

Notes of Meeting No.10 of the South East Water Customer Challenge Group held on 6th June 2018, at Mary Sumner House, London.

Present:

Zoe McLeod (Chair)
 Penny Shepherd (PS) (CCW)
 Caroline Farquhar (CF) (Citizens Advice)
 Richard Lavender (RL) (Kent Invicta Chamber of Commerce)
 Karen Gibbs (KG) (CCW)
 Rupika Madhura (RM) (Independent – price controls)
 Leslie Sopp (LS) (Independent – research and insight)
 Steve George (SG) (SEW – Customer Services Director)
 David Hinton (DEH) (SEW – Asset and Regulation Director)
 Oliver Martin (OM) (SEW – Head of Regulation and Strategy)
 Lee Dance (LD) (SEW - Head of Water Resources)
 Nicola Blake (NB) (SEW – Regulatory programme controller)
 Jo East (JE) (ICS Consultants)
 Rob Francis (RF) (Frontier Economics)
 Anna Berry (AB) (Frontier Economics)
 Oliver Schubert (OS) (SEW – Shareholder)

Apologies:

Janet Hill (JH) (Swale Borough Council)
 Louise Bardsley (LB) (Natural England)
 Adrienne Margolis (AM) (Household Customer)
 David Howarth (DH) (Environment Agency)
 Simon Mullan (SM) (SEW)
 Jo Osborn (JO) (SEW – Head of Communications)
 Alison Lee (AL) (SEW—Economic Regulation manager)
 Laura Rafferty (LR) (SEW – Insight lead)
 Andy Clowes (AC) (SEW – Business Consultant)
 Jane Gould (JG) (SEW - Consultant)

Notetaker: Nicola Blake (NB) (SEW – Regulatory programme controller)

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1. Introductions and Declaration of interest	<p>Apologies were received from JH, LB, AM, DH, SM, JO, AL, LR, AC and JG.</p> <p>There were no interests declared at the meeting.</p> <p>The Chair welcomed Oliver Schubert to the meeting.</p>
2. Minutes from the last meeting and Challenge Log	<p>Minutes agreed subject to removal of duplicated word on page two.</p> <p>Action: NB to update 2nd May minutes to remove duplication of word on page two of the document.</p>
3. Chair's Report and Sub-Group updates	<p>ZM updated the group on:</p> <ol style="list-style-type: none"> The CCG Chairs meeting which Rachel Fletcher, CEO Ofwat, attended. Discussions included: <ul style="list-style-type: none"> Rachel's ongoing commitment to engagement- companies should be engaging with staff 'from the CEO to the cleaners'. Ofwat think that focussing just on satisfaction is too narrow a view to have on this. Investor returns and trends towards better investment – “all companies have got a challenge to demonstrate explicitly and convincingly that customers are at the heart of their businesses”. Financial structures – Ofwat encouraging companies to have “those fiery conversations” with customers on this subject. Freeze thaw and different company approaches Non-household engagement – there appears to be differing levels of engagement across the industry with both business customers and water business retailers.

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	<p>Ofwat will be feeding back on the performance commitments end June/July.</p> <p>2. Corporate reporting and responsible business meeting - with Brand Edge, Creative Sensemaking, AM, PS, JH. Key messages:</p> <ul style="list-style-type: none"> • Be clear what the company can and can't influence • Directly tackle the reform agenda issues – board level pay, pay differentials, tax havens • Place within context of wider responsible business • Try a more deliberative and creative approach • Brand Edge paper needed refocussing on these issues <p>The Chair updated the Group on the Sub-Groups activities since the last meeting.</p> <p>3. Research Methodology Sub-group have been challenging the company on their approach to:</p> <ul style="list-style-type: none"> • Willingness to Pay surveys for social support • Bill profiling research • Segmentation names • Water Resources Management Plan acceptability testing <p>The Chair thanked the Sub-Group for its hard work meeting tight deadlines. The Sub-Group has asked for a focus on Non-Household research for the next meeting as this is seen as a current gap in the research programme.</p> <p>RL informed the group that following Invicta water exiting the business retail market there has been no communication from Castle Water who brought the business book, RL will be trying to have a meeting with Tanya Sephton, MD of Invicta Water.</p> <p>Action: RL to feedback to the group if able to meet with MD of Invicta Water or has contact with Castle Water.</p> <p>4. Consumer Vulnerability Sub-Group</p> <p>The Vulnerability Sub-Group session predominantly focussed on the draft Vulnerability Strategy which the Sub-Group felt did not land in the right place – failing to draw upon the insight from customer research and wider insight and not effectively demonstrating a link between insight and the end strategy.</p> <p>Following the Sub-Group ZM and AC met to discuss a way of getting this back into a better shape.</p> <p>The Sub-Group also discussed the Vulnerability Outcomes, this was a helpful session however the group did not reach a consensus on what would be classed as stretching performance for PSR.</p> <p>5. Engagement observation</p> <p>ZM attended the Willingness to Pay (WTP) for non-financial support focus group, which is being used to inform the quantitative research. ZM noted the significant difference in support for non-financial support for customers with disabilities compared to the direct financial support for those on low incomes or struggling to pay.</p> <p>6. Forward look - There are two conference taking place in July on vulnerability.</p> <p>Presentation to the Board</p>

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	<p>PS and AM informed the Group that they will be attending the stakeholder co-creation vulnerability strategy workshops and also the responsible business focus groups. LS will be attending the cognitive test for the acceptability testing and responsible business focus group.</p>
<p>4. Research programme update and PR19 programme update</p>	<p>OM updated the Group on the PR19 Programme, which is currently on track, the Company is required to submit financial data on 15th July alongside the Annual Performance Report (APR).</p> <p>The Company Outcomes are progressing well and will be fully discussed again at the special CCG meeting on the 22nd June, this session will include a discussion on targets and rewards and penalties.</p> <p>The Company is currently drafting the business plan appendices and will be bringing chapters and key messaging to the next CCG meeting (4th July). OM explained following the CCG meeting a draft business plan will be shared with the Group during the week commencing 16th July.</p> <p>The Company will share the list of appendices that it is creating, due to resource and time constraints OM suggested the CCG puts a particular focuses on the Engagement, Vulnerability and Outcomes appendices, however encouraged the group to review any other appendices if they wish.</p> <p>The Group asked for papers for this meeting to be sent out at least one week before the meeting, the Company agreed that this would be done.</p> <p>OM updated the Group on progress of the research programme, PS asked when the large user research materials would be circulated as they had not be shared before this meeting. OM to confirm when these were to be circulated.</p> <p>The Company updated the Group on the new segment names that have now been finalised;</p> <ol style="list-style-type: none"> 1. Global Thinkers will now be called Global Advocates 2. Me, Myself and I will now be called Just Me and Mine 3. Keeping it Simple will now be called Careful Neighbours 4. In the Dark will now be called Busy Juggler 5. Not on My Radar will now be called Living for Today. 6. Mindful Optimists will remain the same. <p>Action: The Company will circulate the slide presentation that was shared with the Research Sub-Group to explain the changes in the segment names.</p> <p>The Group were happy with the new segment names and felt that they were more positive than before – more appropriate for public facing activity. The Company reminded the Group that these names will be used in the business plan and the satisfaction measures by segments.</p> <p>The Group welcomed that the Company will also be reviewing the acceptability of the plan research by segment to see if there are differences between segments. This will also be seen in the triangulation of results as the 'golden questions' have been included in other surveys. The Group requested the algorithm which sits behind the golden questions to segment the respondent be circulated.</p>

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	Action: The Company to circulate the algorithm used to segment customer respondents.
5. WRMP update	<p>LD gave an overview of progress on the Water Resources Management Plan.</p> <p>LD reported that the Company has had a higher level of engagement activity with customers and stakeholders than previous plans, even with this increased level the Company has seen on balance pretty much the same level of representations as last time.</p> <p>[Additional information provided following the meeting; From WRMP14, 66 representations, WRMP19, 56 representations. When broke down into respondent groups the levels were similar / same between WRMP14 and WRMP19, with one exception – LPAs, Town Councils and parish Councils declined from 25 in WRMP14 to 15 in WMRP19.]</p> <p>PS said that she felt the engagement was so much better than last time, and noted the high level of knowledge demonstrated by those representing SEW at the events she attended.</p> <p>The Company has received a large number of points that require a little further clarification rather than requiring a notable change to our plan.</p> <p>There were two notable areas of feedback that do require us to consider notable changes to our plan – these were challenges that the company was not ambitious enough around PCC (demand reduction) and leakage. We have undertaken further work to consider the level of ambition we should include in our revised draft WRMP19.</p> <p>The Company explained how it was planning to include a 15% reduction in leakage in the WRMP to address the lack of ambition comments. The Company will be modelling its plan on a least cost basis as before which has 4% leakage reduction in for 2020-2025, the Company will then include the costs for reach the other 11% on top of the least cost plan amount. The Group asked if this would mean that the customer base would be paying twice for the reduction. The Company confirmed that customers were not paying twice, because at the end of AMP7 the supply demand balance will be re-set and the base year for our new forecast at that time must adopt the actual leakage achieved at that time – this will have the effect of pushing back future investment to meet the supply demand balance. So customers will pay more in AMP7, which is backed up by the Willingness to Pay research, but pay less in future should the additional 11% leakage be delivered i.e. pushes back future investment in longer term. This approach will be tested in the acceptability of the business plan research.</p> <p>DH said he felt the change in approach was uneconomic and would cost more but that it reflected regulatory and customer views and customers WTP. PS asked how much SEW would be saving by not doing other things and how the target would fall over the period.</p> <p>The Group asked the Company to explain how it assures the costs included in its plan has an amount of efficiency assumed and that the company is not working all the way up to the willingness to pay amount. The Company explained that costs are worked up from the model which includes an efficiency target, Ofwat will then review this and set different costs during the Business Plan review. The Company will explain further efficiency at the next CCG meeting.</p> <p>The Company discussed housing policy comments received in representations, LD commented that views vary with some saying SEW should do something with others saying it is not the company's place or they are reassured that the company is making</p>

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	<p>provision for it. CF and the Group felt the focus groups they had observed suggested consistent support for the company taking a more proactive role on lobbying for housing standards and policy related to water reduction in this area.</p> <p>KG asked the Company to explain the Company's thoughts on intercompany transfers dropping out of the later parts of the plan. LD is currently discussing with the WRSE group to make sure all companies are aware of the change. Due to more ambitious demand management, many companies no longer require transfers, in SEW case the planned transfer from Thames Water in the medium to longer term have been replaced by ambitious demand management.</p> <p>ZM flagged the compliance gaps highlighted by EA. LD informed the Group that a meeting will be held with the Company and the EA to discuss the compliance gaps, which have been listed out in the EA representation to the Company, to make sure the Company can address all the gaps in its final plan. Post meeting note: SEW met with the EA and agreed how the compliance gaps are addressed, confirmed this does not cause a material impact on the plan.</p> <p>CF queried how the company was going to address customers wanting more control of their bills and better water consumption data. The Company said more regular readings were possible however this would not be very cost-effective. One of the ways the Company would look to reduce leakage is by including smart metering in its plan, this may be in the form of a pilot to start. LD explained there were other options to provide more regular data to customers than a smart meter, SEW is undertaking a trial with HIVE who have a sensor that fits onto supply pipe into house e.g. typically under the kitchen sink, this reads flow in real time and we are looking at how this data can be made accessible to customers and be used alongside the Advizzo water report – this would allow customers to have real time data and regular higher level comparative data of their water use compared to others. LD reminded that a customer on a metered supply already has control of their consumption and therefore bill. What they lack is comparative information and awareness of how their use of water relates to volume of water used or comparison with others.</p> <p>Action: The Company is to show the Group a list of options it is currently looking into to give customers control and water reduction.</p> <p>LS asked how representations were assigned priorities - . LD said they were required to respond to every comment received through representations. Each response needs to explain whether it has had an impact on the draft plan or not, and justify this. The responses to the representations are published alongside a revised draft WRMP19, and submitted to Defra. It is the role of Defra, supported by the EA as its technical advisor, to determine whether the company had adequately addressed and incorporated representation responses into its revised draft WRMP19, and to inform the company whether it can publish its revised plan as a final plan. There are mechanisms for Defra to, ask for amendments to be made, reject a revised plan or to ask that a public inquiry / hearing be held into a company plan.</p> <p>The Group asked how SEW had considered the recommendations from the National Infrastructure Commission. LD explained that it was aligning with the NIC recommendations as appropriate. Water companies have been invited to a meeting with Defra, Regulators and the NIC on the 27 June 2018. We will align with outcomes following that meeting. At this stage, we consider our intended approach PCC and leakage reductions to align well with NIC.</p>

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	<p>ZM asked the Company how it set its engagement targets for this plan period. For dWRMP19, engagement objectives were set, and a copy was included in presentation pack. These were set round work carried out last time and aimed to increase the level and quality of engagement during the 12 week consultation period – this was achieved.</p> <p>Making direct comparisons with other companies is difficult. For example a more contentious project like the Upper Thames Reservoir will always attract more interest and responses. SEW noted that they had had fewer councils responding for example but their ongoing engagement was much better so this may be the reason.</p> <p>SEW noted that Portsmouth Water had sent out an email to its customer base with a number of questions and a link to their draft plan, and received 2,000 responses. The Group asked if SEW would think about doing this in the future, The Company responded that it might look into this and would also talk to Portsmouth Water to see how many responses they received from exhibitions and Defra as written representations.</p> <p>Post meeting note: At the recent meeting with the EA to discuss their representation of our dWRMP19, the EA was complementary about our communication approach. They confirmed that our level of representations received is in the upper quartile as number received for the industry.</p> <p>ZM asked the Company if the number highlighted of engaged stakeholders included the members of the EFG. The Company responded that where an EFG member had attended an event / meeting they were incorporated into those numbers, and where an EFG member had made a representation they had been included in those numbers – the slides provided for the CCG meeting included a footnote to show who had made a representation and whether they are an EFG member too.</p> <p>The members were invited to attend hall testing of the quantitative dWRMP survey.</p>
6. Triangulation update and discussion	<p>The Company circulated handouts to show the triangulation data base for leakage and water Quality.</p> <p>Action: The Company will circulate the PCs grouped up into customer outcomes.</p> <p>JE explained that different lenses were being created to use to look over this data, e.g. vulnerability and segmentation, work is also underway to include business as usual interaction and contacts into the data base for the next iteration. PR14 engagement and 3rd party engagement findings will also be added.</p> <p>JE confirmed that the questions set out in the CCWater report on triangulation had been included in the matrix, the Group were happy that these had been incorporated in the process.</p> <p>ZM asked each piece of work will be assessed and weighted if a subject was only a small. The Company responded that it would look at all the individual findings from the report and not just the overall report. ZM responded that this seemed a reasonable approach.</p> <p>JE highlighted the addition of the time horizon and benefits column as requested from the last review.</p> <p>ZM asked the Company to explain how this shows tensions in the priorities and findings of the research, OM responded that they have not seen any tensions in the priorities, the areas of tensions are likely to be in the social tariff research and bill profile research.</p>

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	<p>ZM reiterated her concern that the group had seen several process maps of the overall triangulation approach but not yet the real detail of how this approach would play out in practice. The Company responded that it wanted to take the Group through the whole process to check they were comfortable with it and highlighted that they have used an external resource to pull this all together to introduce a degree of objectivity into the process.</p> <p>CF asked the Company if the research from PR14 would be added to the matrix, the Company confirmed that it would be included. CF mentioned that this could be used to identify trends for the future. The Company did highlight that there was not as much research carried out for the last price review so would not be able to draw trends on all findings.</p> <p>The Company commented that the data base will be carried on past submission and will be used as a living insight data base.</p> <p>PS asked if operational data was included and insight from third party agencies. It was agreed it was important to capture this and insight not just on customer priorities but the “how” they thought these should be delivered.</p> <p>Challenge: Include historic PR14 insight, operational data and third party insight in the triangulation process.</p> <p>KG asked the Company what would be included in business as usual, and commented that she thought that there were a lot still outstanding. The Company responded that customer complaints, customer contacts and data included in the engagement dashboard would be included.</p> <p>LS commented that it was great to see the work that had been completed and suggested the CCG challenge JE on certain points.</p> <p>Action: Triangulation matrix to be presented to the research methodology sub-group.</p> <p>KG mentioned that it was good to see the CCWater questions being included in the approach. ZM asked if this work was similar to other companies KG had seen. KG responded that it is similar, there are others that are very text and narrative based documents.</p> <p>ZM asked the Company how the CCG comments on the research would feed in to the approach. The Company responded that a summary of the key changes would be included in the cover sheet and any comments would be recorded on each research sheet and this would be used to assess the robustness of each piece of work.</p> <p>Action: The Company is to circulate the cover sheets for all research and a complete list of all research undertaken and insight.</p> <p>The Group summarised that it was broadly happy with the process but would just like to be able to drill down on different areas with JE to ensure the insight identified and recorded was an accurate reflection of what customers and stakeholders said.</p>
7. Outcomes, process for the next steps	<p>Rob Francis (RF) and Anna Berry (AB) from Frontier Economics introduced themselves to the Group.</p>

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	<p>OM updated the Group as to where the Company was in the process of setting PCs, there is a special session taking place on 22nd June to discuss the draft targets for the PCs. The Company submitted the draft definitions of the PCs which included the suggested CCG changes to Ofwat in May and are currently waiting for comments from Ofwat, these should be received in July.</p> <p>The Company currently has a large number of PCs, 35, this is more than last time and was an outlier on the industry at the last price review for this.</p> <p>ZM commented that the wording of the slide pack suggested that the role of the CCG was a passive one which did not reflect the high level of challenge and scrutiny on the outcomes. AB agreed that this was not accurate and they would change this.</p> <p>Action: Change the description of the role of the CCG on the slide pack before publication</p> <p>AB explained the 6 approaches to be used when setting stretching targets, however in practice there will be a mixture of these used as for some measures the company will not be able to get data to cover all six.</p> <p>ZM asked if the Company had looked outside of the water industry for comparative data, AB responded that a cross sector review had not been completed. OM explained that other sectors do not have the same measures as the Company however could look outside the industry where possible e.g. services for PSR customers</p> <p>Challenge: The Group challenged the Company to look at cross sector comparison data where possible in addition to water sector comparisons and historical data.</p> <p>CF asked the Company how it was proposing to set the base line targets for the new satisfaction measures and is the old data being used to help inform this base line. She queried what lessons had been learned from last time.</p> <p>The Company responded that a one off survey of c1200 customers will be carried out before submission of the business however will build in the option to review the base line after carrying out monthly surveys up until the draft determination for the vulnerability surveys. The company has been running segmentation questions as part of its normal monthly satisfaction surveys so is able to use this base line. These measures will be reputational only.</p> <p>RM queried the proposed distribution of rewards and penalties and how the company ensured there was not double counting. Also how the company was defining “material uncertainty”</p> <p>CF asked the company about the use of deadbands for the new measures, the Company responded that as the measures are new there are no historical data or industry data to compare – also that Ofwat had expressed a view that it did not like deadbands.</p> <p>Outage and ERI will both have a reputational incentive, as ERI a bespoke measure it is unsure if other companies will have this as a PC.</p> <p>ZM asked if the company would look outside of the industry for comparisons against vulnerability satisfaction, the Company responded that it had not however could look at this.</p>

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	<p>RM asked the Frontier who came up with the 50% cost sharing figure and what was the rationale for this, AB responded that Ofwat produced the figure.</p> <p>AB explained the work carried out on the triangulation of the Willingness to Pay (WTP) survey results and the Super charge results.</p> <p>Action: Frontier to write up a short document on the approach taken on the triangulation of the research findings behind PC stretching targets.</p> <p>ZM asked if the Company would use segmentation on the reset of the targets for PCs, the Company responded that it had not looked at the WTP of the different segments however could do so.</p> <p>Challenge: Look at the WTP by values based segment</p> <p>The Group asked how innovation feed in to setting the targets, Frontier responded that this would be considered in the expert judgement and maximum possible tests.</p> <p>Frontier shared with the group the high level findings from the ODI research carried out by SYSTRA. ZM commented that customer attitudes to rewards and penalties was discussed at the CCG Chairs meeting and SEW results seemed to differ from the rest of the companies' results.</p> <p>CF asked what was 'service related payments' defined as in the survey, the Company commented that it had not been expressed in this way in the survey and that ZM and the research Sub-Group had spent a lot of time with the company working on the wording for this questionnaire.</p> <p>The Group discussed the presentation of the results and the summary text, the Group thought that the company should also look at the negative responses as well.</p> <p>The Company explained its proposal to apply a cap and collar to the interruptions PC with the addition of an enhanced compensation scheme to run alongside the ODI for when customers experience a large event interruption which would mean the company would breach its capped minutes, the research supports this approach.</p> <p>Action: The Company is to share the final ODI research questionnaire.</p> <p>PS expressed scepticism on the language of the summary text used for the vulnerability results and would like to see what the benefit would be for customers.</p>
<p>8. 17/18 performance report</p>	<p>Due to the meeting overrunning this agenda item was removed from the agenda and comments were invited from the group on the document. The company informed the Group that a paper would be circulated to give more information on the high daily abstraction breaches performance commitment.</p> <p>Action: The Company to circulate paper to explain the high number of daily abstraction breaches experienced during 2017/18 reporting year.</p>
<p>9. AOB</p>	<p>The Group discussed the Engagement dashboard, ZM will send comments into the Company.</p> <p>Action: ZM to share comments with Company on the Engagement dashboard.</p>

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	CF asked the Company if they have appointed a vulnerability manager, the Company informed the group that it had not hired anyone to date.
10. Private Session	The Group discussed the approach to outcomes and company progress
11. Meeting Close	The next meeting will take place on Wednesday 4 th July, at South East Water head office, 10:00am - 4:00

Summary of Actions and Challenges

Actions	Owners
NB to update 2 nd May minutes to remove duplication of word on page two of the document.	NB
RL to feedback to the group if able to meet with MD of Invicta Water or has contact with Castle Water.	RL
The Company will circulate the slide presentation that was shared with the Research Sub-Group to explain the changes in the segment names.	NB
The Company to circulate the algorithm used to segment customer respondents.	NB
The Company is to show the Group a list of options it is currently looking into to give customers control and water reduction.	LD
The Company will circulate the PCs grouped up into customer outcomes.	NB
Triangulation matrix to be presented to the research methodology sub-group.	AL
The Company is to circulate the cover sheets for all research and a complete list of all research undertaken and insight.	NB/AL
Change the description of the role of the CCG on the Frontier slides before publication	Frontier
Frontier to write up a short document on the approach taken on the triangulation of the research findings behind PC stretching targets.	Frontier
The Company is to share the final ODI research questionnaire.	NB
The Company to circulate paper to explain the high number of daily abstraction breaches experienced during 2017/18 reporting year.	NB/LD
ZM to share comments with Company on the Engagement dashboard	ZM

Challenges

Include historic PR14 insight, operational data and third party insight in the triangulation process.

The Group challenged the Company to look at cross sector comparison data where possible in addition to water sector comparisons and historical data.

Look at the WTP by values based segment