

PORTSMOUTH WATER Ltd
CUSTOMER CHALLENGE GROUP (CCG)
MEETING HELD ON THURSDAY 8 JANUARY 2015

PRESENT: Paul Barfoot (Portsmouth Water), Charles Burns (FSB), Heather Benjamin (Portsmouth Water), Amy Gallop (Secretary), Karen Gibbs (Consumer Council for Water), David Guest (Independent Chairman), Richard Harris (West Sussex Hospitals Trust), John Havenhand (Consumer Council for Water), David Howarth (Environment Agency), Mike Kirk (Portsmouth Water), Douglas Kite (Natural England), Chris Manning (South Downs), Steve Morley (Portsmouth Water), Simon Oakley (Chichester District Council), Kirk Phillips (Winchester City Council), and Neville Smith (Portsmouth Water).

Action

1. Apologies:

Traci Baker (Hampshire Chambers of Commerce), Hugh Caley (Carillion), Daire Casey (West Sussex County Council), David Collins (Havant Borough Council), Cllr Paul Dendle (Arun District Council), Keith Evans (Fareham Borough Council), John Hall, (John Hall Consulting), Douglas Hunt (Atkins Independent Reporter), Derek Kimber (Gosport Borough Council), Milo Purcell (Drinking Water Inspectorate), Ian Rawson (KWS -Defence) Tim Richings, Jon Stuart (Havant & District Citizens Advice Bureau) and Rob Wood (Portsmouth City Council).

2. Minutes & Actions of Meeting Held on 10 September 2014

The actions arising from the minutes were discussed and agreed they had been fulfilled. The minutes were taken as a correct record and approved by the CCG.

3. Final Determination

Portsmouth Water circulated Ofwat's 'at a glance' document providing a summary of the Company's Final Determination, what it will mean for customers, with respect to the average bills they will pay and the outcomes that the Company will deliver in return.

3.1 Company Overview

Neville Smith circulated a note prepared by Portsmouth Water giving an Overview of the Final Determination.

He further presented to the CCG Members reminding them that it had been a three year process which consisted of the following key changes from previous Periodic Reviews;

- Extensive engagement with customers
- The establishment of a Customer Challenge Group
- Three pots of revenue to recover from customers;
 - Wholesale,
 - Retail household and
 - Retail non-household (with the opportunity to review after 2 years)
- Builds on
 - the high levels of service
 - efficient in terms of the costs
 - lowest customer household bills
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He provided the following high level summary of the Company's Final Determination;

- Similar to our December 2013 and June 2014 business plan
- Limited challenge from Ofwat

- One of four companies to be awarded Input Price Pressure for Retail
- One of two companies to be awarded a Small Company Premium
- Bills will remain at their current levels (before inflation)

He presented to the Members a Comparison of what was included in the initial Business Plan, the Draft Plan and then the Final Determination. He also shared information on the Final Determination's for the other Water Only Company's comparing what they have been allowed with what they asked for in their Plans. This showed that Portsmouth Water were realistic in what they had asked for in that the Final Determination was the same as the Company's Plan.

Neville Smith concluded with the following key messages;

- Plan well received by our stakeholders
- Not easy to deliver
- In the next five years we must:-
 - deliver against our legal obligations,
 - Strive to beat our Outcome Performance Commitments,
 - be efficient and
 - ensure the Company is ready for non-household competition, both retail and wholesale

Neville Smith informed the CCG that the next steps would be to decide by 12 February 2015 if the Company were going to ask Ofwat to refer to the Competition Markets to review the Determination. He further advised that the Company's Tariff proposals would be sent to Ofwat for approval on 16 January 2015 and that would be accompanied by a statement of acceptance or otherwise on the Final Determination.

Charles Burns commented with Competition coming into the Industry in 2017 the Company could potentially gain customers.

Steve Morley explained that it was only the Non Household Retail element up for Competition.

John Havenhand commented that the cost to the Company would largely be for compliance rather than through loss of customers.

Neville Smith finally summarised that although the Company got what they asked for in the Final Determination the next five years would still prove to be challenging. The focus is now on delivering the Company's extensive Capital Programme. There are big obligations in the first year with large expenditure on Water Quality which will have to be achieved with the money allowed, all the while ensuring that KPI's are met.

3.2 CCG Discussion – Including Feedback from Ofwat

Neville Smith commented that there was general consensus that the Customer Challenge Group worked. The feedback from the CCW Research was positive and Ofwat had thanked Portsmouth Water for their efforts.

Reflecting on the process Neville Smith advised the Members that this was his fourth Periodic Review but the first Plan he felt that the Company had 'owned'. Previous Plans were submitted with Ofwat in mind. This time it is a Plan the Company believes in and therefore at a high level it had been a good process. At a more detailed level the process had been far more challenging, providing the information and also developing the process along the way. He felt overall, Ofwat had done a good job and achieved their objective.

David Guest fed back to the CCG Members Sonia Browns comments received at a recent Ofwat Workshop of CCG Chairs as follows;

"I would like to pass on the thanks Ofwat expressed for the considerable added value the CCG provided leading to the Final Determination.

Ofwat consider that they made considerable headway over the past two years with companies genuinely owning their business plans and supporting the drive to place customers at the heart of the price setting process.

Ofwat seeks to continue the customer communication process throughout delivery of the Asset Management Programme (AMP6) period, leading to the next Price Review in 2019 (PR19).

Of particular importance to us will be delivery of the Company's Outcome Delivery Incentives (ODIs) set out in their Business plan. The role that the CCG will be asked to take in this will be set out later in the agenda, measuring the Company's performance to provide adequate assurance to Ofwat.

Ofwat require the Company's acceptance of the Final Determination by 12 January 2015

Ofwat proposed to publish their strategy on 14 January 2015 which will present a new and fresh approach - 'Trust in Water', with key outcomes focus and a sector step up.

Ofwat will major on measuring ODI delivery performance over the next 12 months to enable them to gain confidence in the CCG scrutiny.

The Company is required to submit an annual report to Ofwat, to demonstrate a high level of performance and provide delivery assurance.

Ofwat will issue a RAG categorisation of companies on 9 February 2015, with "some green, lots of amber and some red".

Ofwat referred CCGs to the Company's pledges included in their business plan annexure, to take forward their working with CCGs throughout the AMP6 period.

Ofwat's assessment of the Company's proposals for outcome and delivery reporting is as follows:

In their methodology statement Ofwat set out their expectation that the Company should demonstrate that their proposed Performance Commitments (PCs) can be measured and recorded consistently, and that appropriate governance and quality assurance processes are put in place to achieve this.

Ofwat expects the Company to be transparent with customers about their delivery of the outcomes and commitments contained in their business plan.

The Company provided sufficient evidence demonstrating the approach it will undertake to ensure the PCs will be measured and reported consistently, and the proposed governance and assurance processes that will be put in place to support this. On this basis, Ofwat accepted the Company's proposal.

Ofwat may develop further information requirements with regard to outcomes, as they review and change current requirements relating to performance indicators and the Company's annual risk and compliance statement."

John Havenhand raised one issue with the process that customers were supposed to be at the heart of the process and yet the Company was being driven by ODI's that research showed customers did not support.

Neville Smith clarified that customers did not support the Company receiving a reward for outperformance.

Karen Gibbs confirmed that the CCW Research showed the customers did not support Company's receiving a reward, however, ODI's were based on customer preferences.

John Havenhand raised concern that the Company could be torn between customers and targets set by ODI's.

Neville Smith agreed that there could be a danger if Ofwat focus on one KPI rather than the overall outcomes. As companies have to report on each area, if one is failing then they could focus on that at the expense of another. Agreed Company needs to be careful and guard against.

John Havenhand concerned that Portsmouth Waters customer focused culture could be eroded by targets.

David Guest advised this would be something the CCG can continue to challenge and keep an eye on.

David Howarth questioned if the RAG Ofwat were publishing on 9 February would detail a categorisation of all companies.

David Guest confirmed it would but Ofwat have not announced the criteria.

Neville Smith advised that the Company are not sure what Ofwat are basing it on.

3.3

Outcomes

Steve Morley presented to the Members on the Company's Final Outcomes.

He reminded the Members of the Company's six Outcomes;

- Delivering a safe secure and reliable drinking water
- Less water lost through leakage
- Delivering a high quality service
- Improve our environment by supporting biodiversity initiatives
- Look after our people by installing a positive health and safety culture
- Supporting the community

He highlighted the Incentives;

- Outcomes measured by at least one KPI, reported annually.
- Rewards and Penalties on our performance over the five years
- Impact customer bills at 2020

He highlighted the Wholesale Incentives and presented graphs showing the bands outside of which the Company will receive a penalty / reward;

Financial

- Bursts
- Water quality standards
- Water quality contacts
- Leakage
- Interruptions to supply
- Biodiversity activities
- Water Framework Directive

Reputational

Temporary Usage Ban
Carbon
Health & Safety

He highlighted the Retail Incentives and presented graphs showing the bands outside of which the Company will receive a penalty / reward;

Financial

- Service Incentive Mechanism as defined by Ofwat
- Reduction in household water use

Reputational

Developers survey

Steve Morley concluded with an illustration of potential financial impacts.

CCG challenged number of bursts and leakage target, requesting a definition.

Neville Smith advised that a burst is defined as any detected escape of water.

David Guest advised that the Company would need to provide evidence to the CCG that the burst numbers quoted were accurate and that control measures were in place so that the CCG can be confident that the evidence is robust. The CCG can then report back that their challenge has been satisfied.

Mike Kirk reassured the CCG that the Non-Executive Directors also have a duty of care to challenge and that they want to ensure no undue pressures are on organisation other than fair and honest way.

Richard Harris questioned if the band width for bursts was five years would this narrow over time.

Neville Smith advised that the Company's bursts had halved in 15 years.

Steve Morley added that the weather has dramatic impact so need wide margin.

Kirk Phillips commented that it was unfair to penalise the company for bad weather.

Neville Smith explained that was what the dead band is for, to protect against fluctuations due to bad weather. If the Company went over the dead band it would be a sign that network was deteriorating.

David Howarth asked if the Company were judged over five year period.

Steve Morley confirmed that it was and would impact upon bills. However, Water Quality judged in one year although adjustment doesn't occur until PR19.

David Howarth questioned if leakage figures were audited.

Steve Morley confirmed that Atkins Reporter could provide CCG with confidence.

John Havenhand questioned if Burst figures were averages.

Steve Morley confirmed they were and Neville Smith explained that to keep below the average each burst needs to be managed and repaired within 3-6 hours. This is monitored and reported on weekly.

3.4 Sub Groups for Biodiversity and Developers Survey

Steve Morley informed the CCG that following positive support from the Customer Challenge Group the Business Plan now includes a budget of £75,000 per year to progress our important biodiversity / environmental work.

The additional funding demonstrates that Portsmouth Water is;

- Responding positively to customer feedback, and
- Committed to environmental improvements

The Company is keen to continue working with stakeholders to help meet shared objectives.

Engagement will continue on the 28 January 2015 when many stakeholders will attend a workshop to hear more about the Company strategy on biodiversity and help us identify what our priorities should be, discuss potential projects, and whether there are opportunities for partnership working.

The following organisations have already confirmed that they will be attending the workshop, here in Havant;

- Arun District Council
- Chichester District Council
- Environment Agency
- Hants & IOW Wildlife Trust
- Hampshire County Council (HBIC Ecologist)
- Havant Borough Council
- Natural England
- National Trust
- Portsmouth City Council
- South Downs National Park
- Sussex Wildlife Trust
- Winchester City Council

Steve Morley invited any CCG Members or their colleagues who would like to attend the Workshop.

Steve Morley informed the CCG that the Company believes it has an important role to play in meeting the expectations of developers when they request water supplies.

This is a reputational incentive where the Company seek to improve the service they provide to developers. To assess the satisfaction with the Company's service they will undertake a survey and publish the results. The target will be to achieve 70%.

The aim is to progress this during the first quarter of 2015.

Steve Morley invited the CCG Members or their colleagues who would like to be involved in progressing this initiative, to contact him.

Heather Benjamin asked if there were any Developers on the CCG Membership.

Steve Morley confirmed that there currently were not any Developers on the Group.

David Guest suggested the Councillors approach Developers that they work closely with on the Local Plan.

Douglas Kite commented that the Biodiversity Outcome first needs the Action Plan to be agreed.

Steve Morley advised that following the Stakeholder Workshop on 28 January 2015 the Company hoped to have an agreed Action Plan to present to the Board and then the CCG before April 2015.

The CCG dispensed with discussion on this item to discuss the Future Role of the CCG before certain members had to depart.

4. Future Role of CCG

Neville Smith advised that the CCG played a major role in the development of the Company's Business Plan throughout the PR14 process. It has always been the Company's intention to maintain the CCG after the Final Determination and throughout the period 2015-2020.

Neville Smith circulated a paper outlining the Company's proposal for the future role of the CCG.

He commented that other Company's have renamed their Challenge Groups as Scrutiny Groups. However, Portsmouth Water felt that scrutiny implies a level of

responsibility that is not fair to put on CCG Members. The Company feel that the role should be to monitor / review with independent advice and comment upon it.

He emphasised that the Company has the responsibility to provide information and the CCG need to satisfy themselves that it is accurate and fair. Of most importance is to keep the interest going and possibly expand membership. The Company's initial proposal was for the CCG to meet twice a year, however three or four may keep people more interested.

Neville Smith reiterated that it is important that the CCG continues, monitors, reports annually and looks ahead to PR19.

David Guest commented that he feels Ofwat want the CCG's to have a more challenging role than monitoring and commenting.

Kirk Phillips commented that to monitor is to accept and scrutiny is to challenge.

Richard Harris felt that scrutiny is looking at technicalities of business activities which the Group would not be interested in but their financial models maybe.

Neville Smith raised that whether the role is to scrutinise or monitor the CCG should review whether the Company is meeting its performance commitments to customers.

David Howarth questioned as a CCG to what level can they get into these issues? With both time and knowledge constraints. He didn't feel that the CCG can provide an audit level, they would be reliant on others and would consider their report.

David Guest reassured the CCG that the onus is not on them. Ofwat have given the Company a regulatory obligation and the CCG just need to confirm to Ofwat that the Company is meeting its regulatory obligation.

David Howarth expressed that the Group should not be set up to do something it cannot achieve.

Karen Gibbs acknowledged that Regulatory and Statutory bodies will be doing their own monitoring. She also recognised the limitations of the CCG as David Howarth mentioned and therefore the CCG will rely on technical assurance.

David Guest commented that the role of the CCG was to exercise customers view point and now want to be assured that the Company is delivering what it promised. The CCG are to invite information and comment upon it.

Neville Smith advised that the CCG would ask for an independent review on Company information and reminded Members that there were Regulatory bodies and specialist knowledge on the Group to assist when challenging independent reports.

Karen Gibbs commented that the Affinity Scrutiny Group has agreed to assist the Company with continuous customer engagement.

Simon Oakley commented that monitoring was a narrow activity and although maybe scrutinise isn't the correct word the CCG has had a wider role than monitoring and therefore the Terms of Reference needs to allow the CCG greater flexibility to challenge.

Heather Benjamin suggested keeping the name 'challenge'. As it is still appropriate for them to challenge that Company are delivering as well as continually monitoring the Company's performance.

Neville Smith reminded the CCG that they would be expected to report annually and make a statement on the Company information either in support or to challenge, therefore the CCG must be comfortable with it.

David Howarth left the meeting.

Karen Gibbs advised of the importance of having clear governance around the Group, the terms under which they are acting. She further commented that Portsmouth Water had the largest CCG Membership by some way and did size really matter. Would it be better to have a small consistent Group or a large open one?

Neville Smith clarified that the Company proposed to expand the representation not the size of the Membership.

Kirk Phillips commented that the CCG did not want to do what Non-Executive Directors do, adding value to Company.

David Guest clarified that the CCG were adding value to the customer not the Company.

Kirk Phillips questioned that as the Company ethos is customer focused, surely adding value to the Company would benefit the customer.

Mike Kirk agreed that it is beneficial to the Company but reemphasised that was not the CCG's main role which is to get across the customers views and make sure these are measured and met.

Neville Smith confirmed that the Company would consider the comments made, prepare a draft Terms of Reference and circulate ahead of the next meeting.

David Guest suggested any further comments or suggestions for the Terms of Reference should directed to Neville Smith in writing.

NS

Kirk Phillips left the meeting.

3.4 Cont'd Sub Groups for Biodiversity and Developers Survey Continued

Steve Morley revisited this item asking if there was any interest around the table to join either the Biodiversity or Developers Sub Groups.

Douglas Kite suggested more local groups should be invited as the initiative is progressed but priority is to get Action Plan agreed first. He also asked if the Councils were represented in proportion to the Company's land holdings.

Steve Morley confirmed the Company's land holdings were evenly spread throughout all the Council's represented.

Chris Manning suggested involving the Rivers Trust as they are interested in Catchment Management Schemes. Chris Manning agreed to approach and establish their interest.

CM

Steve Morley confirmed that a draft Developers Survey would be proposed at the next meeting of the CCG planned for March and asked if any Members would like to be involved prior to this.

SM

Karen Gibbs expressed an interest in being involved.

David Guest also expressed an interest advising that he is in close contact with developers which could be of benefit.

Simon Oakley asked historically how involved the Company had been in major developments.

Neville Smith advised that the Company was not a Statutory Consultee and therefore do not have an official role to comment on Local Plan. However, once

a developer does have a site he asks for a quote and off-site reinforcement and on-site application is requested.

David Guest suggested that planners need to know before the application stage whether there is adequate water supply for new development and this should be raised in Sub Group.

5. Social Tariffs

Paul Barfoot informed the CCG of a pilot scheme being run by Southern Water on Social Tariffs. The Company has decided that it best to act in conjunction with Southern Water and will commence a trial in 2015/16.

He advised that an Action Plan needs to be put in place and need to configure Social Tariffs into our Bills System.

He explained that necessary Customer Research would need to be carried out to get support for 2016/17. Neville Smith added that this research would involve the CCG.

Paul Barfoot explained that Southern Water's approach is to consider customers income and if water and sewerage is more than 5% of income they reduce by up to 90%. He added that the idea is to keep the customer paying something and getting them into that habit.

John Havenhand asked if the Company were paying for the discount in bills.

Paul Barfoot confirmed that the Company would be meeting the cost for the trial in 2015/16.

Neville Smith informed the CCG that this would not be the case in the longer term, other customers would be funding which is why research must show that other customers are happy to fund.

Simon Oakley asked if it would be clear to customers that it will be a trial in 2015/16 and commented that ongoing eligibility monitoring could prove to be an administrative nightmare.

Karen Gibbs advised that it would be made clear during the application process and confirmed that any change in circumstances need to be notified to the Company. There would be an Audit Process set up and depending how many Social Tariff Customers there were it may be a sample audit.

Richard Harris questioned how this would be paid for by customers going forward.

Neville Smith explained it would be retrospective. For example if 200 customers go on to Social Tariffs there would be an adjustment on other customer bills the following year although the impact would be minimal. He emphasised that although the amount would be insignificant the principal still needs customer's agreement.

Karen Gibbs commented that other customer research strongly supported, money being ring-fenced for Social Tariffs and some companies contribute toward Scheme, paying for the administration costs.

John Havenhand expressed concern that customers may 'play the system' and therefore the scheme will need to be monitored as customers learn what they are entitled to e.g. once debt reaches a certain amount the company will match debt.

David Guest commented that this may be under the remit of the CCG to monitor and ensure the scheme is not being exploited.

9. Charges Scheme and Tariffs 2015/16

Steve Morley presented to the CCG on the Charges Scheme and Tariffs for 2015/16, highlighting the change in approach, regulatory compliance and the Company objectives.

He outlined the next steps would be as follows;

- Company submit Charges and associated Charges Scheme to Ofwat on 16 January
- Company required to publish on its website non-household wholesale charges scheme on 2 February
- Company publishes household and non-household charges scheme following Ofwat approval
- Charging year starts 1 July 2015

Paul Barfoot advised that customers will not see a Wholesale / Retail split in 2015/16 but Ofwat are considering for 2016/17.

10. Date of Next Meeting

TBC – March 2015