have eschewed any collective voice, but have appreciated the opportunity to challenge Ofwat itself on a number of occasions, especially during the consultation about the unpopular ODI regime.

## 12 VULNERABLE CUSTOMERS

### 12.1 Background

SSW was the first water company to establish a charitable trust to support customers who have difficulty paying their water bill. The South Staffordshire Water Charitable Trust was established in 1993 to help people in hardship or poverty. The Company's business plan for AMP6 outlined a commitment to deliver an Affordability Strategy, which would be implemented collaboratively with customers and stakeholders, and which would recognize that one solution does not fit all. Consultation with stakeholders was under way by June 2015. Helped by CCWater's Living with Poverty report and Ofwat's Focus on Vulnerability report, the scope was widened into a Vulnerability Strategy, of which a first outline was presented to the Panel at its second meeting in July 2016 under the title Inclusive Service for All. At that stage the Company had 13,000 people on its Special Care Register, for whom support included, in addition to the Charitable Trust, tailored payment plans, direct deductions from DWP benefit, the national WaterSure scheme, and the recently launched social tariff called Assure (see 12.4 below).

### 12.2 Vulnerability Sub-Group

Given the existing expertise among the Trustees, and the Trust's engagement with external stakeholders, the Panel established a joint venture with the Trust in the form of a Vulnerability Sub-Group drawn from both bodies and chaired by the Chairman of the Trustees who was already a member of the Panel and had been a member of the Company's PR14 CCG. The Sub-Group includes Trustees, Panel members, CCWater, local government, and Citizens Advice. The Sub-Group first met in November 2016 and has met quarterly since. Its purpose is to monitor the development and delivery of the Company's Vulnerability Strategy, and to challenge both.

### 12.3 Challenges

The Sub-Group has been updated at each meeting on progress in first developing and then implementing the Vulnerability Strategy. Many of its challenges have been satisfied as the work developed. In January 2018 the Sub-Group was able to assure the Panel that it was comfortable with both the speed and direction of travel. Early

challenges related to: the need for metrics and KPIs; the need for clarity about how many unique customers were reached by the various support mechanisms; and the danger that partnership with Cambridge City Council would not address poverty elsewhere, such as in the Fens. More recent challenges related to: the use of partnerships with outside organisations who support people facing vulnerability; the need to maintain focus on water bills even though vulnerable customers may face multiple hardship; the cost-effectiveness of using Company media vehicles for identifying customers to go on the Priority Services Register; the need to target lead pipe removal on households with vulnerability to health risks; the need for the budget to extend beyond the cross subsidy approved for the social tariff; management of the relationship between support for those in hardship and debt control; and whether the Company will contribute towards the cost of the Assure tariff and/or the Charitable Trust.

#### **12.4 Assure tariff**

The PR14 Business Plan included the commitment to introduce a social tariff, and an ODI to increase significantly the number receiving assistance. The proposed social tariff was the subject of customer consultation by Accent in accordance with DEFRA guidance. This demonstrated support for a £1.50 per year contribution from customers. Approval was received from CCWater in November 2015 and the Assure tariff was launched in April 2016 with the first customer contact made in May 2016. Administration of the scheme was awarded to Echo Managed Services, who also undertake the grant assessment process for the Charitable Trust. Following a planned slow start, a proactive promotion campaign increased take-up steadily, reaching the target of 10,000 customers by March 2018. Partnerships were formed with WHG (previously Walsall Housing Group) and Cambridge City Council, to identify eligible customers and fast track (or 'passport') them to approval. These initiatives have been so effective that most of the income available for the tariff has been used up. Promotion has been scaled back, along with the level of remission granted to new recipients, until customer support for an increase in the current £1.50 levy by a further £1.50 can be implemented in 2019/20, taking the total contribution to £3 per year.

#### **12.5 Customer research**

Many of the research projects making up the Company's customer engagement programme have included vulnerable customers in their sampling for surveys and focus groups. This includes the following projects (see summaries of each in section 6 on Customer Engagement):

- Foundation research (see 6.2)
- Water Resources Management Plan (see 6.3)
- Customer journey mapping (see 6.6)
- Customer segmentation (see 6.8)
- Willingness to Pay (see 6.14)
- Performance Commitments and ODIs (see 6.16)
- Acceptability and Affordability (see 6.17)

In addition a major project was commissioned from an agency called DJS, to understand the needs of hard-to-reach customers and recommend how the Company might better support and communicate with them (see 6.7). The research started with 20 two-hour face-to-face interviews with people coping with one or more of: limited access; physical disability; mental impairment, financial hardship; and transient vulnerability. Three had English as a second language, and 13 were interviewed with a carer. There were also 5 one-hour tele-depth interviews with organisations specializing in the area. The research identified the wide range of water dependencies, and the diversity of communication needs for connecting with

customers who want support. The interviews were followed by two co-creation groups to help the Company develop the support package described in 12.6 below. This research has been more extensive than for PR14. The Sub-Group considers the methodology to have been thorough, with clear adherence to CCWater research guidance, and close liaison with CCWater when new approaches were under consideration.

### **12.6 Extra Care**

The Company has made a significant commitment to improving services for all customers and access to services for customers needing support. Although this is one of Ofwat's priority requirements of PR19 business plans, the Company has not waited for PR19 to implement its vulnerability strategy. Steps taken include

- commitment to doubling the size of the Priority Services Register in 2018/19 to 25,000
- appointment of two Community Engagement Officers
- opening of a Community Hub in Wednesbury town centre, an area with high levels of deprivation
- purchase of a Media Vehicle for use in reaching customers in other areas of multiple needs
- establishing partnership arrangements with local authorities, housing associations, charities and community groups
- advertising the launch of the Assure tariff on buses and at tram stops.
- development of an APP to assist customers
- piloting of VAA (voice activated assistant) capability
- training for all front line staff and field teams in vulnerability awareness
- a programme of 450 home visits, 90% of them leading to take up of support.

### **12.7 Customer awareness**

Awareness of the Company's schemes to help vulnerable customers has been low but is improving. The Company has been tracking awareness of available financial support since 2016. The statistics are: 2016 11%; 2017 37%; and 2018 38%. Since a year ago, awareness of the Priority Services Register and the Assure Tariff have also been monitored. The Tracker surveys show an improvement in the Company's affordability score from 68% in 2016 to 75% in 2018. Improvement is strongest among the lowest two socio-economic groups, which may reflect the enhanced publicity and the higher number of people receiving assistance.

### **12.8 Debt management**

From an early stage in the development of the Vulnerability Strategy, the Panel has challenged the Company to co-ordinate it with the debt management policy, so that the twin objectives can be met: reducing bad debts and the associated cost to bill payers, whilst at the same time increasing support to those in financial hardship. The Panel welcomes the Company's investment in new debt management software that enables communication and collection to be tailored to the circumstances of the customer. We scrutinized the proposed ODI on debt reduction and challenged the Company to provide analysis of how they compare with other WOCs, how the ODI target compares with past performance, how experience in CAM differs from that in SSW and what can be learned. We questioned their investigation of a possible sale of debt, challenging them to show that it would not lead to outcomes inappropriate for a public service provider. The Company's detailed response to the Panel's challenges is given in Appendix 7. See also ODI 17 in Appendix 6.

### **12.9 Funding gap**

The Company estimates that over 40,000 customers are potentially eligible for the Assure tariff. The ODI proposed for PR19 is for a year-by-year increase in the number

of people supported by all measures up to 40,000 in 2024/5. PR19 research has revealed 61% customer support for a cross subsidy of £3, an increase of £1.50 above the current level. Following challenge by CCWater, the Company has committed to carry out further stand-alone social tariff research separately from PR19 research. The Panel has challenged the Company to make a financial contribution towards supporting the vulnerable, noting that research showed an increase of customer support for cross subsidy if there were a corporate contribution.

The Company has been fully open with the Customer Panel and the Vulnerability Sub-Group, not only setting out its strategy and delivery proposals but also seeking comments and challenge. Additional staffing, extensive research and a can-do attitude have been clearly evident.

We consider that the Company has put in place effective policies and systems to be well able to deliver on Ofwat's expectations for affordability and vulnerability. Research results have been acted on promptly by introducing new support services without waiting for PR19 to complete its course.

## 13 PERFORMANCE AND ODIs

### 13.1 PR14 ODIs

Ofwat does not mandate CCGs to monitor company performance, but acknowledges, and welcomes the fact, that some CCGs do so. The Panel has regularly reviewed the Company's performance against its Outcome Delivery Incentives (ODIs), including at every meeting for the past year. In our early meetings in 2016, ODIs were an effective route for introducing the Panel, most of whose members had little knowledge of the water sector, to an understanding of the Company's operations, key drivers, and regulatory framework. Performance against existing ODIs has also helped the Panel to assess the Company's proposed Performance Commitments for AMP7. Now that attention is focused on these, there seems little point in including in this Report the challenges the Panel has made to the Company regarding its under-performing ODIs in AMP6, or their ongoing efforts to improve performance where they can. The Company's APR for 2017/18 sets out clearly which targets were hit and which missed in year 3. Of the 15 ODIs, performance was ahead of target in 7 and behind in 8. Net rewards of £1.1m have been accrued over the first three years of AMP6. The Company delayed the price increases which constitute 'rewards' until the end of the AMP – a policy which aligns with customers' preference for price stability and which the Panel supports, but which Ofwat is discouraging in AMP7.

### 13.2 Customer research

The Company's research project aimed at testing customer reactions to the PCs and ODIs proposed for PR19, is described at 6.16 above. As described there, customers gave their support for the choice of ODIs and for the targets proposed. Their only indecisive response was around the Company's proposal to drop its AMP6 ODI on reducing carbon emissions. The Panel had also challenged this decision, not because we felt the existing ODI had been effective, but because we questioned the appropriateness of a significant local service provider, whose business depends

on a healthy environment, not making a public commitment to reducing its carbon footprint. The Company responded by reintroducing a carbon emissions ODI for AMP7 (see ODI 26 in Appendix 6).

### **13.3 PR19 ODIs**

Like all companies, SSC put its proposed definitions to Ofwat in its 3 May submission, which the Panel was invited to comment on. It was not until the Panel's 10<sup>th</sup> meeting in July 2018 that the ODI targets were revealed. We asked the Company to populate a pro-forma prepared by CCWater showing how each target was calculated, and how it compared with past performance and industry averages. A day was set aside on 24 July for a specially convened Sub-Group of the Panel to review and challenge the Company on each ODI. The Company is proposing no less than 28 ODIs, of which 18 have financial incentives, and 10 are reputational. The Panel has considered carefully every ODI against the following challenges: Is this a commitment that is appropriate for an ODI? Is the proposed measurement the best one? Are the targets stretching, but also realistic? Is the rationale for choosing between financial and reputational convincing? In the case of new ODIs for which there is little or no historical data, are the assumptions behind the targets well grounded?

### **13.4 Challenge and response**

A summary of the Panel's ODI challenges and the Company's response is shown in Appendix 6. The Panel applauds the Board's policy to target upper quartile (UQ) performance in every PC. In some cases, as the Appendix details, we challenged targets that seemed too low compared with historic performance, but in others we were concerned that targets were unrealistically high. The Panel did not expect all of its challenges to be acted on. We recognize the pressure the Company is under as a result of Ofwat's expectations, and we respect their wish to comply. That did not inhibit us from questioning an ODI if we felt the regulatory pressure was not in the best interest of customers. For example we share the customers' dislike of price rises triggered by over-performance, their opposition to mid-term price increases, and their preference for reputational incentives. We believe a PC entered into by the Company and monitored publicly through the Company dashboard and APR, is as effective as an ODI, and may generate more trust among customers than one which is seen to have a regulatory mandate. We also doubt the sense of requiring all previous ODIs to be maintained; to be effective, corporate objectives should be regularly reviewed and adapted to changing requirements. We consider that the resulting increase from 15 to 28 ODIs is disproportionate and fails to focus management attention on what is most important.

### **13.5 Incentives and Ofwat's methodology**

The Panel was able to review the ODI incentives package only late in the day. We were satisfied that the proposed ODIs reflect customers' priorities and that the individual incentives bore a relation to customers' willingness to pay. However the resulting package did not comply with Ofwat's requirement for an impact on Return on Regulated Equity (RoRE) of  $\pm 1-3\%$ . The Company has shared its attempts to reconcile Ofwat's formula for calculating incentives with its required RoRE range. But the closer the package comes to compliance, the further from customer valuations. They have had to resort to arbitrarily scaling the incentives package upwards, but even that has to be asymmetrical since the policy of aiming for UQ performance makes over-performance difficult to achieve and penalties more likely than rewards. In order to preserve the priorities assigned by customers in the engagement programme, rebalancing has taken some ODI incentives well out of line with customers' willingness to pay. We believe the Company has done its best to comply with a flawed system.

The SSC research programme has revealed further evidence of customer opposition to Ofwat's incentive regime, identified five years ago in research by CCWater, but still not acted on. Only 27% of those surveyed by SSC support the regime. One customer, on learning about it at a focus group, asked (unsuccessfully) for Ofwat's address so that she could organize hate-mail!

Customers expect the regulator to use its five year price reviews to ensure price stability, not to force unnecessary price increases mid-term for over-provision of service above that which customers preferred and found affordable.

We question whether the incentives regime is fit for purpose. Compliance with Ofwat's framework forces companies to distort customer valuations. To date, half the total 'rewards' for over-performance in PR14 have gone to one company in respect of one ODI.

## 14 ASSURANCE

### 14.1 Assurance Framework

In January 2016 the Company invited the Panel's views on its new Assurance Framework, which it had published for consultation in November 2015. The Panel was still being formed, but at its first meeting in April 2016, the Framework was reviewed, as well as the Company's draft Assurance Plan for 2015/16. We challenged the Company on its arrangements for external verification, specifically on the qualification and resources of the technical auditor and on the choice of the Company's statutory auditor to verify the financial sections of its Annual Performance Report (APR). We sought meetings with both in order to understand the audit process, to seek reassurance on these challenges, and to request an appropriate reporting line to the Panel.

### 14.2 External audit

With the Company's support and help, a meeting was arranged with Monson Engineering on which a report was presented to the Panel in July 2016. The Panel was satisfied with the scope and methodology of the technical audit. Concerns about the auditor's independence being threatened by the relative size of the SSC contract were dispelled. Both Monson Engineering and the Company agreed that future audit reports would be copied to the Panel, and this arrangement has been continued by Jacobs UK Limited who took over as technical assurer from 2017/18.

Deloitte, on the other hand, were unwilling to meet the Panel, but the following year, when the Panel was again consulted on the Company's APR for 2016/17, intervention by the Group Chief Executive opened the door to a meeting between the Panel and Deloitte in October 2017. Deloitte were able to satisfy the Panel about the apparent conflict of interest, partly by clarifying that their role was to verify not the numbers they had audited but the correct application of agreed-upon procedures. As with the technical audit, it was agreed that future assurance reports will be copied to the Panel.

### **14.3 Assurance Plans**

As well as the Assurance Framework and the APR, the Panel has reviewed the Company's annual Assurance Plan updates. In our opinion these give a comprehensive account of the submissions and publications during the year which are covered by the Assurance Framework, together with an appropriate risk-based assessment of areas requiring additional focus.

Like the regulator and other stakeholders, the Panel has to rely on the openness of the Company and the accuracy of its reporting. We have reviewed the Assurance Framework and been consulted on successive annual Assurance Plans. We have interviewed the external verifiers of the Company's Annual Performance Report and established a direct reporting line from them. The Panel is satisfied that the assurance measures taken by the Company minimize the potential for error as far as is reasonably practical.

## **15 COMMUNICATION WITH CUSTOMERS**

### **15.1 Annual report to customers**

The Company has been keen to consult the Panel when planning or preparing communications with customers. Panel members are in a good position, as informed outsiders, to sensitize the Company or its researchers to jargon or technical language, and we have advocated plain English in our critiques of survey questionnaires, show-cards, or briefing material. The Company has been consistently positive in adopting suggestions of this kind.

At its second meeting in July 2016 the Panel was consulted on the draft Performance Report for 2015/16 which communicates to customers and stakeholders, via the website, key features of the Company's APR submitted annually to Ofwat. The Panel challenged the absence of penalties and rewards from the report and called for more clarity in indicating which targets were achieved and which missed. We recommended links to relevant websites such as the DWI and CCWater. A similar exercise was carried out in July 2017 over the Performance Report for 2016/17, when we challenged the Company to give greater prominence to the target scorecard, to give a lay-man's explanation of the SIM score, and to alert readers to the possible impact of Ofwat's ODI regime on customer bills.

### **15.2 Performance Dashboard**

Performance reporting is of limited value to customers without comparisons. Best of all are comparisons with other water companies which, whatever their shortcomings in terms of apples and pears, bring context and reality to performance measures. In the past CCWater has done more than anyone to fill this gap, with its annual publication of reports on customer complaints, satisfaction with service and value for money. Like other CCGs, we welcomed the successful launch in November 2016 by the industry association Water UK of comparative performance measurements for all water companies on its website Discover Water. We commend the Company for its initiative in creating its own performance dashboard, on whose content we were consulted in March 2017. The dashboard was launched on the company website in July 2017 and shows in simple and attractive clarity key measurements such as

customer satisfaction, leaks, supply interruptions, water pressure, and customer contacts about water quality. The dashboard can be seen here: <https://www.south-staffs-water.co.uk/about-us/making-water-count/our-performance-dashboard>.

### 15.3 Communications strategy

The Panel has challenged the Company on its lack of a social media strategy, doing so initially in October 2017. A major component of the household retail research projects has been enquiry into what channels of communication customers prefer. The Customer Journey project studied how this preference varies according to the purpose of the communication, while the Customer Segmentation project investigated differences by type of customer. The Hard to Reach project explored the communication needs of vulnerable customers, one outcome of which was the opening of a Community Hub in Wednesbury at the end of April 2018, giving local customers and community groups a new chance to meet the Company face-to-face. A new Communications Manager was recruited in early 2018 and a start has been made to act on the customer feedback; for example the Company website and e-billing accounts are now accessible to the voice activated assistant Alexa.

One of the 11 strategic challenges made by the Panel to the Customer Engagement Programme was: how will the impact of the programme be evidenced to customers and stakeholders? The Company has set up a section on its website where key research projects are displayed, with a summary and a customer-friendly version of the results, and an invitation to have a further say or take part in future research. The home page can be found here: <https://www.south-staffs-water.co.uk/about-us/making-water-count/customer-feedback>.

As well as researching how to make its bills user-friendly, the Company has researched media preferences for different inter-actions with the Company, and for different customer groups, including those facing vulnerability. We applaud the following communications initiatives:

- the new performance dashboard on the Company website
- opening of a drop-in community hub in Wednesbury
- making e-accounts and website accessible through VAAs
- ongoing website reporting about the PR19 engagement programme
- the planned launch of an online community next year

We have challenged the Company on its lack of a social media policy. This is now being addressed by the newly recruited Communications Manager and is promised for review at the Panel's first meeting of 2019.

## 16 CONCLUSION

This concludes the independent Report to Ofwat of the South Staffordshire and Cambridge Water Customer Panel. In the pages above, we have given an account of the establishment of the Panel as the Customer Challenge Group for South Staffs Water (SSC), our method of working, the way we have approached our task of challenging the Company, and the way they have responded. In section 6 we have

given an account of 16 different research projects that formed the backbone of the Company's customer engagement for PR19, and of the Panel's scrutiny and involvement in each, charting the journey from identifying customer priorities at the outset to testing the acceptability and affordability of the final Business Plan. In this Report, as in the work of the Panel itself, we have given special attention to the CAPEX Plan, customers' willingness to pay, the ODIs, and the Company's strategy for meeting the needs of customers facing vulnerability; on each of these we formed a specialist Sub-Group, and to each we have assigned its own section of this Report.

Below the Executive Summary at the start of this Report, we have presented a matrix to map the contents of the Report against Ofwat's requirements of a CCG, as summarized in their helpful Aide Memoire. From our status as independent outsiders with a close interest in the sector and with privileged access to both water company and regulator, a CCG is in a unique position to view the work of both with empathy but without baggage. We have not shied away from offering in our Report some challenges to Ofwat about aspects of the planning methodology which we think do not work for the interests of customers.

The Appendices that follow contain: the opening pages of our Articles of Association; short bio-pics of the Panel members; the 11 Strategic Challenges we issued to the Company about the design and delivery of their customer engagement programme, together with their response; our challenges to the Company's WRMPs, with special reference to future supply/demand balance in the Cambridge area; two examples of the challenge logs compiled for every research project; and the Panel's challenges and the Company's responses related to PCs and ODIs for the coming AMP, with a supplement on debt management.

SIMON SPERRYN  
PANEL CHAIRMAN  
3 September 2018



MEMBERS OF THE SOUTH STAFFORDSHIRE AND CAMBRIDGE WATER CUSTOMER PANEL

On the occasion of the Panel's 11<sup>th</sup> meeting, in Kettering, on 9 July 2018

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**Articles of Association of  
The South Staffs Customer Forum**

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Green Lane, Walsall, West Midlands WS2 7PD

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**THE COMPANIES ACT 2006**

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**PRIVATE COMPANY LIMITED BY GUARANTEE**

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**ARTICLES OF ASSOCIATION**

**OF**

**THE SOUTH STAFFS WATER CUSTOMER FORUM**

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**PART 1**

**INTERPRETATION**

**1. Defined terms**

1.1 In the articles, unless the context requires otherwise:

**"articles"** means the company's articles of association as amended from time to time;

**"bankruptcy"** includes individual insolvency proceedings in a jurisdiction other than England and Wales or Northern Ireland which have an effect similar to that of bankruptcy;

**"chairman"** has the meaning given in article 16;

**"chairman of the meeting"** has the meaning given in article 33;

**"Companies Acts"** means the Companies Acts (as defined in section 2 of the Companies Act 2006), in so far as they apply to the company;

**"director"** means a director of the company, and includes any person occupying the position of director, by whatever name called;

**"document"** includes, unless otherwise specified, any document sent or supplied in electronic form;

**"electronic means"** has the meaning given in section 1168 of the Companies Act 2006;

**"eligible directors"** has the meaning given in article 11.3;

**"independent panel"** has the meaning given in article 22.2;

**"member"** has the meaning given in section 112 of the Companies Act 2006;

**"ordinary resolution"** has the meaning given in section 282 of the Companies Act 2006;

**"participate"**, in relation to a directors' meeting, has the meaning given in article 10;

**"proxy notice"** has the meaning given in article 39;

**"special resolution"** has the meaning given in section 283 of the Companies Act 2006;

**"statutes"** means the Companies Acts as defined in section 2 of the Companies Act 2006 and every other statute, order, regulation or other subordinate legislation in force from time to time relation to companies and affecting the Company.

**"subsidiary"** has the meaning given in section 1159 of the Companies Act 2006;

**"United Kingdom"** means Great Britain and Northern Ireland; and

**"writing"** means the representation or reproduction of words, symbols or other information in a visible form by any method or combination of methods, whether

sent or supplied in electronic form or otherwise.

- 1.2. Unless the context otherwise requires, words or expressions contained in these articles bear the same meaning as in the statutes but excluding any statutory modification of the same not in force when these articles become binding on the company.
- 1.3. References to any statute or statutory provision includes, unless the context otherwise requires, a reference to that statute or statutory provision as modified replaced, re-enacted or consolidated and in force from time to time and any subordinate legislation made under the relevant statute or statutory provisions.

## **PART 2**

### **OBJECT AND LIMITATION OF LIABILITY**

#### **2. Objects**

The objects for which this company is established are to provide support and funding for, and to facilitate the work of, an independent and impartial board of customers, stakeholders and experts whose purpose is to provide rigorous, customer-focused assessment of the business of South Staffordshire Water Plc, and anything incidental or conducive to those objects.

#### **2. Liability of members**

- 3.1 The liability of each member is limited to £1, being the amount that each member undertakes to contribute to the assets of the company in the event of its being wound up while he is a member or within one year after he ceases to be a member, for:
  - (a) payment of the company's debts and liabilities contracted before he ceases to be a member;
  - (b) payment of the costs, charges and expenses of winding up; and
  - (c) adjustment of the rights of the contributories among themselves.

## **PART 3**

### **INCOME AND WINDING UP**

#### **3. Income**

- 3.1. The income and property of the company from wherever derived shall be applied solely in prompting the company's objects.
- 3.2. No distribution shall be paid or capital otherwise returned to members in cash or otherwise. Nothing in these articles shall prevent any payment in good faith by the Company of:
  - (a) reasonable and proper remuneration to any member, officer or servant of the company for any services rendered to the company; or
  - (b) reasonable out of pocket expenses properly incurred by any director.

#### **4. Winding up**

On the winding up or dissolution of the company, after provision has been made for its debts and liabilities, any assets or property that remain available to be distributed or paid, shall not be distributed to the members but shall be transferred to another body (charitable or otherwise) with objects similar to those of the company, such body to be determined by resolution of the members at or before the time of winding-up or dissolution.

### SOUTH STAFFORDSHIRE AND CAMBRIDGE WATER CUSTOMER PANEL

#### LIST OF MEMBERS AT THE TIME OF THIS REPORT

##### CHAIR

**Simon Sperryn**, MA, MBA, CCMI, FRS

A career at the interface between business and government; for 30 years Chief Executive of Chambers of Commerce and professional bodies, including London Chamber of Commerce, Lloyd's Market Association, and the Chartered Institute of Purchasing and Supply; during that time, Chairman or Board member of local and regional organisations in economic development, education and training, small business support, policing and the arts; more recently Independent Assessor for national accreditation by British Chambers of Commerce.

**Professor Bernard Crump** MB ChB FRCP(UK) FFPHM

Chair, Central and Eastern Region  
Consumer Council for Water

Chair of the Panel's predecessor body, the Customer Challenge Group for South Staffs and Cambridge Water; Regional Chair of CCWater, the statutory body representing customers across the water industry; a qualified public health doctor; Professor of Medical Leadership, Warwick Medical School; previously Director of Public Health, CEO of a Strategic Health Authority, and first CEO of the NHS Institute for Innovation and Improvement.

**John Giles** MCMl

River Basin Account Manager  
National River Basin Management Service  
Environment Agency

Account Manager for the Anglian River Basin; 24 years with the Environment Agency in compliance and enforcement roles before specialising in strategic planning issues. The EA works with all water companies to help ensure the environment is protected and improved and there is a sustainable supply of water.

**Roger Gray** MB, BS, MA, FRCS

Consultant surgeon; advisor to the Parliamentary and Health Service Ombudsman; Associate Lecturer, University of Cambridge, and Fellow of Murray Edwards College, Cambridge.

**Neal Jennion** BEng, MRAS

Aeronautical engineer; Partner in a management consultancy specialising in complex capital projects; previously Infrastructure and Compliance Director at Marshall Aerospace and Defence Group responsible for major infrastructure projects, facilities management, health and safety, environmental, quality, and security compliance, and safe and efficient operation of Cambridge Airport; member of Royal Aeronautical Society, Cambridge Forum for the Construction Industry, and Cambridge Network.

**James Leavesley** MICS, DL

Chief Executive  
The Leavesley Group

Deputy Lieutenant for Staffordshire, a member of the Board of the Stoke on Trent and Staffordshire Local Enterprise Partnership with special interest in SMEs; former Vice Chairman of the Appeal Council of the National Memorial Arboretum, and Chairman of Trustees of the

Lichfield Garrick Theatre. The Leavesley Group's activities include construction, recycling and armaments destruction, sustainable farming, and supply chain traceability.

**Mike Morris** MSc, MCIEEM

Deputy Director  
Severn Rivers Trust

Deputy Director of one of the largest of the 48 Rivers Trusts, and a Director of Afonydd Cymru (Welsh Rivers Trusts). Severn Rivers Trust is devoted to protection of the environment in a catchment area stretching from the Welsh hills to Warwickshire. Previous career includes environmental services to the RSPB and for Shropshire County Council. Currently Project Director for Unlocking the Severn, the largest river restoration project of its kind in Europe

**Cllr Bob Spencer**

Elected to Staffordshire County Council in January 2018; previously Head of Counter Terrorism, West Midlands Police; currently advising the Metropolitan Borough of Walsall.

**Tracey Richardson**, Eng Tech, LCGI, MCIPHE, RP

Plumbing assessor, lecturer and Lead IQA for EAS Mechanical Limited; Master Plumber; Vice President of the Chartered Institute of Plumbing and Heating Engineering; Secretary, National Association of Plumbing Teachers; previously Sergeant in RAF, with service in the Falklands.

**Nicola Terry**, BSc, MA

Environmental consultant, with first class degrees in Computer Science and Engineering and Environmental Studies, as well as a Diploma in Pollution Control. Active volunteer in Transition Cambridge and Cambridge Carbon Footprint. Clients include the Campaign to Protect Rural England, Department for Energy and Climate Change, Department for Rural Affairs, and the Department for Communities and local Government. Recent projects relate to monitoring domestic energy efficiency and household behaviour.

**John Thompson** LLB, DMA, FCIEH

Chair of South Staffs Water Charitable Trust which helps vulnerable customers in Staffordshire and Cambridge; Chairman, Lichfield Civic Society; previous career in environmental health and housing in local government, latterly as Chief Executive of Lichfield District Council.

REPORT WRITERS

**Jonathan Conder**

Head Rowing Coach and Boathouse Manager at Jesus College Cambridge and a 'Coach Educator' for British Rowing. A graduate in Business Studies and Finance; 30 years in the defence and aerospace industry, latterly as Head of Strategy working closely with the Executive Board of Marshall Aerospace and Defence Group.

**David Fisher**

A graduate in economics; 38 years working in commercial departments of aerospace and defence companies; the last 12 as Head of Commercial Operations at Marshall Aerospace and Defence Group.

EXPERT ADVISORS

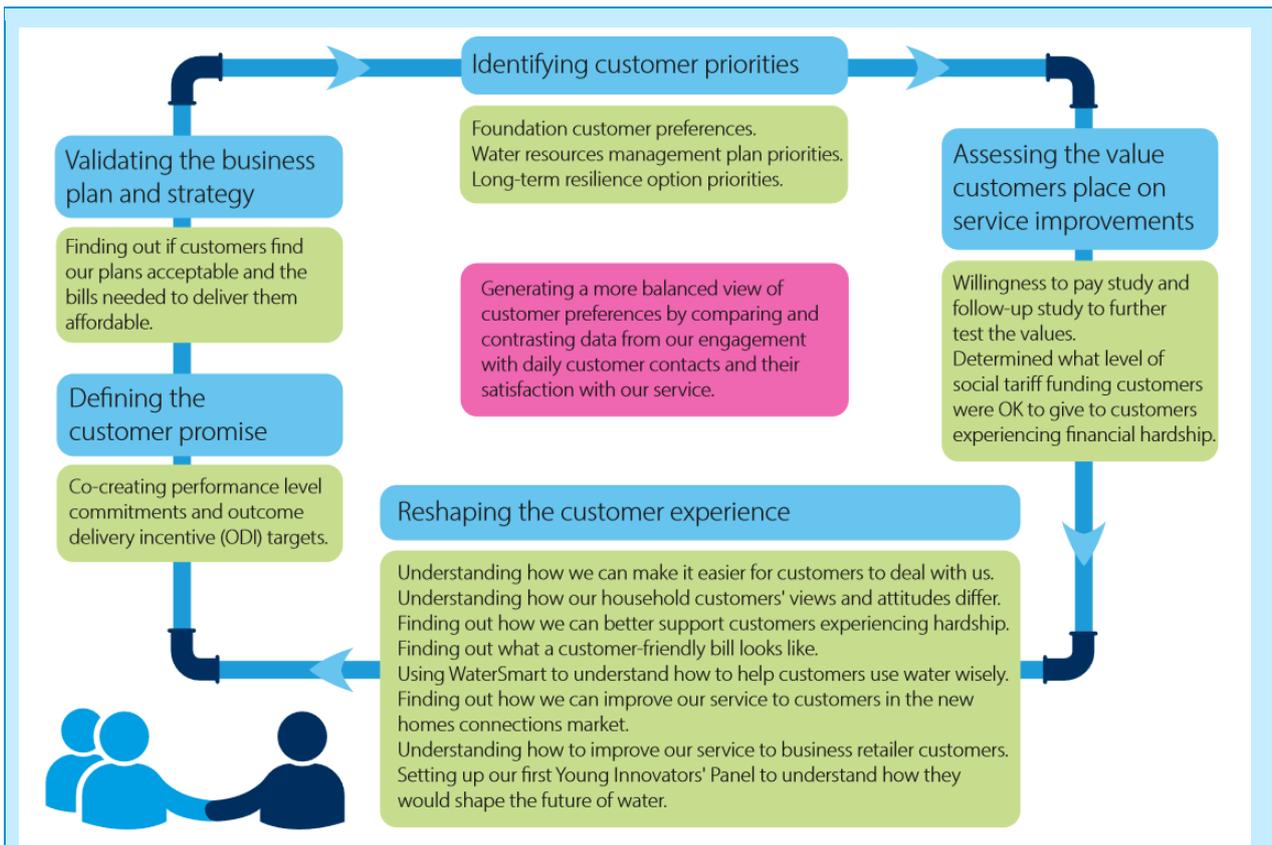
The Panel has benefited greatly from the support of experts in CCWater and Environment Agency, especially the exceptional contribution of **Christina Blackwell**, Policy Manager at CCWater.

CUSTOMER ENGAGEMENT STRATEGY

STRATEGIC CHALLENGES FROM THE PANEL AND RESPONSES FROM THE COMPANY

The following questions provided a framework for the Panel to challenge the Strategy as it developed. Some of the questions are derived from a model for good practice presented at CCWater’s workshop on triangulation on 13 July 2017. The intention of these questions was to help the Company to express, and perhaps refine, the strategic thinking behind the research programme, and to help the Panel to challenge the results and interpretation at the later stages.

Strategic challenge	Company response
<p>1. Are there clear research objectives set for the programme? What particular questions do you want to find answers for and what particular hypotheses are to be tested?</p>	<p>Our approach broadly follows the process outlined in the ICF / CCWater paper where the objectives for the research programme are agreed up front with the hypothesis to test. A top level summary of our approach is provided below.</p> <p><b>April – June 2017</b></p> <ul style="list-style-type: none"> <li>• Agreement of key research projects required based around business planning needs –although we have been flexible throughout the programme plan to adapt to customer feedback (see challenge 8 for more details)</li> <li>• Upfront planning session held with key company stakeholders (sometimes including the customer panel) to agree specific objectives and key question areas to ensure actionable insights that support business planning development.</li> </ul> <p>The programme follows a clearly structured approach to ultimately develop a business plan which offers the best outcomes for customers – as indicated by the summary Infographic below which outlines the overview of the customer engagement programme in the lead up to the PR19 plan submission.</p> <p>The panel has been exposed to the individual objectives for each customer engagement project and specific questions, but at a top level the 5 key questions the programme seeks to address are:</p> <ol style="list-style-type: none"> <li>1. What are the key areas where customers want us to invest their money?</li> <li>2. How much do customers want us to invest in the key areas that are most important to them?</li> <li>3. How to our different groups of customers want us to improve the customer experience when they interact with the company?</li> <li>4. Are they in agreement of our interpretation of their feedback and the metrics to hold us to account when delivering against the plan? - ie are our customer promises (PCs) the right ones?</li> <li>5. Is the final plan and associated bill profile to deliver it acceptable and affordable?</li> </ol> <p>Please refer to the customer engagement strategy document and individual projects briefs for further details on a project by project basis for the objectives</p>



2. Has the budget for delivering the Strategy been fixed yet? How does it compare with (a) PR14, (b) ongoing research in a normal year, and, if known, (c) with other water companies?

**Budget considerations to support PR19 business plan**

- Initial £250k allocated for research ahead of financial year 2017/18 – BAU and PR19
- Following development of strategy and agreement of key projects a further £250k was allocated to customer engagement for 2017/18 - £500k total
- An extra £100k has also been allocated to 2018/19 budget to cover additional important engagement work required to fully support the business plan submission in Sept 2018. £300k total for the year

The table below shows how the company has invested in a significant step-change in customer engagement. The costs in the table are for the agency fees required to deliver the programme and the additional expenditure required for additional resource to deliver the programme internally to support the Customer Insight Manager.

Year	Spend £ (est)*
2012/13	<£50k
2013/14 (PR14)	£155k
2014/15 (PR14)	£145k
2015/16	<£50k
2016/17	<£50k
2017/18 (PR19)	£505k
2018/19 (PR19)	£330k

The company does not believe it would be particularly useful to compare

	<p>our customer engagement expenditure to other water companies, due to difference in size and that fact that each company has an engagement plan unique to its business plan. However, we know that both Anglian Water and Severn Trent Water are spending well over £1m on engagement between 2017 and 2019 to support their PR19 plans – but they are both large WASC.</p> <p>What is important is the step change the company has made since PR14 and the commitment to embed customer insight in to how we work. BAU customer engagement budget levels from 2019 onwards will also run significantly higher than pre-2017 levels given our on-going commitment to putting customers at the heart of our business.</p>
<p>3. The programme contains a lot of separate research projects, all aimed at the same customer base. Is there any duplication?</p>	<p>The approach to avoiding duplication, in terms of objectives, that we have followed through our engagement programme is:</p> <ul style="list-style-type: none"> <li>• Each project has a specific set of research objectives, which are tracked and checked against each other to avoid duplication – evidenced through the research briefs shared with the panel</li> <li>• Focus is on key projects ‘supporting each’ other to reach an end conclusion – ie a thread. For example, the foundation and WRMP priorities research played a key role in the selection of the attributes we tested in our WTP project.</li> <li>• Duplication is encouraged at a ‘question level’ to build sample base sizes and/or provide an alternative comparison data point to understand how exposing customers to different survey methodologies, stimulus material changes their responses.</li> </ul> <p>Following this approach has ensured that there is no duplication at a strategic level and each engagement project serves a specific purpose to support the business plan development and wider BAU workstreams.</p>
<p>4. Given that our customers overlap completely with those of the waste water companies, how well is our research integrated with theirs and what arrangements are being made for sharing or triangulating results from the respective programmes?</p>	<p>Relationships have been developed with both SVT and AW’s senior engagement managers (Carolyn Cooksey at AW and Heather Thompson at SVT):</p> <ul style="list-style-type: none"> <li>• Face-to-face meetings have been held with both companies to share plans in August 2017</li> <li>• Follow up meeting held in May 2018 with AW team to share WRMP and WTP data and discuss learnings from PR19</li> <li>• Shared WTP data with SVT in June 2018.</li> </ul> <p>Alongside this there has been regular on-going communication has occurred throughout the PR19 planning process to share data where we felt appropriate to do so. Specific examples include:</p> <ul style="list-style-type: none"> <li>• Sharing bill profiles and approaches to business plan acceptability testing</li> <li>• Sharing key outputs and approaches from WRMP and WTP projects</li> <li>• Sharing approaches to ODI engagement (AW)</li> <li>• Sharing of topline triangulation approach (AW)</li> </ul> <p>The panel are also aware that we have used all water companies’ WTP results for PR14 and PR19 in our triangulation process developed by PJM/Accent, where it was appropriate to do so.</p> <p>We are using the insight shared as triangulation points in our business plan write-ups, but as the methodologies and sampling approaches do vary between our respective engagement programmes then we are not placing a great weight up on them.</p> <p>We are committed to on-going dialogue with SVT and AW and will continue to assess options in the future where we can link up on projects, share insights and work together to better serve our customers.</p>
<p>5. The overview slide refers to innovative research techniques such as co-creation,</p>	<p>We have challenged ourselves and our agencies we use to ensure our PR19 engagement programme is as innovative as possible. We have used a range of suppliers (9 in total) with different skills sets to bring us the latest techniques and we believe that this has resulted in a complete</p>

<p>gamification, and use of behavioural science. How will the programme fulfil that strategic objective? Is it innovative enough?</p>	<p>transformation compared to PR14 in how we approach engagement. The high satisfaction levels recorded and positive comment left from customers following participating in our engagement programme is evidence that we are engaging effectively and in a more interactive, fun ways:</p> <ul style="list-style-type: none"> <li>• Customers put into the businesses’ shoes using interactive ‘game’ approach to bring topics to life – eg top trumps approach gamification in our WRMP research</li> <li>• Customers co-creating surveys questions and supporting materials to ensure they are user friendly: as evidenced in our WTP, PC/ODI and business plan acceptability testing</li> <li>• Use of new software platforms to track customers’ behaviour – our WaterSmart trial</li> <li>• Use of co-creation half day and full day events to develop ideas and services with customers – such as our hard to reach sessions to help develop an ‘extra care’ package and our PC/ODI engagement to help shape the descriptions are targets</li> <li>• Interactive on-line surveys – such as our on-line slider tool in our PC/ODI engagement and the use of videos and voiceovers to explain complex topics to customers to enable them to given considered responses.</li> <li>• Looking at new ways to engage with hard-to-reach groups – such as Our Young Innovators panel, Community Hub, face-to-face home visits and use of water diaries with hard to reach customer.</li> <li>• Keeping customers engaged for longer periods: use of pre-tasking, reconvened focus groups and follow up survey testing to maximise the feedback gained and keep customer engaged.</li> </ul> <p>Every research project evaluated to look for ‘new opportunities’ in the ways in which we engage with customers, where appropriate. Given that we are a mid-sized WOC we believe we have delivered a stretching, innovative engagement programme. We are committed to continuing to use innovation during the PR19 period to continually drive a step-change in our customer engagement.</p>
<p>6. By what means will the Company ensure that outputs from the research are fed into the business and track how they are acted upon?</p>	<p>To ensure insights are fed into the plans we have the following in place:</p> <ul style="list-style-type: none"> <li>• De-briefs with key stakeholders by independent agency following completion of project to ensure insights are shared, interpreted correctly and challenged</li> <li>• Follow up meetings with key stakeholders arranged to agree key actions in response to insights</li> <li>• Summary and detailed reports circulated in project folders for stakeholders to build into their plans - development of internal Sharepoint library as a reference source</li> <li>• Sharing of key insights at Exec roadshow days for all business colleagues and at other senior managers / PR19 meetings</li> <li>• Development of Infographic/pen portraits to keep key insights top of mind in an visual way for front line teams and key managers developing strategic plans</li> <li>• Use of interactive internal ‘customer experience’ workshops to share insights – used for metering and home move journeys</li> <li>• Insights fed into Echo contact centre training day sessions to support ‘soft’ skills development</li> <li>• Tracker documents in development to ensure Exec board level visibility of key insights and action plans – helps ensure ‘actions don’t disappear’ post PR19 business plan submission.</li> </ul> <p>We are committed to improving internal comms moving forward to ensure the customer voice is fully embedded on a daily basis in to the front line teams and other key senior stakeholders.</p>
<p>7. Given the staged process of the research programme, how is it planned to compare the</p>	<p>An important part of our PR19 customer engagement programme and beyond focuses on reviewing, comparing and contrasting (or ‘triangulating’) customer evidence from a wide range of sources. We have looked at triangulation in a number of ways and developed an approach</p>

<p>key findings of each project and triangulate the different results that may emerge? In the event of inconsistent findings, is there a strategy for comparison, weighting, and interpreting the results?</p>	<p>that we believe truly puts customers at the heart of our plans:</p> <ol style="list-style-type: none"> <li>1. We worked with Accent and PJM to: <ol style="list-style-type: none"> <li>(i) Develop a robust customer priority index, by region, focusing on our water resources management plan (WRMP) supply- and demand- side options. This index is to be used to fully reflect customers’ preferences within our Multi Criteria Analysis (MCA) investment tool which has driven our investment plans</li> <li>(ii) develop a robust and proportionate evidence base for customers’ WTP for service improvements. Whilst not used as a direct input for our WRMP the triangulated values are used within our investment optimise tool to undertake Cost Benefit Analysis of investment options and as part of the process of setting PC levels, and for setting ODI rates.</li> </ol> </li> <li>2. Alongside this we have reviewed all the customer insight data, internal and external, relevant to our WRMP plans to understand to interpret what customers have said using a ‘common sense’ judgement approach and highlight areas where customer views differ. This process has been central to helping us ensure that customers’ priorities and preferences are at the heart of our WRMP and PR19 business plans. It will also help the company to: <ul style="list-style-type: none"> <li>• inform strategic policy decisions;</li> <li>• develop targeted, tailored propositions, which can then be communicated effectively to different customer groups; and</li> <li>• sense check our WMRP prioritise index and WTP triangulation by PJM/Accent.</li> </ul> </li> </ol> <p>Evidence of this will be shared in the WRMP and main business plan customer engagement appendices that will be sent to the panel for review in late July/August.</p> <p>The panel has already challenged the PJM/Accent report.</p>
<p>8. Have the early results suggested any gaps in the planned data gathering or any new questions or hypotheses to be addressed? Is there flexibility built in to do so later if needed?</p>	<p>The triangulation approaches detailed in challenge 7 covers part of this challenge off.</p> <p>We have also adapted our approach throughout to respond to customer feedback and test new questions that emerged from the insights and to fill gaps. For example:</p> <ul style="list-style-type: none"> <li>• Customers told us that water recycling was important in our priorities research so we tested this in our WTP and segmentation studies and in our developer forums to explore water efficiency further and respond to the feedback</li> <li>• Pro-active customer communication appeared as a theme across our early engagement projects. We reacted to this by putting additional focus on this area in our segmentation and customer journey mapping workshops. This led to the launch of Alexa skills channel and decision to start APP development</li> <li>• Customers found it hard to comment on environmental matters in our WRMP research so we have engaged with them in more depth through our WTP and WRMP projects to better understand their views and how they vary depending on what stimulus material we give them. This has enabled us to pick up that our future customers place a higher level of emphasis on this area and there has been a noticeable uplift in overall customer preference towards doing more in this area. This has resulted in us looking for ways to improve our environmental PCs for PR19</li> <li>• Given its importance to our plan we undertook additional engagement around our cost adjustment claim to gain customer support in both regions</li> </ul>

	<ul style="list-style-type: none"> <li>We have listened to our NHH retailers’ feedback, developed a RMEX PC measure based on this and then gone back to them to test their response and refine our approach based on their feedback. This flexible approach to engaging with customers allows us to better understand their needs.</li> </ul> <p>We have also responded throughout the programme where we found surprising results from our engagement to sensitivity test our findings:</p> <ul style="list-style-type: none"> <li>We undertook up a WTP follow up study to explore different service levels, attribute wordings and different bills starting points</li> <li>We conducted a sensitivity check on our on-line sliders PC tool to assess the impact between starting at current and higher levels of service</li> </ul> <p>These approaches underpin our customer engagement approach to understand customers’ needs and adapt our plans in the light of this.</p> <p>We have also picked up through our engagement topic areas that require further research post PR19. From 2019 onwards areas such as supply pipe ownership, lead, resilience all require stand-alone projects and we will assess options to exploring these with customers. We have already committed to further research on social tariffs in 2019/2020.</p>
<p>9. Is it proposed to test whether the briefing material given to respondents has been effective in educating them about, for example, resilience?</p>	<p>We have committed to doing this in all projects and evidence is shared within each report deck as to how customers’ rated our stimulus material. We have used this feedback to change the phrasing of any wordings that customers said they could not understand to ensure clarity the next time it was used in our engagement projects.</p> <p>For example, in our WTP reconvened focus group approach we were able to pick up how best to explain our activities for specific attributes and what visual material would benefits customers. Our early attempts, particularly around environmental attributes, attracted a lot of criticism from customers allowing us to adapt and test during subsequent groups to arrive at a final set of stimulus materials that customers could understand and interact with without causing confusion.</p>
<p>10. Ofwat is pushing for business plans to look further ahead than in the past; how will the programme tackle the difficulty of consulting today’s customers about service levels and costs to be applied to tomorrow’s generation?</p>	<p>Our programme has responded to this challenge in the following ways; although it has been the toughest area to engage on with customers:</p> <ul style="list-style-type: none"> <li>The main source of insight will come from our Acceptability testing where we test AMP7/AMP8 bill profiles and then tested the principal of intergenerational fairness based on their responses to the bill profiles they prefer</li> <li>In addition to this we have taken great lengths to on all our key projects to include future customers to understand differences in needs / priorities to other age groups. Such as: <ul style="list-style-type: none"> <li>WRMP: to gain a sense of which supply/demand side options are preferred and assess the issue of longer-term bills</li> <li>WTP: outputs for service level investments can be reviewed by age to assess differences – eg future bill payers customers have a higher WTP for environmental attributes. However, we did not pick up any clear picture by altering the length of period the investments could be made in our wave 1 study.</li> <li>Discussing this topic with our Young Innovators panel to gain the view of 16-18 age group.</li> </ul> </li> </ul> <p>We will share the results of these with the panel in the final business plan and supporting customer appendices</p>

<p>11. When data collection and analysis are complete, how will the impact of the programme be evidenced to customers and stakeholders?</p>	<p>This will be done through the following ways:</p> <ul style="list-style-type: none"><li>• We have developed a customer feedback area on our website to share the key findings in customer friendly ways (eg Infographics and videos) from our engagement projects and give the opportunity for customers to interact with this through surveys. This will be updated and improved over time post PR19 submission.</li><li>• Detailed write ups of the programme as appendices to support our PR19 and WRMP submissions – for key stakeholders to review the detail.</li></ul>
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WRMP 2019 FOR THE CAM AREA

STRATEGIC CHALLENGES FROM THE PANEL AND RESPONSES FROM THE COMPANY

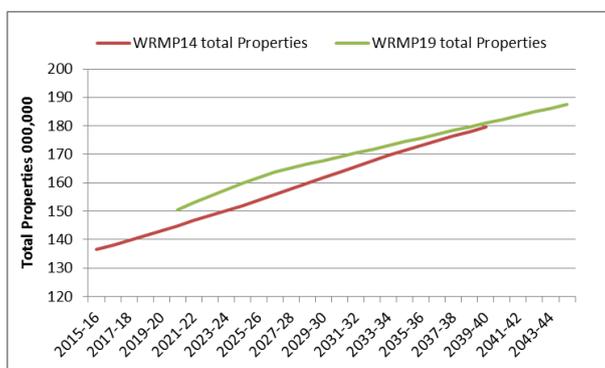
**WRMP ASSUMPTIONS FOR 2019 IN THE CAM AREA**

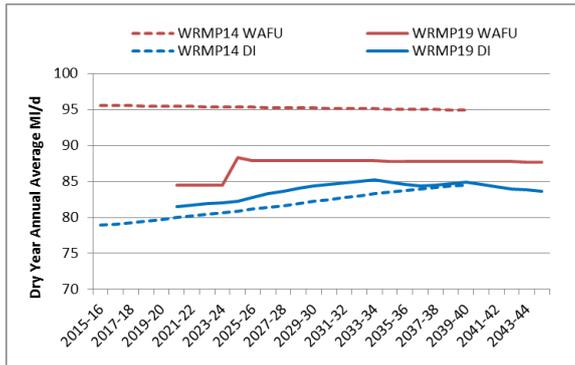
At its meeting on 16<sup>th</sup> October 2017, the Panel was given a paper entitled Baseline Assumptions for Draft Water Resources Management Plans for 2019. Whilst briefings at previous meetings had alerted us to the likely future shortfall in water supply for the Cambridge area, the paper indicated a deficit by the end of AMP7 under dry year annual average conditions. The paper referred to short-term options for additional supply and to potential for savings from demand management, but the Panel was concerned about the immediacy of the problem and the lack of a long-term solution. We formulated the following questions with which to challenge the Company, to which Company responses have been added in green.

**1. Forecast accuracy**

Why is the position so much worse than projected in PR14? How much do each of the following contribute to the deterioration: higher or faster than expected growth of housing; tighter restrictions on abstraction to protect the environment; worsening, or less predictable, weather patterns? Should planning for PR19 be on the assumption that current forecasts may prove equally unreliable?

- In response to the first question, the position in terms of the supply demand balance may appear worse than at WRMP14 but we are not sure it is “so much worse”. The graph on the left below shows the different projections of properties between WRMP14 and our draft WRMP19. The graph on the right compares projected demand (DI or distribution input) as well as projected supply (WAFU or water available for use). It is important to note the false zero effect (i.e. that the y-axis does not start at zero) that Nicola mentioned (in relation to a different topic) at the 9<sup>th</sup> June 2018 meeting. In addition, as Bernard said on 9<sup>th</sup> June most water companies over estimated demand in their PR09 plans so we have to accept that these forecasts are unlikely to ever absolutely match what actually happens.





- The short answer to the question about the relative contribution of higher housing growth, greater restrictions on abstraction and unpredictable weather to the deterioration is that they all have had an impact but the impact of variable weather/ climate change is less than the other two factors
- More specifically, when we prepared WRMP14, housing growth forecasts from the councils were 'flattened' for the first 5-10 year period due to the recession and an observed slowdown in build rate. Conversely for WRMP19, we have kept the council build rate profile as we have observed an increase in build activity, as shown in first graph above. This explains the difference between the WRMP19 and WRMP14 demand forecasts. Note that the WRMP19 and WRMP14 total property forecasts converge around 2040
- In our WRMP19 supply forecasts we have taken a conservative view, which incorporate the WFD No Deterioration potential licence reductions that we discussed briefly with John Giles on the 9<sup>th</sup> June. Although we recognised that there was a risk here when we prepared WRMP14 we presented these via scenarios rather than in our central, preferred plan. This was in line with the water resources planning guidelines (WRPGs) that existed then. Before 2014 the WRPGs stated that companies should only reduce supply to account for the 'known' or 'likely' sustainability reductions. This revision to the process has affected the Water Available for Use (WAFU) and the Supply Demand Balance (SDB) as shown on the graph on the right above.
- The impact of variable weather/ climate change on the supply demand balance in CAM has not varied significantly between WRMP14 and WRMP19. In any case the forecast reduction in supply due to climate change is much less significant than the sustainability reduction (0.5 MI/d compared with 6.1 MI/d)
- In response to the question about whether we should assume that PR19 forecasts will be "equally unreliable" the following points are relevant:
  - No forecasts will ever be entirely reliable but the WRMP process is more likely to provide too much than not enough. This is because it includes dry year and critical period demands (i.e. high demands), an outage allowance, a headroom component to allow for uncertainty associated with the different SDB components, a conservative supply assumption in particular in relation to licence changes, an allowance for climate change reducing supply (even though climate change could increase rainfall we do not account for any positive impacts)
  - We review our WRMPs annually and report on any variance between the actual components and the WRMP forecasts
  - Should we notice any major changes that threaten the SDB in the 5 year periods between WRMPs we can accelerate our schemes to reduce demand or increase supply. We are not legally bound to deliver the WRMP

schemes in the timescale set out in the plan, nor are we prevented from bringing in different schemes from those set out in the plan. Unless we have a specific ODI or PC commitment we have the flexibility to bring in different options if they would be better for the environment, customers and/ or cost less than the selected schemes. As mentioned at the meeting we are considering re-commissioning Croydon borehole in the CAM region sooner than set out in our dWRMP19

- iv. During record high demands in June/ July 2018 we have had at least 10MI/d additional peak production capacity to call upon if required.

## 2. Growth of demand

In the matter of economic development and population growth in Cambridge, the Company is at the mercy of others. Have these bodies been made aware of the situation? Are Local Plans required to take account of water availability and did we alert their authors to the likely supply problems? Should the planners now revise growth plans? Do local authorities and/or Environment Agency have to be satisfied about the adequacy of water supply when considering development applications? Should Cambridge be classified as a water-stressed area? Would that allow tighter restrictions on water efficiency to be a condition of future development? Will the forthcoming Developer Forums be used to explore the practicalities of building water efficiency into future development in a competitive market?

- We agree that we are to some extent at the mercy of others, in particular because we have a legal duty to supply domestic properties
- In answer to whether other bodies have been made aware of the water availability situation, we think that some of them are but there is still more to do. We play a part in Water Cycle Studies to demonstrate any water supply issues in terms of infrastructure and supply availability
- In addition, we recently attended a 'Bricks and Mortar' event in Parliament organised by the Westminster sustainable business forum. At this event there were calls to end the automatic right to connect and for water companies to become statutory consultees in planning decisions
- In answer to the question of whether local plans are "required" to account for water availability, the answer is that we are not statutory consultees on planning matters so they do not have to ask our views. However, it will be one of many issues they consider
- In answer to whether we alerted the local plans' authors to the issues, we did engage with local authorities during the consultation on their local plans. We continue to do this and to lobby for higher water efficiency standards in the building regulations.
- In answer to the question about whether planners should revise their growth plans, we don't recommend this approach. This is because there are many social and economic pressures driving that growth and it is extremely unlikely that an objection from a water company would override these drivers. In fact, if forecasted growth indicates that we need to develop additional supplies then we should do so and we should not be a barrier to growth. However, we should ensure that any new supplies or new demand options are sustainable
- We think that bullets above already address the question of whether the EA and local authorities have to be satisfied with the adequacy of water when considering development applications
- On the topic of whether the Cambridge water area should be classified as water stressed we need to remember that the current classification is a result of the current EA methodology. The EA only updates this classification periodically and we are not aware of any imminent plans to reclassify water companies in

England. We have previously considered applying for water scarcity status and we were advised that this would be unsuccessful. If we want water scarcity status to give us legal powers to compulsorily meter customers then this will have a limited benefit in CAM as we already have high meter penetration. In addition, we have included encouraging meter optant encouragement as a demand side option in our dWRMP19

- However, on 9<sup>th</sup> June, Nicola indicated that there might be other benefits too. If she was referring to serious water scarcity status allowing tighter restrictions on water efficiency as a condition of future development then we would be interested to understand the mechanism for this
- We generally find that most developers are against going beyond the building regulations standards for water efficiency as this comes at a cost. However, we have included developer incentives in our latest charging schemes for dwellings that are more water efficient, where lower infrastructure charges would offset the additional cost to the developer.

### 3. Demand management

In the short term, the demand management measures which the Company is planning are critical to avoiding a shortfall in water as early as AMP7. Are there action plans for each of these measures, with specific targets for water saved by when? How strong is the evidence base for the savings that these measures are expected to achieve? What is the contingency plan if any or all of them fall behind target?

We agree that the demand management measures we are planning to do in AMP6 and AMP7 are critical but it is worth referring back to the earlier points that:

- we review WRMPs annually
- we have flexibility in how we implement our WRMP and
- WRMPs are inherently more likely to err on the side of caution than being too risky.

In answer to the question about action plans and specific targets for water savings, the answer is different depending on whether we are talking about leakage, metering or water efficiency. We have plans to reduce leakage and our PR19 plan has included the financial resources to find & fix more leaks as well as a commitment to use new technologies. We are 'tied' to our AMP6 and AMP7 leakage PCs. In AMP6 we have annual targets and we report against these each year. In AMP7 we have set a profile of year on year reductions and we will have to achieve this level of leakage. We will report on it annually but track it internally within year. As the entire industry has been set a 15% Ofwat leakage reduction challenge we think that the likelihood of innovation in this area is greater than in previous AMPs.

For metering and water efficiency we will aim to encourage more meter optants and to promote water efficiency but our year on year targets are different to the leakage targets. We will carry out activity to encourage more customers to opt for a meter but we cannot say for certain how many will do so. The evidence base for savings from meter optants is less developed than it is for the compulsory metering schemes carried out by companies such as Southern Water and South East Water however we will use the evidence from these large scale metering programmes where applicable.

More relevant to our meter optant plans, we know that Severn Trent Water will also be promoting more meter optants in AMP7 so there may be ways to work together with them and share knowledge. This is something we have already started to explore. We measure pcc annually and will report this in AMP7 as a PC however we have to remove the impact of extreme hot or cold weather before we can see any underlying trends in per capita consumption (pcc). When we estimate savings from

metering and other demand management options we use robust evidence and refer to UKWIR reports if appropriate.

Our contingency plan if any of the demand management options do not deliver what we forecast has several elements to it, namely:

- a) We can bring forward resource developments like Croydon
- b) We can select a different mix of demand options
- c) We can potentially fast track a bulk import option from Anglian Water or from another partner within the WRE (Water Resources in the East)
- d) We have also spoken to Anglian Water about our buying boreholes from them and potentially reconfiguring our networks for mutual benefit
- e) We have options that we can use in emergencies or in drought that are not in our central case SDB
- f) We may find that as we negotiate with the EA about how to implement the WINEP to ensure sustainable abstraction we can vary or delay implementation of schemes if security of supplies would be put at unacceptable risk otherwise. For example, to meet legal deadlines for 'implementation' of schemes many water companies and their EA counterparts agree 'upfront permitting'. This means that we can change an abstraction licence by set deadline but it can have an '*effective from*' date that might be at the end of the next AMP
- g) To see if opportunities like this exist we work with the EA and carry out hydro ecological studies. Some of these could show that our abstractions are not causing environmental harm in which case we may not need to reduce our supply base as much as assumed in our WRMP19.

#### 4. Supply issues

How far is the achievement of Supply Demand Balance in AMP7 dependent on reintroduction of Greensand sources? How realistic is it to assume that access to those sources will be allowed? Is the Company working with the Environment Agency to mitigate damage to the aquifers? What is a realistic timescale for finding the longer-term solution, recognizing the likelihood that the WINEP may have the effect of increasing the deficit? In the meantime, can we be sure that, in the event of one or more dry years, neighbouring water companies will be able to make good any deficit?

- We have a twin track plan that relies on both demand management and new supplies. Our dWRMP19 assumes that we will have an additional 3.92MI/d of new resources by 2024-25, of which 2.3 MI/d is from Greensand
- We cannot say for certain what the EA position will be in relation to these sources but we have discussed the proposed supply options with them and they have agreed the volumes put forward in the plan as sustainable
- These sources are already licenced at higher volumes so we have a legal right to abstract at these sources. This is a more favourable position to be in than if we were applying for new licences
- Our customers generally see re-instating sources as less environmentally concerning than drilling brand new boreholes
- It is true that WINEP puts a downward pressure on our resources but this is true for most, if not all, water companies
- On the question of finding a longer term solution, our plans provide sufficient resources above the target headroom to meet forecasted demands over the 25 year planning period. Longer term beyond this, we have already sighted potential options for additional supply and we are part of Water Resources East (WRE) which is progressing larger regional resource options for the benefit of all water companies in the east and further benefits to the environment. We have

discussed the contribution of neighbouring companies in our response to question 3

- As mentioned earlier, we go through a five yearly WRMP cycle and we have flexibility. For example, we are undertaking early planning in AMP6 for the Croydon option
- We believe that our proposed WRMP19 accounts for the currently known WINEP risks and that there are unlikely to be significant additional reductions in the short to medium term. We will reassess this again fully in 5 years when we revise and produce our WRMP24.

Challenges: 2 November 2017  
Response: 13 July 2018

## APPENDIX 5

### APPENDIX 5A – THE FIRST OF TWO EXAMPLES OF CHALLENGE LOGS COMPILED FOR EACH RESEARCH PROJECT IN THE CUSTOMER ENGAGEMENT PROGRAMME

#### WATER RESOURCES MANAGEMENT PLANS FOR SSW AND CAM

(Research to test customer support for key policy decisions in the draft WRMPs and collect customer reference data to feed into the analysis of investment options for PR19. See section 6.3 above)

#### Comments from Customer Panel Members and Actions - 18<sup>th</sup> August 2017

##### 1. Workshops

Members of the Customer Panel were represented at meetings prior to both the initial customer workshops and the reconvened session. We responded there and then to a number of issues and suggestions that were raised and made changes to the agenda and materials accordingly. One key concern was that environmental considerations be covered and addressed and this was a particular emphasis in the final discussion guides, particularly in the reconvened sessions.

Specific challenges raised by the panel are detailed below

Comment	Response from SSC
Whilst doing the latter exercise (top trumps) the main focus appeared to be on meeting the budget and water volume criteria rather than the overall impact on customers' bills or the environmental impact, although this was raised by some. To get a full picture of how this exercise compared with individual views before criteria were applied we would need to have sight of the options chart they each completed - Christina comment	We will ensure that this is covered off in the de-brief to give a full picture of how environmental impacts were considered.
1. It was suggested on one table that the point at which responsibility for leakage passes from water company to customer makes no practical sense. A more effective transition would be where underground pipes (which the water company is expert at monitoring, maintaining and repairing) enter the house (in which the householder is accustomed to having full responsibility for monitoring, and getting repairs to all services). As it stands, a leak under the garden path (for example) is unmetered, invisible, and quite beyond the average householder's knowledge or experience to deal with. Simon Comment	We are already discussing internally around the need to conduct a separate engagement project into supply pipe ownership which covers this valid point raised and also the issue of lead pipes and proprieties with a shared supply pipe. It is clear this area needs further exploration given customers' responses to date.  The final report will also reference customers' views around this point for us to build on going forward.
2. In the debate about smart meters we should be careful to clarify what we mean. Today's meters, which can be	This point will be clarified in the final

<p>conveniently and relatively cheaply read from a distance, are sometimes called smart, but fall short of the meters being installed for gas and electricity. In the discussions I listened to, the greatest interest was in meters that give the customer data in real time and therefore control of his/her usage. This was felt by many (and not just by future bill payers) to be the most effective way of influencing behaviour and reducing consumption. But they aren't available yet and we may have caused a little confusion about whether we were asking them for preferred options now or at a future time. Simon Comment</p>	<p>report in terms of customer views.</p> <p>Initial feedback from the Foundation Focus Groups, particularly amongst future customers, is that they want real time information.</p> <p>This point will also be explored as an attribute in WtP project.</p>
<p>3. By encouraging customers to opt for a meter in order to pay less than if they were charged on rateable value, we have conditioned them to thinking of meters as a way to save money, rather than a fair way to charge which gives the customer control of their costs. Little wonder some suspect the water company of pushing meters as a way to get more money from them. Questions about compulsory metering are inseparable from this inheritance. If we had offered the option of compulsory installation of meters with no change in charges for, say, 10 years, or perhaps until the property is sold, would there have been the same levels of support or opposition? Simon Comment</p>	<p>This is a good point and we will have this in mind for future engagement as an area to test.</p>
<p>4. The measures of cost in the Top Trumps game are absolute amounts and do not show how much an extra litre of water would cost, or how much their bill would be affected by one option compared with another. Simon Comment</p>	<p>This is correct. We have this in mind when interpreting the feedback. The key point of this approach was to draw out their preferences / views for the options based on the key information shown so that we can use this to help demonstrate which options have customer support and which don't and why. This WRMP/resilience workstream will be triangulated, where possible, with WtP in due course (approach TBC) to build a complete picture of customers' views.</p>

## 2. On-line quant Survey

The following comments were received from Customer Panel members on the survey:

Comment	Change / response from CR
Screening question 1 - change Screenout industry from 'Water' to 'Water/sewerage services'	Done
Screening question 2 - suggested this was not needed	Question was removed
SEG question - comment made: <i>Not many respondents will be able to</i>	This was not actioned because this is a standard approach used

<i>categorise the chief income earners social grading category. Will the grading be explained or could the question be asked in a different way?</i>	on the online panel from which the sample is being drawn. Panel members will be familiar with this question and used to answering it in the way it was presented
Overall priorities: Wording changes to leakage option.  Wording addition on looking after the natural environment - suggested addition of - rivers, lakes etc.	The wording was changed in response to Simon's suggestion of: 'reducing leakage in the network of pipes owned by the company'.  Not changed - we wish to compare results as far as we can with polling from the first workshop and this additional wording might make the comparison less valid
Simon asked why isn't there a balancing item: 'helping customers reduce leakage in the pipes they own'?	This was not added as we were trying to replicate the workshop polling as far as possible
Water use key facts - changes to the wording in the introduction section	These were incorporated into the final survey
Water use questions: omit from the last option the words 'so I don't worry much about how much water I use'.	Done
Water meters key facts - wording changes to the introduction and first question	These were incorporated into the final survey
Question over why no neutral option on the 'agree-disagree' scale.	No action taken.  This is a matter of some debate in market research and there is no right way to present such scales. Some prefer to give a neutral point, we generally do not do so. In the workshop polling we did not present a neutral option and so we kept this consistent. A don't know option was present.
Suggested additional questions for those with a meter	These were added into the final survey
Change Leakage targets to Leakage limits	Done
Leakage key facts - introduction.  The suggestion was made to change wording as follows:  The more leaks you fix, the more expensive it becomes to fix the remaining leaks. There is a point at which it costs more to find and repair a leak than it does to treat water and put it into the system.	We felt that this would be harder for people to understand as we know that uninformed public do not really understand the concept of there being a cost of 'putting water into the system'.  The final survey wording was:  The more leaks you fix, the more expensive it becomes to fix the remaining leaks (because the ones that are left are the hardest to find and get to).
Leakage question - suggestion of changing 'could' to 'should'	Done
Hosepipe bans intro. Request to change first sentence to	Changed from:

make it more neutral  Request to add - if a drought seems certain or likely	Water companies are given the power to impose 'hosepipe bans' on their domestic customers.  To:  Water companies can impose 'hosepipe bans' on their domestic customers, if a drought seems certain or likely.
Other suggested wording to introduction on hosepipe bans	These were incorporated into the final survey
The question was raised as to whether further explanation might be needed on the hosepipe ban question	No further explanation was provided. We recognise the survey is capturing uninformed views and there is a limit to how far we can provide additional information in this format
Introduction to options. Addition of word 'water'	Done
Options 'Cost to customer' category could confuse and make people think, for example, they will pay to have a meter fitted.	The solution we came up with was to remove the words 'Cost to customer' and replace them with just 'Cost.'  We also added a line to the introduction to the options exercise that says something like - 'the costs of the options vary and the cost of investments the company makes will inevitably have an impact on customers' bills.'
Point raised that comparisons for the bigger items' costs being spread for longer.	This was not specifically addressed - felt to be too complex to explain
Questions raised about the options	We felt that as much information as could be provided in an on-line survey for each option was presented
Abstracting changed to 'Taking' on options	Done
Treatment works introduction - Simons suggested some changes to wording	Done
Treatment works question - objective changed to aim	Done
Question was raised about whether we should explain environmental impact further	Again we felt that there was as much information as could feasibly be provided at this point
Question raised about whether we should explain where the remaining water comes from when saying that the treatment works would provide 70% of total demand	Again we felt that there was as much information as could feasibly be provided at this point
Question about whether have a garden - suggested addition of question as to whether they use a hosepipe	This was not added, we felt it to be a minor point
Simon suggested If people say they are in financial difficulty, should some follow up be offered?	This was not possible because of the nature of the sample - being an online panel re-contact / follow up is not permitted

Simon suggested an AOB question to cover anything else they want to say at the end	This was added
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Feedback was also received from a number of internal company stakeholders and changes made as a result to improve the survey prior to launch.

### **Cognitive Pilot**

In addition to these changes we acted on the feedback from **5 customers (2 CAMBS, 3 SSW) who tested the draft survey for us.** They too suggested some minor wording changes and a more substantive change to way the final grid of options was presented. These suggestions were also incorporated into the final survey.

A link to the final survey is below for reference - it is not live so don't worry as you may need to fill in some fields to progress.

<https://survey-d.researchnow.com/survey/selfserve/53c/44386281/temp-edit-live?src=1&C=1&ot=1&study=1&W=1&source=1&settings=1>

As of 18<sup>th</sup> Aug over 300 responses across the two regions have been received. The target is 500.

APPENDIX 5B – THE SECOND OF TWO EXAMPLES OF CHALLENGE LOGS  
COMPILED FOR EACH RESEARCH PROJECT IN THE CUSTOMER ENGAGEMENT  
PROGRAMME

PERFORMANCE COMMITMENTS AND ODIs

(Research to test customer reaction to proposed PCs and ODIs for AMP7)

**Performance commitment customer panel challenges & company responses**

**From:** Simon Sperryn

**Sent:** 03 February 2018 17:25

**To:** Nicholas Hollaway

**Subject:** Re: Performance Commitment and ODI customer engagement

**Project Inception slides**

**Slide 6** - top right box: I question whether it is reasonable to expect customers to understand more than a few of the PCs unless we educate them first. What is more, those PCs that they say they understand may be much more complex than they realize, again unless we educate them first. If we have to educate them first, it is hard to see how we can avoid skewing the result. The value of this question may be limited to (a) picking up a few signals about customer priorities and (b) as a health warning against relying too much on consulting customers in the matter of PCs, let alone ODIs.

Yes, the focus of the PC sections at the workshops is to educate so that customers can constructively comment on whether they support the PCs, whether the names, descriptions and measure are clear, etc. This has been built in to the workshop approach and we have further improved and refined the CAM workshop stimulus material and discussion points to build on the SSW event, which we felt went well overall.

middle left box: it may be my ignorance, but I thought it was ODIs that are divided into financial and reputational, not PCs. If I am wrong and the distinction applies to PCs and ODIs, and if we really think that customers will have any view on such a technical aspect of performance measurement, I would do it on slide 7 rather than 6, because under the incentive regime, the decision affects customer bills.

We are asking customers in both workshops and quant tool about whether they support the 8 PCs where we propose to have a reputational ODI target. We agree that going too far beyond this is just no practical as it becomes too technical for customers.

**Slide 7** - We have a problem. 1. We know from CCWater research at PR14 that, whilst not against penalties for under-performance, customers are against rewarding companies for over-performance, on the grounds that pursuit of excellence and efficiency should be business as usual. 2. We can assume that customers are also against Ofwat's policy of encouraging price rises in-period by offering them as incentives to water companies. 3. Many of CCG Chairs have challenged Ofwat about their unresearched and unquestioning mantra of stretching targets, pointing out that in a market customers are not forced to pay for excellence but are able to choose what for them is the right quality at the right price. 4. Finally, many CCG chairs have pointed out to Ofwat the inconsistency of making

companies consult customers on price and service level, and making CCGs give assurance about the extent to which customer views have driven the business plan, knowing that the regulator may step in during the price review period and make customers pay more than they agreed for a higher service level than they asked for.

I realize we have to live with this but I believe we must be clear about how we propose to reconcile customer preferences with the regulator's requirements. Most importantly we must not mislead the customers. Before we ask them for their view on individual targets they must understand that (a) the Company will have to meet the regulator's requirement for stretching targets anyway and (b) performance above target carries the threat of in-period price rises.

These two points we feel are covered off by our approach built in to the workshop and quant tool approach. We are asking customers the big picture relevant questions such as around bill volatility caused by ODIs and whether they support the whole concept of ODIs. We hope our qual and quant approach covers off this challenge.

### **Non regional ODIs**

I realize this is an uncomfortable thing to say to Company colleagues, but I question whether the Board's decision on this should influence the research. However good the Board's reasons for preferring composite company-wide targets, it would be well to find out what customers think. Many PCs will make sense across the Company. Leakage (featured on slide 6) is probably a good example of one that doesn't. Cambridge Water customers will have no interest in leakage in Staffs, and vice versa, while an aggregate measurement will be meaningless in both areas when comparing their local service to that of other companies. Even if the Board's concerns finally dictate the policy on this, the decision should be made in the knowledge of what the customers prefer and why.

I would remove the middle right box on slide 6 but keep the middle right box on 7. That would also be consistent with the treatment given to SCF in the lower left box of slide 8.

Simon, whilst this is a valid challenge for you to raise, we are not going to ask customers directly if they would prefer regional PC/ODI targets. Just to recap on the key reasons:

- As mentioned at the last panel meeting, we are already committed to reporting our performance to customers transparently in both regions via our customer dashboard (Cambridge dashboard will go live when we move it across to the same software platform as SSW). This means customers will have all the information in an easily digestible format to see how their local water company is performing over time in the areas that matter to them most – we will ask if customers support this approach in the CAM workshop as a check point.
- We are one company with one licence (ie legal entity). To go down a route of having regional PCs with separate ODI rewards/penalties structure would fundamentally mean starting to unbundle us back into two companies (we are proposing to maintain the separate PC/ODI for leakage that we currently have as important for the WRMP context).
- Other points to note:
  - No other water company that we know of is looking at having different PCs/ODIs targets across their regions – eg SVT has 10 zones. A customer in Mansfield receiving water from the Trent vs a customer in Worcester receiving water from the Severn is separated by a large distance and they potentially have a different experience/set of priorities and regional challenges (eg rainfall). This is the same

principal when applied to us in terms of CAM v SSW – the distance from the top and bottom of SVT supply area is even greater than the distance between CAM and SSW regions.

- The distance from the Southern to the Northern most part of SSW region is about the same as the distance from Cambridge to SSW region. We are not asking customers within the SSW region if they would prefer separate PC/ODIs for different areas. You could argue that a vulnerable customer who takes surface water from Hampton Loade and living in West Bromwich has a different experience / set of priorities from one in a picturesque small rural location in North of the region which receives water from a borehole. Why should we just be talking about the differences between SSW and CAM in the context of PC/ODIs and not for differences within regions? We don't feel this is an issue to tackle in depth now and not one we should ask customers' views on until there becomes a real need to do so.

We also decided against asking customers about this area in the quant stage. The complexity of explaining all the parameters to them to provide a meaningful response we can be confident in and reflects their true view in an on-line setting is one the company and Explain don't feel is appropriate - particularly alongside all the other complex topics we are engaging with customers on. To answer this challenge fully, it would really require a whole separate stand-alone engagement project to cover in the depth needed.

#### **Non household customer recruitment questionnaire**

Q3 "regularly" needs explaining, or alternatively there should be more options than yes and no. (I expect most contact with water companies is occasional). **Actioned**

Q6 I'm interested to know why we wouldn't recruit anyone who has attended any focus group however irrelevant to ours. Did we mean to say any focus group related to SSW or to water or something specific? **This is to ensure serial attendees of groups who are experienced of how these events work attend and provide a biased view. 6 months is our cut off**

Q8 grammar requires "Do you work, or have you ..." [sorry!] **Actioned**

Q30 Walsall spelt wrong **Actioned**

Q34 I suspect the Q number is wrong in "If Yes at Q26" **Actioned**

#### **Future customer recruitment questionnaire**

Q27 as for Q30 above

Q31 ?as for Q34 above?

**Actioned**

#### **Household customer recruitment questionnaire**

Q27 as for future customers, Q31 ditto

**Actioned**

#### **Segmentation plan**

I notice that there is a quota of 4 rural customers in the samples. In another research project the "rural" participants all came from Cambourne, a nearby new village closely attached to Cambridge. I realize it will be harder to recruit people the more distant they are from the venue, but for a different picture I would go for countryside or villages outside Cambridge's catchment, for example in the fens, where the lifestyle and expectations may be distinct from those who live or work in Cambridge.

**Recruitment was targeted to ensure a good split across the region.**

I hope this helps. Best wishes, Simon.

**From:** Blackwell Christina  
**Sent:** 05 February 2018 16:37  
**To:** Nicholas Hollaway  
**Cc:** 'Simon Sperryn'; Crump Bernard  
**Subject:** RE: Performance Commitment and ODI customer engagement

Hi Nick,

Please find attached some comments from CCWater on the recruitment screeners. Rather than sending the same comment over for the two household screeners I'd be grateful if you could consider the suggested word change to Q13 in the other. Are you able to let us see the pre-task exercise shortly?

Actioned

Kind regards

Christina Blackwell  
Policy Manager

### Challenges from the SSW event on 27<sup>th</sup> Feb

**From:** Blackwell Christina  
**Sent:** 01 March 2018 12:18  
**To:** 'Simon Sperryn'; Nicola Terry  
**Cc:** Nicholas Hollaway; Crump Bernard  
**Subject:** Update on PC/ODI workshop in South Staffs on 27 Feb

Good afternoon Simon and Nicola,

Ahead of you attending the workshop in Cambridge on Saturday I wanted to send you a short update on the observations and challenges from my colleague, Liz (CCWater Research Manager), and I from the South Staffs workshop on Tuesday.

- Overall the workshop went well and it was obvious how much thought and planning had gone into it by the company and Explain Market Research. **Thanks!**
- The customers attending were engaged in the subject matter and raised a number of interesting questions throughout the day. Some of these were about leakage levels and how much water is lost as a percentage of the water in the network, and the impact of rewards and penalties on customers bills, and whether the way performance is proposed to be measured is the correct/most meaningful way. **Agree with these points.**
- I have given Nick a number of pointers on how the slides could be improved, such as splitting the first discussion session in the morning so the initial presentation isn't too long, and ways to make the slides clearer by having less text or explaining terminology. These should have been picked up and amended for the Cambridge event. **I will share the deck with you soon and I think we have all of these covered. Thanks again to you and Liz for attending and for your feedback - as always very useful.**
- Liz and I also asked if the discussion order about measures could be altered so that some of the easier ones to understand are explored first. This was because we felt at least one of the tables at the South Staffs event struggled to understand some of the common measures which were covered first. In order to help further with this, the research agency is also going to review the

script material for the moderators. **We are proposing to alter the order and start with existing and Ofwat specific measures, then the new measures and finish on the common measures.**

- I was slightly concerned to hear at the event that the company may have decided to drop two of the current performance commitments as stand alone measures for the next AMP. These are carbon emissions and community days, which are proving a challenge this AMP. However, after much discussion on the separate tables Explain did then go on to ask customers to vote on whether carbon emissions should be a stand alone measure or form part of another measure. From what I could see opinion was fairly well split. **I will flag up that we are not dropping Community per say – we are proposing to split this in to Community Projects (number of days spent) and a dedicated Education programme. It's a morphing rather than a drop and from the tables observed there was a positive reaction to this, particularly around the importance of having an education outreach programme around why we need to use less water and how to do this. We will ensure that the quant survey is very clear around the carbon emission proposal in terms of gaining feedback on our plans and we are keeping in the vote on this in the CAM event as per the one done in SSW. Yes, it was a very even split on this vote. I will also send the updated PC crib sheets once all changes made with the deck which will help you to see the full scope in more detail.**
- The impact on bills of outperformance and underperformance and when refunds should be given in the AMP for failed targets, needed more explanation than the slides allowed. Caroline addressed this on the day, and I believe this is being looked at again for Cambridge. **We have reviewed and expanded this section and also supporting graphs.**
- Also the session on financial and reputational incentives is being reviewed as we felt that customers might have found the table task difficult to do with where this fell in the running order. **We have made this change and the whole ODI section feels a lot better in terms of flow now.**

I hope you find this helpful and enjoy the workshop in Cambridge as much as I enjoyed the one in South Staffs.

Kind regards

Christina Blackwell  
Policy Manager

On 7 Mar 2018, at 13:05, Blackwell Christina wrote:

Good afternoon Simon,

Having reviewed the slide deck and the attached documents, I only have a few minor comments as the company has picked up the vast majority of the changes suggested by Liz and I after viewing the South Staffs event. These are set out below so they can be merged with feedback you get from other Panel members:

**Overall running order document**

Remove “and regulation” from “Discussion on regional vs one company and regulation” as this is covered next in the running order

**Already picked up and actioned**

**Slide deck**

Slide 13 and 81 – I have already advised the company that I feel there is too much information on these slides with there being three maps and text, however, this hasn't changed. I would like to raise this issue again as the detail cannot be seen by customers at the workshop (I couldn't see it all and I was sat quite close) so the information would be better split over two slides. **We have reduced number of bullets, made text larger and Homerton screens are large so do not see this an issue for this event. Trying not to have too many slides to avoid overload.**

Slide 71 – Why is the monetary impact on a household customer bill shown in brackets? This gives the impression that the slide is intended for an audience of non-household customers. I suggest removing the brackets. **Thanks, actioned.**

Slide 82 – Too much information on the slide. Again I suggest splitting this over two slides.

I welcome the change to the flow of the afternoon session slide deck. **Have split over two slides.**

I hope this is helpful. See you on Monday.

**From:** Simon Sperryn

**Sent:** 08 March 2018 11:06

**To:** Nicholas Hollaway

**Cc:** Blackwell Christina; Crump Bernard; Nicola Terry; Giles, John; Caroline Cooper

**Subject:** Re: Update on PC/ODI workshop for CAM event: 24th March

Nick, here are 10 comments of my own on the deck to be used on the day:

slide 23 - the question about company-wide reporting is not attached to any specific report. For financial matters and management issues, and for some PCs, company-wide makes sense. As a principal, company-wide would seem a natural thing to do post merger, and I would expect lots of respondents to assume that that high level principal is what the question is about. But that answer cannot be read across to the PCs and ODIs which are about to be proposed. The question should be asked for each PC and ODI. Many who think a merged company should behave like a single company would not think it appropriate for measuring performance in areas where the context is different - such as leaks or bursts or water consumption or investing to secure future growth in supply in CAM, or improving treatment works in SSW.

**See points raised above on page 2. The decision has been made by the company on this.**

slide 32 and following - These four categories are significant to the Company and to those of us 'in the know' but pretty irrelevant to the customers being researched. Given that the day is structured around them and it's a bit late to remove them, I suggest at least re-naming the one that is called 'Specific Measures'. These are no more or less specific than all the others. What they are is required by the regulator. Why not call them that?

**We did consider this but we already have the common ones mandated by Ofwat, so elected to call them specific as these are the ones where we can chose what PC we have for each of the areas Ofwat says we should have one. This did not confuse customers at the SSW event – the focus of the discussion is on the PCs themselves.**

slide 35 - if, as stated in the header, Ofwat is requiring continuation of existing PCs, it follows that the Company must continue with the one on carbon emissions. I'm not asking for the explanation, but pointing out that, as presented, the slide doesn't make sense.

**This was voiced over by Caroline, but have added a note at end of sentence to make very clear – “unless there is strong support from customers to drop them.”**

slide 40 - I think the case for dropping carbon emissions could be better sold. Isn't it true that the biggest single cost to the Company is energy cost? (I may have the measure wrong but I have heard something similar which opened my eyes.) And therefore the biggest impact we can have on carbon emissions is to pump less water, and the way to achieve that is to reduce demand and leakage, both of which bring other benefits with them. This isn't too far from what you have on the slide but, in the absence of the explanation above, the existing wording reads like an excuse for doing less, not a better way of achieving more.

Noted: have added in extra prompts and Caroline will ensure this message comes across strongly in very presentation.

slide 49 - this is an example of where the question about company-wide reporting is critical to a specific PC, as set out in my comment above on slide 23. CAM customers will have an interest only in support to local communities. How will they know whether it's only communities in Staffordshire that are helped? The same goes for environmental PCs, and many others, but there happens to be a slide on this one.

Have added in a prompt on this slide and will advise moderators and presenters to ensure this context is covered off. We won't go in to detail about the splits by region, but will say that activity will take place in both regions. Specifically on your point that CAM customers "will have an interest only in support to local communities" – our segmentation study has clearly shown this not to be true for a decent chunk of our customers – ie those who have a world view and want vulnerable customers / environment to be protected everywhere (not just on their doorstep).

slide 60 - the three options are too constraining. Best in class and top quartile are both extremes at the same end of a spectrum; the question gives no option for carrying on as now or being above average, or anything else except to give a high priority or to drop altogether. We won't find out what they think from such a leading question.

Moderators are instructed to be clear to their tables that where customers don't place stickers these are PCs where we will do an industry average job, but not stretch ourselves to be the very best. In this qual stage we are trying to elicit where customers most want us to stretch ourselves and why and also ensure the PCs we take forward to the quant online tool are the best set to test further. This approach we felt worked well at the SSW event so there is no evidence to suggest that we should radically change our approach, as doing this would also then not make the CAM workshop findings comparable to the SSW one. The initial task did start with this approach, but after Explain did a test pilot with colleagues not involved in the project it soon became obvious that people would be overwhelmed by having to consider 29 PCs and rating each one. I don't want to compromise the quality of the response as a result of making the tasks too complex.

slide 67 - I agree with Christina's challenge about the 'vast majority of the money' going into service improvement. Is this an Ofwat requirement or SSC policy? Either way, how will we know if it is carried out?

After further discussions we have now altered the wording on this to reflect our thinking on this. We will likely test this further in the final business plan acceptability testing as we are considering a range of options here.

*"Bills can be increased when we outperform, with a proportion of the money likely to go to shareholders and a proportion going back to the business to fund investments and improvements for customers."*

slide 69 - I would like to see another question: do you support the idea that the reward for outperformance should be at the expense of customers? Why/why not?

Already on the slide, but have tweaked question wording to make it even more clear. We are also including in the quant tool.

slides 73 and 74 - why introduce the new idea that bills might be falling? The question is about the effect of rewards and penalties and this should be illustrated by comparison with a neutral baseline. In the following section the same issue has been dealt with without this

bias, by showing on slide 88 no base-line at all, while adding a subsidiary question in slide 90, to see if the circumstance of a falling bill might change their view or not.

We have been challenged heavily by our board over the last year that we need to test customers' reaction to concepts with the expected bill profile so customers should be presented with the picture as it is likely to be. There is no evidence that the initial drop on this graph clouded customers' views at SSW group and moderators are focusing on the concept of rewards/penalties during the discussion. We have however added in a prompt to check with customers if we had started with a flat bill in 2019/20 on the charts, "would alter their responses". I hope that this covers off your challenge.

slides 89 and following - in this final section, a critical issue is the policy of spreading the cost over 15 years. It is mentioned only in slide 91 with no explanation and, more important, with no option to agree or disagree, and no explanation of the implications for bills in the short-term or for future bill-payers.

We have reflected further and will strengthen the presentation voiceover for this section, but this is a concept we will test more robustly in the business plan / bill affordability testing where we will look at medium/long term bill profiles in the context of intergenerational fairness.

Thanks Nick. I hope this is of some use. Regards, Simon.

-----Original Message-----

From: Nicola Terry

Sent: 08 March 2018 18:18

To: Simon Sperryn; Nicholas Hollaway

Cc: Blackwell Christina; Crump Bernard; Giles, John; Caroline Cooper

Subject: Re: Update on PC/ODI workshop for CAM event: 24th March

I have a couple more comments.

Slide 10: As we said for the company report, it is not easy to see from the target/actual values if the targets are being met because in some you need to be higher and others lower. A smiley face or something to indicate when targets are met would help. I appreciate this is not directly relevant here but it would be less distracting for the audience if they can read the slide more quickly.

We have considered this and have added a slide showing which PCs we have and what the measure is. However, we have not shown the current performance at this point as we don't to be drawn in to a debate at this point around why we are not hitting a target. We are providing them with lots of comparison data as part of our stimulus material of our current performance during the PC discussions and are being very clear around proposals to drop carbon emissions.

Slide 53: I think it would make more sense if you dealt with the common measures first so people know the baseline. Earlier on you ask if there are 'missing' measures e.g. slide 48. But all these common measures are in effect missing at that point? On the other hand it looks like you have reordered this since the first workshop so maybe that did not work either.

We tried this approach at the SSW workshop, but the common measures are quite complex and hard for customers to grasp first up – plus they have the least influence on them. CCWater, company colleagues and Explain all felt that it would work better for customers

using the revised order in the deck. Starting with our existing PC commitments also feels like the natural starting point.

Also I support Simon's comment about targets across the regions. It would make sense to add a point to the discussion slides (e.g. 39, 48, 57) for each PC - does it make sense to set a common target across both companies or does it need to be different in the two regions?  
[See points above on page 2.](#)

Slide 88: At this point it is likely people will say: I live in Cambridge, I don't see why should I pay for improvements in SSW? It is very important to have a ready answer to this. One possible answer to this is that it will work both ways - when Cambridge needs investment in the future, SSW will help to pay. Also, since Cam is much smaller than SSW, Cam customers will pay not very much, whereas when Cam needs investment in the future, SSW will pay a large proportion of that. The more people sharing the cost the less the pain!  
[Yes a good point. This is already covered off in the latest deck but we are proposing to strengthen this and we are prepared for the challenges that might arise. We are also building follow up questions in to the quant tool for CAM customers to fully explore if support changes for those who say no to start with by using a series of follow up context questions – which will be revealed next week in the quant user tool testing.](#)

## **Feedback on CAM workshop: 24<sup>th</sup> March**

**From:** Nicola Terry  
**Sent:** 25 March 2018 18:50  
**To:** Nicholas Hollaway  
**Cc:** Giles, John; Simon Sperryn; Blackwell Christina  
**Subject:** notes from the workshop yesterday

Mindful of the extremely short timescales on this, here is a brain dump of things I noted yesterday that might be relevant to the online survey. I have made some more notes but they are not directly relevant to the online survey. This might be relevant to our call tomorrow. I know John made loads of notes which I think were about explaining the PCs better too. If you have time, please ignore this and I will collate with John.

Possible improvements

Poorly described PCs

### **Void and gap properties not well explained**

The example given about a large house being divided into four flats is confusing. I would have thought it was still being billed, although as one not 4 households. If someone is paying, how is this a void? Also the distinction between gap sites and voids is unclear. I suggest something like this.

For us to bill our customers fairly, we need to keep track of who is using our water accurately. This means keeping our customer database up to date. There are two performance measures for reducing the number certain kinds of errors:

- \* Gap sites are properties that are connected to the water system but not in our customer database. No-one is paying for this water - it appears in our system as a leak.
- \* Void properties are similar. They are in our customer database but tagged as unoccupied. This means their water use is not measured or billed.

The explanation of how these will be measured is also not very clear. For voids, the %age of void properties is not relevant. The important measure is how many you have tagged as void erroneously. For gaps, the target is in terms of effort, not success.

Change incorporated into acceptability testing.

### **Avoiding severe supply restrictions not well explained**

I think people were confused as to how you express the risk of supply restrictions during a 1 in 200 year drought in terms of a risk over 25 years, and so am I. If there is a 100% risk of supply restrictions to all your customers in such a drought, does that mean the risk is  $25/200 = 12.5\%$  ? That sounds low but I don't think it is what OFWAT have in mind.

Other things not explained well.

### **Justifications for removing carbon saving ODI were not very well expressed**

There was a lot of concern about removing the ODI for carbon saving. This was explained poorly both as to why SSW had not met the previous target and as to why SSW have decided it is no longer appropriate. As I see it:

- The company looked into renewable energy generation but was refused planning permission for a wind farm or large solar farm.
- SSW does not use a 100% renewable energy provider because this is more expensive and OFWAT requires them to prioritise keeping bills down. (But WtP results could change this).
- Reducing water use and leakage also reduces energy consumption (less energy needed to withdraw water, treat it and pump it around). Less energy consumption means less carbon emissions (see ideas below for energy efficiency target). For example SSW will have a target to reduce leakage by 15% - this will also reduce water supply and hence energy use and carbon emissions by 3% ( $15\% \times 20\%$ ). Helping people to reduce water consumption by 10% would save another 10%.

Phil tried to make the last point but did not go into convincing detail, in my view.

Suggested changes worked into PC quant on-line tool.

But see notes below on ideas for alternative measures.

### **Advantages of one company two regions not well expressed.**

The responses to this issue were very mixed. Some people were very concerned that one region or another might lose out and wanted separate reporting for everything. However, at the Future Bill Payers table most were initially neutral or positive – saying that it made opportunities for collaboration. Could Phil have said more about the benefits of linking the two regions?

Learnings noted for future comms / engagement where relevant.

### **Treatment works SCF**

One view expressed was that SSW knew this was going to happen a long time ago and should have prepared budget for it. This is a reasonable viewpoint – why did SSW not ‘save up’ for this? Or why do they not borrow the money and pay it off through the maintenance budget. I suspect I know the answer but this was not explained.

Learnings noted for future comms / engagement where relevant.

### **For online voting, give people help in difficult issues**

It is much easier to understand an issue when you have discussed it with other people but when people fill in the online survey they will be doing it on their own. Can we give people some more context such as a help panel that can be activated with some of the responses we have met in these workshops? For example, when it comes to choosing whether to take ODI rewards in year three or later, it would help to show some arguments on each side.

Advantages of taking the ODIS in year three

- o Price is variable but only by small amounts from one year to the next, rather than a big one-off hit.
- o People who move into the area at the wrong time will not be billed for several years good service that they have not received.

Advantages of taking the ODIs at the end

- o Price is more predictable from one year to the next.
- o Companies that have invested in good service will be very ‘hungry’ to meet the target to get back their investment. (This is a view that was expressed. I am not sure I find it convincing).

Voiceovers used in online tool to explain concept, additional help text provided to customers around these points in the final survey.

Ideas that could be taken forward.

There were lots of ideas. These are a few I thought particularly promising.

### **Replacing the carbon saving ODI:**

An energy efficiency ODI (the suggestion was energy/water delivered, but I prefer energy per customer as that incentivises helping customers to save water too. Another suggestion was that the company should have a long term carbon plan – and presumably some targets along the way. (By the way, there is nothing at all on the website that I can see about carbon savings, as opposed to general environmental impact. Other water companies do. I am quite impressed by Anglian Water in this. They are looking at embodied carbon as well as operational carbon.

<http://www.anglianwater.co.uk/environment/why-we-care/carbon-management.aspx>,

Currently just have a small section on the website on carbon: [www.south-staffs-water.co.uk/environment/reducing-carbon/carbon-emissions](http://www.south-staffs-water.co.uk/environment/reducing-carbon/carbon-emissions). The company is aware this is an area for improvement and the board are currently discussing whether carbon PC should be retained given the overall weight of customer priority attached to this.

#### **Measuring employee satisfaction:**

Rather than a survey (which would be difficult to keep unbiased) measure employee turnover. High turnover implies poor satisfaction. **The final employee satisfaction PC measure is currently being finalised by the board.**

**From:** Giles, John **Sent:** 27 March 2018 08:51  
**To:** Nicholas Hollaway; Nicola Terry  
**Cc:** Simon Sperry; Blackwell Christina; Caroline Cooper  
**Subject:** RE: notes from the workshop yesterday

Hi Nick

Apologies for the delay but please find below my observations from the workshop.

Overall an interesting day although having to stick to observing, especially when certain aspects were not clear was a frustration. I also found the Explain facilitators a little impersonal, but perhaps this was deliberate. The Future Customers were a breath of fresh air!

In general, whilst the day was long, some of the more significant issues were given too little emphasis and explanation which impacted participant understanding. Each table will have gained a different level of understanding based on the discrete conversations taking place. As a result, going through the measures was slightly confusing without the appropriate clarity which wasn't always provided by the facilitators or company representatives. It also felt a little clunky.

The introduction to PC's/ODI's seemed to come too late in the agenda and was covered too quickly. Impacts on bills was not given enough time and led to much confusion. The general view was that this was a lot of effort to consider a £4 increase in bills.

Participants were asked if the measures felt right without any comparables or context in most cases. I got a sense that there was little opportunity to change any measures or suggest alternatives – simply to change which key area they were reported under.

There was little/no knowledge within the participants of the link between South Staffs and Cambridge Water. This really needs to be explicit, especially given the special cost factor element. That said, I sensed no negative feeling towards the connection.

**Learnings from this approach have been noted and will be considered for future engagement approaches to this area.**

The Special Cost Factor section was not well introduced or clearly identified as being unusual. Whilst there was clear support for investment in assets there was concern as to why two important assets had been allowed to go "downhill". When it came to the vote participants felt they had little option but to vote Yes as compromising WQ was not

considered possible. Perhaps the “Do Nothing” option could be replaced by “continue with existing maintenance funding”.

This suggestion of a “do nothing option” was built in to the on-line tool.

### **Specific and Existing Measures**

Not all measures were discussed.

I agree with Nicola that there was a great deal of confusion around Void Properties and Gap Sites which wasn’t fully addressed.

### **Environment**

**Abstracting Water** Participants saw this as a very important measure, especially given the reliance on groundwater where the impacts are not immediately visible. The common PC is AIM, but the written explanation is not clear. It appears to relate to EA abstraction licence compliance, but this is not related to AIM. We would expect 100% compliance with any licence (abstraction or discharge) as these are legal requirements and there should be no outperformance. However, AIM intends to encourage water companies to reduce the environmental impact of abstracting water at environmentally-sensitive sites during defined periods of low surface water flows. Ofwat expects all companies to adopt the AIM at PR19 stating that companies will be able to engage with their customers and stakeholders to design an appropriate version of the AIM for them. EA (and Ofwat) view is that AIM can help identify temporary and voluntary solutions that benefit the environment while more permanent solutions, including licence changes, are investigated and implemented. We would welcome this considering future weather scenarios to ensure they are fit for purpose.

The water strategy team are working through this.

**Protecting Wildlife & Habitats** Working with other bodies was seen as important. However, it was unclear whether the target was seeking to meet statutory requirements or go beyond the legal minimum.

Updated words for the online tool to reflect this point.

### **New Measures**

**Education** Little clarity as to what this measure could be, but a sense that the metric needed to have some qualitative element i.e. not just the number of schools/pupils engaged

Noted and considering for our business plan.

**Water Recycling** seen as a very important measure but participants found it difficult to understand why this referred to new properties only. A better explanation may be needed to manage expectations.

Updated words for the online tool.

**Protecting Rivers** seen as a very important issue but very poorly explained. There seemed to be very little understanding of what this measure meant in practice and what it sought to achieve. Perhaps it would be better to start with an explanation that water quality is directly impacted by the land management practices in the surrounding catchment.

Updated words for the online tool to reflect this point.

**Visible Leak Repair Time** strong views expressed that this should also include the severity of the leak and that the amount of water leaked should be part of the metric.

These insights have been noted.

**Maintaining Financial Health** general confusion as to what this meant in reality and the consequences of poor performance

These insights have been noted.

**Treating Suppliers Fairly** current payment terms are 60 days – is this the industry standard? It should be easy to compare with others

These insights have been noted.

#### Common Measures

**Leakage** current 18% leakage level considered unacceptably high by Future Customers

A common theme.

**Average PCC** little/no context given here. What is the ambition?

The water strategy team are reviewing this through our WRMP consultation responses.

**Mains Bursts** Number of bursts seen as only part of the issue as there is no measure of the impacts e.g. disruption to communities during repairs etc

These insights have been noted.

**Supply Restrictions** we ran out of time for this although it was poorly explained (despite being complicated!)

I hope this helps and would be happy to discuss in further detail as required.

Kind regards

John

**From:** Simon Sperryn

**Sent:** 10 May 2018 13:23

**To:** Nicholas Hollaway

**Cc:** Caroline Cooper; Alison Taylor; Blackwell Christina

**Subject:** ODI/PC/CAC research project

Dear Nick,

Thank you for inviting us to attend yesterday's final de-brief by Explain. Christina, Alison and I have conferred and here, as promised, are our comments and challenges on behalf of the Customer Panel:

#### Overall impression

This research project seems to have been well directed. The high levels of satisfaction in the measures explored and the high level of understanding of the survey expressed by participants in both the qualitative and quantitative phases, the clear messages which came back from most of the questions, and the negligible response to the questions: what ODIs should we discard, and what ODIs would you add which we haven't proposed, all give confidence in the result. Not all water companies would seem to have gone as far as this to determine customer support for their performance measures.

Thanks, it will be interesting to see how far other companies went.

#### Challenges

1. We have two concerns about sampling. First: the decision to sample CAM customers and SSW customers roughly in the proportion that each occupies within the Company's total customer base, instead of sampling them both equally and weighting the result for combination, raises the worry that the CAM sample may be too small for robust analysis. Conversely how will the interpretation of results cope with the fact that the NHH sample was nearly twice as big in CAM as in SSW (24 compared with 12)? We welcome the offer of sensitivity analysis to test these two issues.

On the CAM sample Explain has completed sensitivity testing to see how weighted/unweighted impacts on responses. The results show the findings are consistent so there we can be confident that the lower CAM sample base is in no way impacting on the results by region.

Some overall thoughts on the CAM sample sizes in the context of this project and also the wider engagement programme

- The sample size for CAM at 250 is robust at a top level and is still an overindex of the actual customer numbers in each region. Yes, accept that sub-segment splits within the CAM region we will need to treat with caution if we do use them as confidence intervals as larger.
- For reference: research best practice is that the sample should be broadly split according to the populations of the two areas. As you're aware data is weighted to the regions' demographics (gender, age and social grade). These weights are derived from the population and also from the number of interviews. Using the current two thirds/one third splits means that derived weights are of similar proportions to the population. If we go for the 50/50 split then given the larger population in the South Staffs region a reduction in sample size would lead to larger weights and an increase in Cambridge sample size leads to smaller weights. Essentially this means that any additional interviews in the Cambridge area would be "wasted" and to the detriment of the weights to be applied to the South Staffs data. You might find this a useful read: <https://www.nao.org.uk/wp-content/uploads/2001/06/SamplingGuide.pdf>
- To ensure we take in to account CAM customers' views we have over indexed on every project in CAM even though all agencies' initial stance is to sample circa 80/20 in line with population numbers due to the point above. Other areas to note on this point:
- We have invested a huge amount in this engagement programme to collect all our different customers' view across a wide range of topics at the heart of our plan and being a mid-sized WOC I have had to careful split our so that it's a good balance throughout. We feel we have a robust balance through the whole engagement programme
- The difference between PR19 and PR14 in terms of robustly taking CAM customers' views into account is very marked – a real step change
- Also, this project was the first time we have pitched the survey context as one company, two regions and what is most important above all is the SSC view to our PCs and other areas we tested. Yes it's important to understand where there are regional differences and how these can help us better tailor our comms and approach locally and the sample base at a top level allows this.

On the NHH sample, we are not even considering breaking out CAM and SSW responses as the base sizes are too small. We will look at the results at a total NHH level only. What we have learnt is that once we go over 20mins in length for online surveys they don't work for

NHH customers -eg 20mins seems to be the limit as in WTP we achieved 100s of interviews with NHH customers. We will take this forward to build in to the way we engage with this group of customers in the future.

2. Customer support claimed for dropping the existing carbon ODI depends on adding the “no strong opinions” to the “yes’s”. What is the justification for this? Without it, customer response was roughly 50:50 over-all, but with a majority against dropping it in CAM. The reason why the customers have given a mixed message may be their difficulty in reconciling the reasonable arguments the Company put forward against the existing ODI with the suspicion that the ODI is being dropped because of failure to perform well against it. Dropping it would also give the impression that, against the increasingly common practice among major firms, South Staffs does not want to measure its carbon footprint. If the ODI is to be dropped, the Company should consider adopting a new and different commitment, not necessarily an ODI, to the measured reduction of its environmental impact.

We have followed best practice acceptability testing on this so we do have support to justify dropping this specific PC. It is a fair point though that there is a very mixed view on this point from customers and there is obvious need for the company to go further in this area to reduce its environmental impact. Once the company / board has decided the best course of action on this we will report back to the panel on what our plans are. It is clear though that customers want us to have a robust carbon reduction strategy and we need to act on this feedback – both in this project and the acceptability qual groups.

3. We note the finding that customer support for Ofwat’s reward and penalty regime is as low as 27%. Is there any further data from the qualitative research?

4. Although, as noted above in our overall impression, most of the messages from this research seem clear, little clarity emerged from the search for customer preferences about the timing and impact of penalties and rewards. We are anxious about the danger of reading too much into results that are close to each other. However, one preference was clear from the comments made by supporters of whichever option, namely the preference for affordable prices that are not volatile.

Agree totally with this point. A key learning for us to build in to our plans.

5. We would like a closer analysis of the results relating to how high customers want the Company to set its performance targets. We have previously asked the Company to explain how it proposes to tackle the task of estimating Upper Quartile performance in PR19. It would be helpful to know when we are likely to have the Company’s proposed targets for review.

We are proposing to share the methodology approach for target setting and estimating Upper Quartile performance from late June onwards with the panel.

6. Finally we have two concerns about the sliders in the online survey. Firstly we understand that the decision to set the sliders at a stretch level higher than current performance was not disclosed to respondents. Therefore, if the opening setting had been lower than level 4 (or higher), and if the bill impact of starting at a higher level had been explained, what difference would it have made to the answers?

Following the de-brief that we did go back and found that we did actually inform customers of this point during the task on-boarding process – ie showing them how to complete the

task and what each element involved – see screenshots below. They would have also seen on their bill glass that the starting point line was higher than the current bill line (this marker was shown to them throughout the task so they could always see how their choices influenced the current average bill).

We welcome the suggestion made at the meeting of testing the sensitivity of answers to different opening settings.

The online tool is live on our website in our PR19 engagement area and we have chosen to start customers at our current level of service in each area to see how the results differ from starting at a stretch level.

Secondly what steps will be taken to remove or compensate for possible bias arising from the layering of questions about the impact of different service levels on the bill. Presumably the appetite to pay more for better service will wane as successive service improvements are asked about which carry bill increases.

From reading this comment this might be due to the fact you had not seen the tool working live. Customers were not shown each slider one at a time - which you rightly say could lead to bias – they saw them all at once so could make their decisions with a full view of all the options and how they impacted on their bill. We feel our approach mitigates this potential bias, unless you disagree.

We welcome the agreement to test the first of these concerns by trialing the online survey with different default settings for the sliders.

The sensitivity test from current tart level will prove vital here and the results will follow for early July once we have received sufficient responses.

It is important to also flag up that Explain's more detailed analysis of the sliders since the project de-brief revealed that 328 responses (42%) needed to be removed from the original analysis as we felt we could not rely on the quality of the responses – eg they did not move their sliders and/or completed the task too quickly. The revised results from this are in the final shared deck. We have really gone towards the side of caution to remove any responses we felt were not fully considered using a range of quality checks.

However, responses from these respondents for all the other questions were kept in the sample on the basis that the literal responses demonstrated relevance and understanding of the question and the time taken to complete the other tasks did not highlight that they were 'speeding' through the exercise. (note that any responses we did not feel met quality standards were already stripped out from the deck at the de-brief)

From desk research and asking other research agencies for feedback there is often a significant proportion of respondents completing these types of on-line slider tasks in surveys who simply do not put in the effort to fully consider the options and engage with the task no matter how much effort is put in to the design and content - particularly given the overall length of this survey, so a learning for us on how to structure these types of surveys in the future.

We believe that removing these responses on the sliders gives us more confidence that the results now more accurately reflect customers' views from a stretched starting point.

Continue

Here is your new bill. As you move the sliders the total amount in this bill will change based on your choices so keep an eye on this. When the task starts your new bill will be higher than your current bill as we have worked out what it would cost to provide a better service in every area than we do at the moment. We want to know how much you want us to spend or not spend in each area, the choice is yours. As you move the sliders your bill will change based on your choices so keep an eye on this.

£155.87  
YOUR NEW BILL

Continue to see a summary

### Your annual water bill

Below is a list of measures covering a number of important areas  
You can change how much you want us to spend or not spend in each of these areas using the sliders below. Please note that inflation has been taken into account already with these numbers.

 <p>Extra customer support</p> <p>£0.38</p>	 <p>Supporting Community projects</p> <p>£0.21</p>
 <p>Customer Education</p> <p>£0.14</p>	 <p>Financial support</p> <p>£1.31</p>
 <p>Protecting wildlife, plants and habitats</p> <p>£0.41</p>	 <p>Leakage levels</p> <p>£0.41</p>
 <p>Protecting water sources</p> <p>£0.21</p>	 <p>Visible leak repair time</p> <p>£0.55</p>
 <p>Water recycling</p> <p>£-0.10</p>	 <p>Interruptions to water supply</p> <p>£0.68</p>
 <p>Taste, smell and appearance of water</p> <p>£4.00</p>	

AVERAGE WATER BILL IN 2019

£140

£148.20  
YOUR NEW BILL

Continue to see a summary of your choices

## APPENDIX 6

### CUSTOMER PANEL CHALLENGES TO PROPOSED PR19 ODIs, AND COMPANY RESPONSE

#### Summary of PCs and ODIs

Performance commitment name	Origin of PC	Type of incentive	Constraints
1. Leakage South Staffs region	Ofwat common / region split	Out & under	3 yr rolling av
2. Leakage Cambridge region	Ofwat common / region split	Out & under	3 yr rolling av
3. Residential water consumption South Staffs region	Ofwat common / region split	Out & under	3 yr rolling av
4. Residential water consumption Cambridge region	Ofwat common / region split	Out & under	3 yr rolling av
5. Supply interruptions	Ofwat common	Out & under	
6. Visible leak repair time	Bespoke / new	Out & under	
7. Customer contact about water quality	Bespoke / continuation	Out & under	
8. Mains bursts	Ofwat common	Out & under	3 yr rolling av
9. Unplanned outage	Ofwat common	Out & under	
10. Protecting wildlife, plants, habitats and catchments	Bespoke / continuation	Out & under	
11. Environmentally sensitive water abstraction	Bespoke / new	Out & under	
12. Residential void properties and gap sites	Bespoke / new	Under	
13. Financial support	Bespoke / continuation	Under	
14. Extra Care assistance	Bespoke / new	Under	
15. Compliance risk index	Ofwat common	Under	Dead band
16. Water treatment works delivery programme	Bespoke / new	Under	
17. Bad debt level	Bespoke / new	NFI	
18. Supporting water efficient housebuilding	Bespoke / new	NFI	
19. Risk of severe restrictions in a drought	Ofwat common	NFI	
20. Employee engagement	Bespoke / new	NFI	
21. Treating our suppliers fairly	Bespoke / new	NFI	
22. Trust	Bespoke / new	NFI	
23. Value for money	Bespoke / continuation	NFI	
24. Education activity	Bespoke / new	NFI	
25. Retailer measure of experience	Bespoke / new	NFI	
26. Customer measure of experience	Ofwat common	Out & under	
27. Developer services measure of experience	Ofwat common	Out & under	
28. Carbon	Bespoke / continuation	NFI	

## PCs CARRYING FINANCIAL ODIs

### 1 and 2. LEAKAGE SSW AND CAM

The Panel:

We note that the Company does not expect the new sector-wide method of calculation to produce material change for them, and that SSW needs a 25% reduction to reach estimated upper quartile (UQ) performance, whereas CAM is close to UQ now. We are aware of the strong customer support for leakage reduction, even below SELL (the Sustainable Economic Level of Leakage). We consider the targets to be appropriately stretching, the SSC target particularly so. We challenge the Company to make sure the CAM figures do calculate out to exactly 15%, particularly as the whole 15% reduction of 2MI/d is necessary for the WRMP supply/demand balance.

The Company's response:

CAM leakage reduction calculates out to 14.8% by year 5, compared to our current performance commitment. This is because we have worked with a 2 MI/d reduction for CAM, which aligns with the WRMP. A 15% reduction would be 11.475 MI/d, which would be 11.5 MI/d to 1 decimal place. We do not want to change the numbers in the WRMP forecast at this stage. In practice the absolute numbers will move due to the shadow methodology being implemented, and we are also using a 3-year rolling average. We will still commit to a 15% reduction in CAM leakage and we will take this into account as we re-base targets over the next 3 years as our shadow methodology compliance improves.

### 3 and 4. RESIDENTIAL WATER CONSUMPTION

Given that this measurement is, like leakage, an uneasy marriage of data with assumptions, we welcome the fact that the Company is checking its modeling of this performance measure. We are concerned that the extremely low consumption and high leakage in SSW suggest possible misallocation. We noted that the Company has been asked by the EA in its response to the WRMP for CAM to recalculate per capita consumption (PCC), which may also affect the measurements. We challenge this PC and ODI on the following bases:

> the target appears to be unambitious as it is worse than actual performance at the beginning of AMP6

We have reviewed our PCC targets. In the SST region our target is beyond the UQ already, and the 0.2 l/p/d per year reduction is based on the delivery of the metering programme. The CAM region however is currently above the industry average position. We have looked at the activity we are undertaking and where we are against the industry as a whole and against comparative WOCs, and we have revised our target to deliver a 3% improvement by year 5, equivalent to over 4 l/p/d over 5 years. This will improve CAM's position against the industry although cannot overcome the geographical situation which exists nationally. The stretching target however does put CAM at the frontier of comparable WOCs, that is those WOCs towards the South East area, which are more affluent. An industry report by Artesia does indicate a geographical bias to PCC nationally.

> the reward and penalty, based on WtP for metering as a proxy for WtP for reducing consumption, is very high for use with a measure which is so sensitive to assumptions

We agree that the natural level of incentive on PCC was imbalanced with other measures in our package when derived from WTP data, and so within our business plan we are proposing a top down rebalance between leakage and PCC, putting more incentive on to leakage where we have more direct control and where customers have identified it as a priority.

> the Company should consider setting separate targets for SSW and CAM, as it has done for leakage

We agree and have now adopted the regional targets.

> why is the Company not proposing a PC around extended metering, given that (a) they researched customers' WtP for it and (b) in their WRMP for CAM, supply demand balance depends on assumptions about metering.

Although sometimes unavoidable, we wanted to avoid performance commitments which were entirely output based. The benefits of metering for us are a reduction in consumption and improved data for calculating leakage, outcomes which are already covered in our performance commitments package. Customers benefit from fairer, more accurate bills and the potential for bill savings depending on usage.

We challenge Ofwat to accept that customers suffering a price increase as a result of using so much less water that the Company exceeds its target would be a particularly egregious outcome of the incentive mechanism.

## 5. SUPPLY INTERRUPTIONS

We favour three-year rolling averages for volatile measures like this one, and disagree with Ofwat's policy of discouragement. We note that Ofwat has itself dictated three-year moving averages for Residential Water Consumption and Leakage and we would support it in this case.

We are not intending to propose a three year average for supply interruptions, on the basis that it is very directly related to a customer facing service level, and that as one of the most consistent common performance commitments across the industry, we think it is unlikely Ofwat will be minded to allow this.

We are uncomfortable that the target by the end of the AMP is less than was achieved in 2015/16, and we understand that the Company's UQ projection is more stretching than that adopted by other companies.

We initially took an average of 2015/16, 2016/17 and 2016/17 shadow values to arrive at our industry upper quartile forecast. The 2017/18 year saw a significant deterioration for several companies due to extreme events including, but not limited to, the Beast from the East. This average gave us our initial view of 05:30. With no trend to the data, we made a judgement to stretch ourselves to improve performance to 04:30 by 2024/25, at the rate of 15 seconds per year. The 2017/18 data has not materially shifted the upper quartile position, although it has significantly shifted the industry average. It does however show how volatile the measure can be. The latest data hasn't changed our view of where a stretching, upper quartile, target should be, although we have reconsidered the future trend we had predicted and reduced this slightly, so that we now forecast 04:50 by 2024/25. The challenge has reinforced our view that a penalty collar is needed to mitigate the extremes of volatility that can occur in this measure and we have set this at the 95 percentile.

We would prefer a zero penalty, accompanied by a review of GSS compensation to a level more reflective of the losses faced by customers from supply disruptions.

We understand Ofwat will be reviewing GSS in any case, which applies independently of any incentives on the measure; we think it would be contradictory to Ofwat's PR19 guidance to propose no incentives.

## 6. VISIBLE LEAKS

We welcome the introduction of this new PC as a direct response to customer feedback. Customers view a visible leak which is not addressed promptly as evidence that the water company does not take seriously its stewardship of the resource. The Company is considering a target of either 90% repaired within 5 days or 100% within 7 days. We are against a target of 100%. Not all leaks can be repaired quickly, for example if notice has to be given to customers about a planned interruption, or if a license is needed to carry out road works, or if the leak is adjacent to other services that are affected.

We agree that 100% would be an unrealistic target as there will always be some jobs that are more difficult for genuine operational reasons. We are proposing a 90% within N days form of target, to allow for those difficult jobs but to ensure we correctly incentivise the bulk of the jobs to within a stretching repair period.

Given the absence of any historical data for SSC, we favour either a rolling three year average target for this new measure, or a commitment for the first two years of the AMP, accompanied by a wide dead-band, to be replaced in year 3 by a target based on new data.

We don't think the measure is well suited to a rolling average or a dead-band, as the performance is not overly dependent on volatile externalities. We acknowledge our current data needs improvement however we have 18 months to implement this prior to the start of the next AMP. Given the strong customer support we received for this measure, we think our target is a stretching one but at the right level.

## 7. WATER QUALITY

The Company has been making 15% improvements year on year and intends to maintain this in the first part of the AMP. In order to hit UQ, a step change is targeted between 2022/23 and 2023/24 when the capital investment included in the Cost Adjustment Claim kicks in. The incentives are calculated on the basis of WTP for reducing the incidence of taste and odour and discolouration. Given the priority customers ascribe to water quality, we judge this PC as worthwhile and the target as reasonably stretching.

## 8. MAINS BURSTS

We prefer a penalty only, or reputational ODI for this, on the basis that: there is a 50% overlap between this and Supply Interruptions and Visible Leaks (only property flooding and traffic disruption are covered uniquely by this measure); there was no research into WTP for mains bursts; the incentive already exists in the proposed ODIs for Supply Interruptions and Visible Leaks, and more appropriately for those ODIs which, unlike this one, measure customer experience.

We acknowledge the potential overlap between measures as described by the panel. However, whilst the measures share WTP information, the bursts measure has been valued in its own right using a bottom up approach, taking account of the consequences of an average burst and using the WTP data in the correct proportions. The other PCs are more geared towards in year performance of highly customer facing service levels. Bursts is different, in that it is predominantly meant to capture the long term asset health of the pipe network. The bursts and supply interruptions measures also aren't always linked – it is possible for bursts to increase without an increase in interruptions if consequences are well managed. Conversely a single serious burst could add several minutes to the interruptions measure on its own. We feel that Ofwat would be looking for an incentive on asset health measures, as this has always been a feature of the regulatory environment in water. We don't feel the potential for overlaps is adding a significant perverse nature to the incentives in the way that they have been designed and the balance of the package that we have.

We consider that the target of 120 bursts/1000KM is reasonably stretching given the fact that the current four-year average is 126, but we challenge the Company to re-think the fixed annual target with a view to a glide path from present performance to target performance.

We have used the data available to take a view of the current upper quartile level, taking into account the volatility seen in 2017/18 due to the Beast from the East. A glide path to upper quartile is against Ofwat's guidance in principle, and also we think that a reducing target does not add a great deal to the measure as a five year period is a very short timeframe to materially influence the burst rate (in fact it is more likely to go up with the increased leakage find and fix activity). We are proposing a three-year average on this measure, as asset health is intended to be a long term objective, but this is not part of Ofwat's guidance by default.

#### 9. UNPLANNED OUTAGE

This new measure is, like the one above, mandated by Ofwat as a proxy for over-ground asset health. Again there is no historical data, apart from one year 2017/18. The proposed annual target of 1% is taken from the assumption embedded in the WRMP projections. We challenge the Company to consider a two-year commitment with dead-band while data is acquired, given that: the proposed annual target of 1% requires a halving of the outage in the only year that has been measured, and compares with a reported industry average of 6%; there is at present no allowance made for annual improvement; and the reward/penalty as currently proposed is a highly geared all-or-nothing calculation.

Firstly, we have reconsidered our target following review of the 2017/18 shadow reporting data for this measure. We have set our performance commitment at the industry upper quartile level of 1.7%. To calculate reward and penalty rates we have used Ofwat's formula with an estimate of the incremental costs, derived from our capex programme. Given our almost upper quartile starting position, there is very little room for improvement, and an automatic cap (at zero) on the level of reward available, whereas the penalty side is in theory open ended.

#### 10. PROTECTING WILDLIFE

The Company's existing PC is based on actions taken in respect of land owned by the Company or subject to an environmental grant from the Company. The new PC embraces also management of land in the Company's catchment area by farmers or others who are receiving a Company grant for some aspect of environmental improvement. We were satisfied, on enquiry, that the danger of farmers receiving two grants for the same work was alleviated by the Company's contracting arrangements. We were aware that some companies have two PCs, one with a target expressed in hectares to cover land under their control, the other with targets expressed differently for catchment management activity.

We discussed this challenge in the meeting at the time. We have a vetting process for applications within which we check that the applicant has not received grants from another source.

We challenge the Company to consider the possible effect on this PC of the government's current review of agricultural grants in preparation for Brexit, which may greatly affect how farmers behave in respect of environmental protection.

We will review our approach in period.

We question the outperformance payment proposed for this PC, which, though calculated from WtP values, represents roughly one third of the purchase price of a

hectare, which seems disproportionate and could even incentivize unnecessary land acquisition. Therefore we recommend consideration of a cap and collar.

Whilst we derived the WTP directly from the customer survey in this case, we do agree that the effect of land prices could create a risk of behaviour not in the customer interest. We have therefore made a top down adjustment to correct the incentive rate by capping it at the land rental value so as to remove this risk. We think this is a better approach than implementing a cap and collar on the performance commitment itself.

#### 11. AIM

Ofwat requires all companies to have a PC related to the Abstraction Incentive Mechanism (AIM). SSC, like many other companies, is struggling to identify any sites that should be designated. We welcome the information that discussion on this is ongoing between the Environment Agency and Ofwat. We challenge the need for this potentially ineffective PC noting that there is no WtP evidence on which to calculate penalty or reward.

We agree this is a difficult measure, but Ofwat's guidance requires us to implement something on this theme. We have worked with the EA to identify 2 sites which are viable in CAM on which the incentive will be based, and a 3<sup>rd</sup> site in SST which fits the criteria but which will carry no incentive as it is not used. We did ask a WTP question on river biodiversity which we have used to value the measure.

#### 12. VOIDS AND GAPS

A PC on residential voids and gaps is required of all water companies, but no common definition of target has been provided. An ODI has yet to be defined by the Company. The proposal is for a penalty only ODI, on the basis that there is no WtP evidence, and that this is an activity for which customers would not expect the Company to be additionally rewarded.

This is a newly defined process and as such we do expect the details to evolve as we implement it and learn from the implementation. Fundamentally, our approach is to utilise external data sources, such as credit reference agencies, to cross check with our customer records, in conjunction with field activity. This will help identify where properties we have registered as void are in fact occupied. An initial trial with a credit reference agency identified 23% of voids could be moved directly to chargeable based on this data. A further 25% was moved to chargeable following a targeted lettering enabled by the data sharing process. We will then implement a field activity to visit voids that we cannot identify via the data sharing activity. Our target is to validate 100% of our voids each year. We expect the initial activity to yield the largest results, which will diminish over time until we reach our genuine void level. This metric is penalty only, as it is a customer fairness and data quality issue. We have valued it using an estimate of customer benefit from voids reduction, less incremental costs of implementation, following Ofwat's formula.

#### 13. FINANCIAL SUPPORT

This PC relates to the proportion of household customers reached by any of the following six financial support schemes: Water Sure; the Assure tariff; the Charitable Trust; Stepchange referrals; low value plans; and DWP direct deductions. The current measure includes double counting but will be replaced by the number of unique customers, as soon as that has been calculated. We challenge the Company to review the annual targets in the face of variables such as: the recent agreement with CCWater to charge an extra £1.50 per annum which will extend the reach of Assure to another 10,000 people; the current review of the maximum level of debt

remission which stands at 80%; and the loss of DWP deductions as people migrate to Universal Credit.

We believe our target is reflective of the above challenges, deliverable, and a fair reflection of the amount we will be collecting from customers from the bill subsidy. We do not anticipate universal credit to materially affect the total customers we help, as shortfalls in one area can be compensated for by increasing activity in another.

#### 14. EXTRA CARE

This PC relates to non-financial assistance such as additional meter reads, home calls, voice activated assistant, tailored communications, or referrals to partner support agencies. We question the wisdom of expressing targets as a proportion of people on the Priority Services Register, for which separate growth targets are in place. The ideal metric would be the proportion of people eligible for Extra Care who receive it, and therefore a number of people reached might be better than the proportion of a wider population with other characteristics.

We agree that the ideal measurement would be outcome based, i.e the proportion of people eligible who receive the help. However this is not possible to measure with any accuracy, and so we have settled on a number of customers target based on our best current view of take up rate. We will ensure we have an active marketing strategy for this package and we would not restrict acceptance to the package if true demand was higher than our forecast.

If that metric is adopted, we challenge the Company to adjust the annual target numbers to reflect the likely growth of the PSR.

We are expressing the target as 5% of our PSR. As the PSR is forecast to grow over time, this results in an increasing number of customers we would expect to register for the Extra Care package.

The Company's Vulnerability Strategy is new and still developing. We challenge the Company to consider an interim commitment for two years, to be reviewed when there is more data about take-up of the Company's new support services.

We think an interim commitment would be unnecessarily complex in this case. We have a forecast based on our PSR, and we would not restrict acceptance if demand for the service was higher than forecast.

As a penalty, we favour provision of a GSS-type payment to people who should have received Extra Care, perhaps set at twice the cost to the Company of the care they missed.

We thank the panel for this very good idea, however on consideration we feel that this approach would not incentivise us to actively encourage customers onto the Extra Care package.

#### 15. COMPLIANCE RISK INDEX

The CRI is a replacement measure for Mean Zonal Compliance (MZC), and almost as undecipherable. DWI is insisting on a target of 100% compliance. There is one year of data, which produced a UQ level of non-compliance at 1.25. SSC is proposing a penalty only ODI, taking WtP for discolouration and taste and odour as a proxy.

At the time of the panel sub group meeting we did not have an incentive valuation. We have looked at several ways of calculating an incentive and unfortunately the complexity of the CRI metric means we could not find a robust approach. Instead, we have looked top down at the theme of water quality, taking into account both CRI and water quality contact. We have adjusted the incentive rates top down

based on customer priorities from the WTP survey, to get to a more balanced incentive between CRI and contact.

#### 16. WTW DELIVERY

We have already welcomed the Company's agreement to an OTIF (on time and in full) PC, attached to the investment in water treatment works at Hampton Loade and Seedy Mill. We await a detailed proposal.

We are still working on the timescales with the DWI. The incentive however will be a full refund of totex to customers if we don't deliver a scheme, in the form of an RCV adjustment. If we miss a DWI deadline, we will give back the time value of money we have recovered so far for each month of delay, plus an additional mark up in order to ensure the company is not in a neutral cost position.

### PCs CARRYING REPUTATIONAL ODIs

#### 17. BAD DEBTS

We welcome the Company's investment in new software and improved management of bad debts. We challenge the Company to: show figures for the years before 2107/18; revisit the PWC research to see how SSC compares with WOCs rather than with the average of all companies; analyze the difference between bad debts in SSW and CAM to see if anything can be learned; consider carefully whether sale of corporate debt to a third party will lead to outcomes that are appropriate for a public service provider like a water company; explain what effect such a sale would have on this proposed ODI. We await a detailed proposal.

[Please refer to the Appendix 7 below.](#)

#### 18. WATER EFFICIENT HOUSEBUILDING

We agree this should be a reputational ODI because delivery is outside the Company's control. We challenge the proposal to measure the outcome in Megalitres saved, because this makes the target dependent upon the accuracy of assumptions in the WRMP about the rate and timing of housing development. We suggest a target of per capita consumption in completed schemes.

[Whilst the megalitres saved unit is dependent on assumptions such as the rate of house-building, it is also dependent on how well we can push this activity and get developers to adopt the accreditation standard and receive the rebate incentive. We have confidence in the new development forecast made as part of the WRMP – the Panel made a separate challenge that this may still be too low given known development plans in Cambridge. Therefore this target becomes dependent on the take up rate, which we hope to be able to influence via our marketing strategy. Measuring this as a PCC for new developments, if done as a live number rather than an indicative value at time of construction, would be possible but challenging. We would need the ability to segregate that group of properties in order to isolate and report its consumption separately from our general customer base. And ideally we would need to get more accurate occupancy rates as using our company average could result in inaccuracy/skew for a small sample size. In other words, the resultant number may not be accurate, depending on what assumptions have to be made and what data we are able to utilise.](#)

#### 19. SEVERE RESTRICTIONS

We challenge Ofwat to reconsider mandating what might be a PC without value, given that: weather events measured in frequency over 200 years is no longer realistic in a world where climate change produces broken records every year; until

and unless there is a 1:200 year drought we will not know how companies have performed against the commitment; all companies are bound to set a target of zero, which is valueless in terms of trend or comparison.

The way we produced this number in 2017/18 is subject to change as it appears not all companies followed the guidance in the same way, elements of it are unclear. This PC is only officially assessed twice, at PR19 to give the baseline and at PR24 to give the revised position. If our WRMP is followed, then the result of this calculation is that zero customers are at risk. We agree that this particular performance commitment does not add much value.

## 20. EMPLOYEE ENGAGEMENT

We welcome the Company's commitment to measure this and to do so in public, not least because it addresses a clear customer preference. We support the idea of a target based on a recognized national or international standard, such as Investors in People. We recommend the Company to consider as an alternative to IIP the new category of the Queens Award for Enterprise, which relates to employee engagement. However we doubt whether 27 PCs is proportionate to a company of the size of SSC, or effective for an organization of any size in focusing management attention on business priorities. Therefore we challenge the need for this to be a PC or ODI.

We recognise we have a high number of metrics for a WOC; however the difference between having 28 and 27/26 is not really significant, and customers did show understanding and support for the metric.

## 21. TREATING SUPPLIERS FAIRLY

As for 19 above, we applaud the Company's commitment, and support the idea of adopting a recognized national standard, and of setting a target to exceed it by paying SMEs in 30 days instead of the Prompt Payment Code requirement of 60 days. However, as for 19 above, we challenge the need for this to be a PC/ODI. We consider that publishing the commitment, and reporting on performance against it in the APR and on the Company's website dashboard, will be just as effective, and will reflect better on the Company for being free of regulatory involvement.

As above and business customers did show support.

## 22. TRUST

Whilst welcoming the commitment to target a high level of customer trust, we question whether this new PC would not be better dealt with as suggested in 19 and 20 above, with the added argument in this case that there is likely to be overlap with the new mandated C-MEX measure. We challenge the Company to reconsider the high target levels, given the vulnerability of this measure to external influences such as adverse press reporting or political arguments about the industry or about business generally. CCWater has measured trust across the sector since 2011. We recommend the Company to consider replacing this PC with a commitment to fund CCWater to include a larger sample of SSC customers in their survey, which will bring the added benefit of comparisons over time and across the sector.

There could be overlap with CMEX however we agree that utilising CCWater's survey is a good idea. CCWater's survey is once per year however, which could result in timing sensitivity if it coincides with external events. We are therefore minded to utilise a composite between our own tracker survey (monthly) and CCWater's annual survey in equal share. We would fund the boosted CCWater sample as well, to help improve the robustness of our result.

We also challenge the Company to commit to investigating the cause of any drop in the reported level of trust.

This is why we will continue to run our own tracker survey and maintain our wider customer insight programme which we hope will allow us to understand better the reasons behind customer sentiment.

### 23. VALUE FOR MONEY

We challenge the Company to review the proposed targets, given the fact that CCWater's survey data show the Company's VfM score falling in SSW from a high of 85% in 2015 to 74% currently, and in CAM from a high of 81% in 2015 to 75% currently. The current figures compare with an industry average of 70%. The proposed target of 81%, rising annually, may be over-ambitious.

The data contains uncertainty until we can observe the results of the boosted sample. We feel the target is reasonable on the basis that it would not feel right to set a target of below 80%.

Once again we challenge the Company to commit to investigate the cause of any future drop, and we recommend them to discuss with CCWater a partnership in CCWater's national Water Matters survey in preference to the Company's own survey.

As per item 21, we will continue to run our own tracker and to utilise, in equal share, CCWater's survey with a boosted sample.

### 24. EDUCATION ACTIVITY

We welcome this new PC with its clear focus on something that the PR19 research showed customers to be keen on. We understand that Severn Trent are targeting 200,000 Year 8 pupils against which the SSC's proposed target of 3000 per year seems slight. We challenge the Company to: express the target as cumulative over the AMP; to explore partnership with SVT over joint approach to schools in South Staffs area and with Anglian over schools in CAM; to explore working with the Garrick Theatre's schools programme; and to review the size of the target in the light of these explorations.

We will explore partnerships with other organisations however this is in its infancy and so we need time to allow our education programme to mature before we can be sure what is achievable.

### 25. R-MEX

Analogous to C-MEX and D-MEX which are mandated by Ofwat, R-MEX is the Company's own measure applied to retailers in the NHH market. The Company plans to add a satisfaction survey to the existing management performance score (MPS) and operational performance score (OPS). We welcome this PC, which was appreciated by retailers in the customer engagement. We note the difficulty of devising a target given that 85% of SSC NHH consumers are covered by one retailer. We await a detailed proposal.

At this stage we are still evaluating the detail however fundamentally we will be measuring MPS, OPS (as currently) and combining this with a retailer satisfaction measure in equal weight. The target of 93% is based on 100% for both compliance measures and 80% in the satisfaction survey.

### 26. CARBON

Whilst we agree that the existing ODI is not fit for purpose, we but did not favour having no PC, and welcome the Company's decision to replace it. We challenge

the Company to: broaden its carbon target to include procurement and embedded carbon, as is done by Anglian Water; to reconsider solar panels, whose price has fallen so much that schemes can be viable without government subsidy; and to consider a target expressed as carbon per customer, which aligns to other Company targets for reducing per capita consumption and leakage, and for increasing operational efficiency, whilst helpfully de-coupling the target from growth of demand.

We have adopted the carbon per customer (measured as kg per connected property) as this is an excellent means of normalising carbon emissions. We will be considering all opportunities for carbon reduction through energy use reduction in AMP7, however we are not proposing to adopt embodied carbon within this measure. Embodied carbon is quite a subjective beast, full of assumptions, and would create a considerable cost burden and audit challenge.

27 and 28. C-MEX and D-MEX

We await Ofwat's decisions on these new measures, but are unlikely to be able to challenge the ODIs.

We will adopt Ofwat's methodology for CMEX and DMEX, once they have been finalised. We are involved in the working groups.

DEBT MANAGEMENT

INTRODUCTION

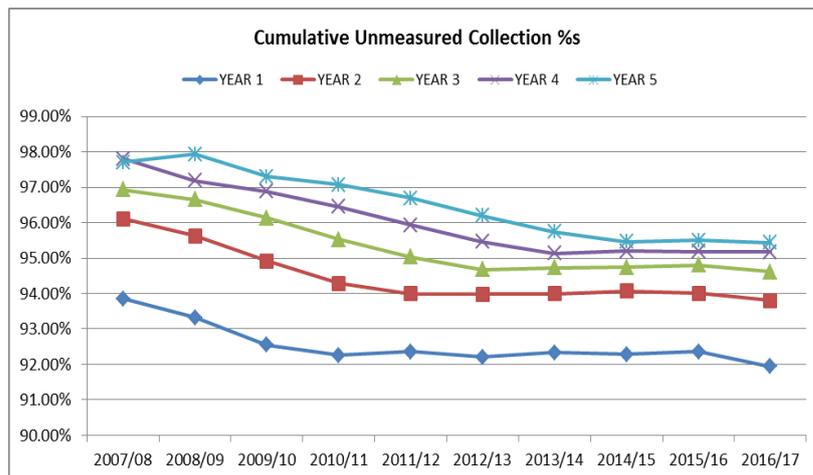
The purpose of this information is to respond to the following challenge from the Customer Panel

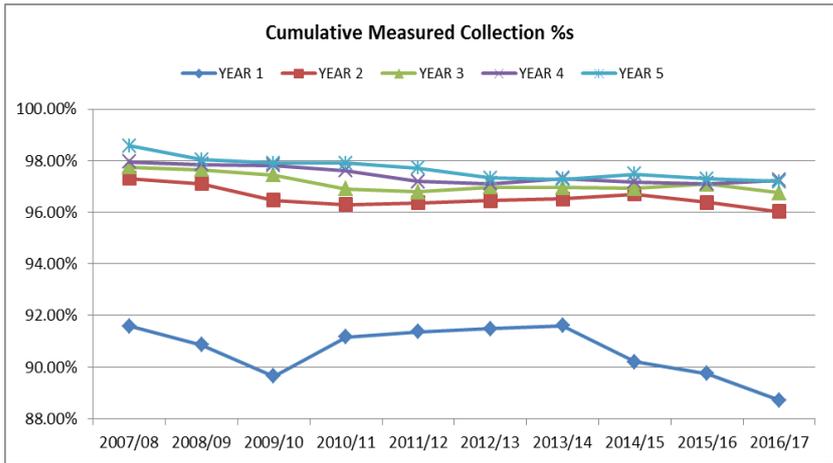
*We welcome the Company's investment in new software and improved management of bad debts. We challenge the Company to: show figures for the years before 2107/18; revisit the PWC research to see how SSC compares with WOCs rather than with the average of all companies; analyze the difference between bad debts in SSW and CAM to see if anything can be learned; consider carefully whether sale of corporate debt to a third party will lead to outcomes that are appropriate for a public service provider like a water company; explain what effect such a sale would have on this proposed ODI.*

Bad debt (also known as doubtful debt) has been identified as a key component and likely gateway measure for the upcoming PR19 submissions. Concern has been expressed by Ofwat that the Water sector, as a whole, lags behind other relevant sectors. South Staffs have, after considerable research and engagement, developed a Customer Support Strategy that responds not only to the need to improve revenue collection (and hence reduce debt) but also aims to identify and prevent debt rather than simply improving its recovery capability.

PREVIOUS YEARS

South Staffs debt collection performance has, for a number of internal and external factors, been weakening over time.



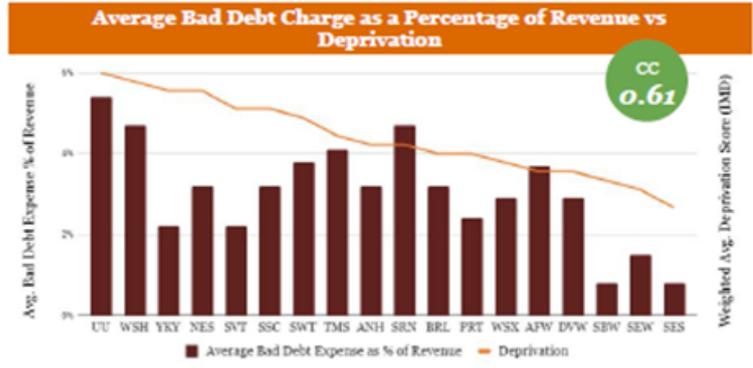


It is a complex picture during which we have seen the global crash, considered by many to have been the worst financial crisis since the great depression, changes in policy and an increasing debt position per household across the UK. It is true to say that some areas have recovered more quickly than others and South Staffs, with areas such as Walsall, has some of the most highly deprived areas in England and Wales. It also has areas within Cambridge which are less affluent and rural although Cambridge is typically less indebted. Debts in both areas are collected by the same individuals within the contact centre.

**OTHER (IN SECTOR) COMPANY PERFORMANCE**

It is useful to consider the SSC position when reviewed against the annual performance review details (shown below) as well as the PWC report output. In both cases we see more affluent areas carrying lower levels of debt. The results present no real surprises when viewed through that lens and this is typically reflected in our South Staffs –v- Cambridge portfolio

(extract from PWC Retail efficiencies benchmarking September 2017))



	SEW	AFW	BRL	DVW	SES	SSC	PRT	UQ	MEAN	LQ
Debt Management	0.703	1.32	0.479	0.093	0.941	0.701904	0.282			
	845.888	1358.094	484.590	115.250	263.615	660.105	291.409			
	SEW	AFW	BRL	DVW	SES	SSC	PRT			
£ - Cost per customer for DM	0.83	0.97	0.99	0.81	3.57	1.06	0.97	0.90	1.31	1.03
Rank - Lowest first	2	4	5	1	7	6	3			
Doubtful debts	0.983	8.736	2.782	0.34	0.334	3.114108	0.428			
	845.888	1358.094	484.59	115.25	263.615	660.105	291.409			
	SEW	AFW	BRL	DVW	SES	SSC	PRT			
£ - Cost per customer for DD	1.16	6.43	5.74	2.95	1.27	4.72	1.47	1.37	3.39	5.23
Rank - Lowest first	1	7	6	4	2	5	3			

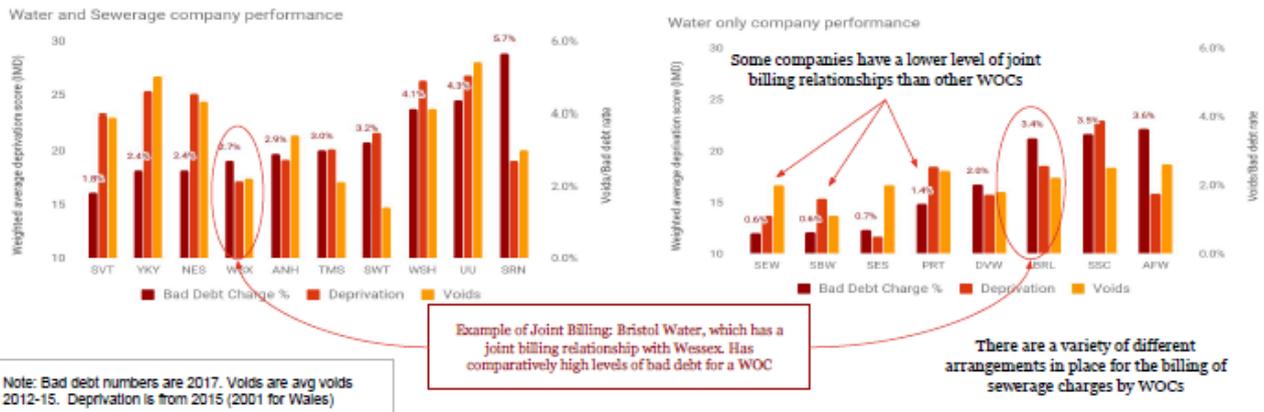
(Extract from Annual Performance Review (APR) comparison 2016/17 – water only companies)

It is useful then to consider how SSC compares when looked at against neighbouring areas with similar household demographics.

	WOC						WASC		
	SEW	AFW	BRL	SES	SSC	UQ	SVT	ANG	UQ
Debt Management	0.703	1.32	0.479	0.941	0.701904		7.33	8.44	
	845.888	1358.094	484.590	263.615	660.105		4860.31	3273.51	
	SEW	AFW	BRL	SES	SSC		SVT	ANG	
£ - Cost per customer for DM	0.83	0.97	0.99	3.57	1.06	0.90	1.51	2.58	1.69
Rank - Lowest first	2	4	5	7	6		2	6	
							SVT	ANG	
Doubtful debts	0.983	8.736	2.782	0.334	3.114108		20.55	27.37	
	845.888	1358.094	484.59	263.615	660.105		4860.31	3273.51	
	SEW	AFW	BRL	SES	SSC		SVT	ANG	
£ - Cost per customer for DD	1.16	6.43	5.74	1.27	4.72	1.37	4.23	8.36	6.88
Rank - Lowest first	1	7	6	2	5		1	6	

We can see here that the SSC performance is very similar to Severn Trent (SVT) and considerably better than Anglian Water (ANG). These are the two neighbouring companies that South Staffs carry out joint billing activities for. Interestingly, in the PWC report of September 2017, it was identified that water only companies who had dual billing responsibilities performed more like a Water and Sewerage company, believed to be as a result of the higher bill amounts. These bills are recovered, in the case of SSC, on behalf of both Severn Trent and Anglian water.

# Frontier performance in the sector is 0.6%, however there is significant variance between WOCs and W&SCs



We also sought to better understand other variances in performance within the water only companies and so, further analysis was carried out by the finance teams who reviewed the Annual Performance Reviews (APR). From this exercise we see how different internal and accounting policies can move the performance position when taking a single flat debt measure as opposed to looking at all the aspects in the round. For example, when considering the write-off policies within Water only companies, we see SSC in first place.

Implied Cash Collection Percentages 2016/17	SEW South East Water	AFW Affinity Water	BRL Bristol Water	DVW Dee Valley Water	SES Sutton & East Surrey Water	SSC South Staffs & Cambridge Water	PRT Portsmouth Water
Average Unmeasured Bill	£ 243.45	£ 193.06	£ 192.72	£ 176.37	£ 206.79	£ 145.02	£ 102.82
Average Measured Bill	£ 186.25	£ 162.75	£ 146.32	£ 126.15	£ 160.57	£ 122.93	£ 99.80
<b>Average Combined Bill</b>	<b>£ 198.77</b>	<b>£ 177.48</b>	<b>£ 170.24</b>	<b>£ 146.29</b>	<b>£ 183.12</b>	<b>£ 135.49</b>	<b>£ 101.95</b>
Average Doubtful Debt Charge per property	£ 1.16	£ 6.43	£ 5.74	£ 2.95	£ 1.27	£ 4.72	£ 1.47
<b>Ranking</b>	<b>1</b>	<b>7</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>5</b>	<b>3</b>
Average Write Off Charge per property	£ 2.94	£ 5.47	£ 9.21	£ 1.17	£ 1.24	£ 0.07	£ 1.39
<b>Ranking</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>4</b>

We also spent time with other sectors including energy utilities, councils and telcos to better understand "best practice" and used this information to assure our strategic proposal and, where appropriate, build upon our current processes. From this we built a best practice matrix which covers process, people and technology improvements to optimise our performance. These ideas and initiatives ranged from micropayment capabilities, through enhanced reporting to tailoring of approaches for each customer in terms of communication style, channel and availability of support options. Importantly we see debt avoidance being as important as revenue collection itself.

## CORPORATE DEBT SALE

The idea of selling bad debt is not a new one and is common practice amongst other organisations including other public service providers such as water companies. The bad debt is made available for sale once it has been properly and thoroughly investigated to establish the whereabouts of the debtor. These

households will have been approached via the normal routes including letters and calls before then being passed out to independent third party debt collection agencies that will then utilise their full range of options. Once these steps have been completed and when we have been unable to establish the whereabouts of the household, we will finalise the debt which after 6 years becomes statute barred.

By selling the debt to a reputable purchaser (we are dealing with TDX and Lowells), we are selling into a highly regulated sector. Lowells, in an independent 2016 survey of 1300 customers, were rated as Exceptional. These organisations are often able to establish the debtor living elsewhere and are able to offer the debtor options to repay the debt. Typically these former customers have debts with other organisations and the debt purchaser is able to consolidate the debt to create a much easier proposition for the debtor.

We believe it is essential to reduce the debt burden on our broader customer base by ensuring that debt which can be recovered quickly is recovered quickly, that where we identify financial distress we support, we do so quickly and easily and that where we have exhausted our own revenue recovery processes and are comfortable that the debt should be finalised, it is the correct action to take. This proposal is not designed to impact the in-year achievement of the ODI but rather reduce the on-going debt held by the company and simply support the on-going delivery of process, people and technology improvements overall. We certainly see debt reducing through our early years recovery processes improvement.