

**MINUTES OF
CUSTOMER ENGAGEMENT PLANNING FORUM MEETING
HELD ON TUESDAY 22nd October 2013
AT 10.00 A.M. AT LONGHAM LAKES.**

PRESENT: Charles Howeson (Chair) – CH
Philip Warr (Deputy Chair) - PW
Roger Harrington (SBW) – RH
Tracey Legg (SBW) –TKL
David Harrison (SBW) –DH
Lindsay Cass (Christchurch & East Dorset BC)
Gillian Mayhew (Consumer Council Water)-GM
Ed Vidler (Consumer Council Water)-EV
Stephen Russell (Environment Agency) SR
Alastair Elder (Jacobs) - AE
Mike Holmes (Borough of Bournemouth) MH
Caroline Coleman (CCWater)-CC

APOLOGIES: Jonathan Holyhead (Dorset Blind Association)-JH
Jacky Atkinson (Drinking Water Inspectorate)-JA
Douglas Kite (Natural England)-DK

	Action
<p>1:Welcome and Apologies</p> <p>The Chairman opened the meeting, noting apologies as above; Stephen Russell was welcomed to the meeting replacing Alan Burrows who has moved to a different area within the EA; Stephen gave a brief background of himself.</p> <p>The Chairman emphasised the importance of the meeting as we need to discuss the research sub committee’s challenge to SBW over the acceptability testing project and also raise any questions and challenges to SBW in respect of the draft business plan.</p>	
<p>2: Minutes of last meeting</p> <p>These were AGREED with correction of two minor inaccuracies and no matters arising. They will now be published on the SBW web site.</p>	SBW

3. Report from research subcommittee on SBW's acceptability testing.

EV outlined the progress since the emergency meeting on the 24th September when the subcommittee had expressed serious concerns with the stimulus material and questionnaire. He thanked SBW for postponing by a couple of days the field testing to allow significant changes to the research material. He confirmed that SBW had made the required changes.

The hall tests were completed the following week. Five tests in all were undertaken and 192 interviews had been conducted, satisfying the quantitative criteria in terms of sample size. He reported that the hall test method had proved successful with good social demographic sampling.

Overall 79% of respondents accepted the business plan and 72% accepted the projected bill levels.

There are three areas of qualification;

This judgement was based without sight of the full report on the research, but he did not expect it to contain any surprises. SBW agreed to forward this to the subcommittee after the meeting.

- 1) EV advised that SBW had not quantitatively sought the opinions of non-household customers (NHH) relying instead on NHH discussion groups. However he noted that SBW did not have a large NHH base and that most of their NHH had domestic style consumptions.

RH replied that to successfully capture the views of NHH it is necessary to arrange interviews on a one to one basis which was not practical within the time scale, it being notably difficult for researchers to get appointments with businesses. Previous research as part of the PR14 engagement process has found that NHH views mirror those of HH reasonably closely. SBW acknowledged there is a gap in the research but did not believe it is significant.

TKL also advised that the simulator tool that was a component part of the recent willingness to pay result did allow SBW to model acceptability of the plan by NHHs. 124 NHH customers participated in this research.

CH asked if SBW expected any subsequent adverse re-action from large users. RH responded that as a business SBW was in regular contact with large users and had not received any negative feedback from them

CH asked LC and MH to respond to this question on behalf of the Local Authorities. LC believed that there was adequate correlation between the needs of NHH and HH. MH advised that Bournemouth BC was itself a large user and they had a good relationship with SBW; he suggested that communication with trade organisations such as the Chamber of Commerce was a good umbrella method of communication. RH advised that SBW is a member of the Dorset Chamber of Commerce and he had not received any negative comments from other members.

PW felt that in the local business community SBW were highly

SBW

regarded and he knew of no areas of concern.

PW challenged SBW to set company-specific presentations to local businesses giving details about SBW and how it is run. RH responded that SBW had already commenced this and that a workshop for business customers was planned for 5 November.

GM advised the meeting that 14,000 out of the 16,000 SBW NHH customers were low users and therefore parallels could be drawn with household users. RH confirmed this and that of SBW's NHH customers there were only four large business customers with consumption over 50,000m³ per year. RH added that SBW was very concerned not to let service levels to small businesses fall, especially as they might not benefit much directly from any new competition regime. SBW will continue to provide at least the same service provided to household customers.

CH then summed up the position and asked the meeting to decide whether this gap in the procedure had been adequately dealt with by SBW. The meeting agreed unanimously that it had.

- 2) EV pointed out that the acceptability levels for vulnerable customers was lower than others with 24% non-acceptance of the bills and 13% non-acceptance of the plan and invited SBW to respond.

TKL advised that this was a small sample (29 of 192 customers interviewed) and that the vulnerable focus group had given 100% acceptance. However that it was still an important issue to address.

It was noted that some of the respondents who found the bill unacceptable stated that water should be free and that these feelings can distort results of the actual acceptability levels.

PW asked if there was a correlation between vulnerable customers and bad debt and is there a fund in place to help genuine need customers.

RH replied that SBW do have a fund in place to cover this. He also advised that a detailed survey on customers' willingness to contribute to a social tariff would be undertaken in 2014; a brief question had been included on this subject in the recent willingness to pay survey and it had produced inconsistent answers which required further research.

CH asked how much of the average bill currently covered bad debt; TKL replied £4.35.

PW asked how many non payers were "can't pay" and how many were "won't pay" RH advised 33% can't pay, 67% won't pay. In response to a further question from PW he also stated that SBW had taken out 877 County Court Judgments (CCJs) during the last 12 months. TKL commented that SBW would not take out a CCJ against a customer it believed was a 'can't payer'.

<p>CH summed up the position and asked members to agree whether the research could be accepted.</p> <p>EV felt that the business plan should include details of SBW's customer assistance plan.</p> <p><u>The members then agreed that the fact that there was a slightly higher percentage of vulnerable customers who did not accept the plan did not significantly distort the overall picture. They also commented that the issue could not be overlooked and needed to be addressed.</u></p>	
<p>4: Discussion and questions on draft business plan.</p> <p>CH opened the discussion and felt that it was a good plan and his only concern was over the chosen cost of capital where it was unknown what benchmark Ofwat would set.</p> <p>EV felt that the plan was not innovative enough to achieve 'enhanced status'. PW felt that greater communication with business customers would fuel innovation.</p> <p>Questions:</p> <p>EV asked how the change in depreciation rate was validated. RH commented that SBW had been an industry outlier in this respect and the making the adjustment created a fairer balance between 'money now' and 'money later'. PW asked whether the change had been discussed with the SBW auditors but RH replied that this is not historic cost accounting and is a regulatory concept that is decoupled from formal accounts. In future it would be encompassed in Totex, a combination of capital costs and operating costs.</p> <p>EV asked about SBW's key Special Agreement customer; was there anything built into the plan to mitigate against a potential loss of this key account? RH replied that this would be covered in the company's scenario testing. CH asked if the contract was due for renewal during AMP6; RH replied yes. RH advised the meeting that the risk was in our Risk Register.</p> <p>EV asked about metering; how confident were SBW about metering going forward given that the rate of installation was tailing off. RH advised that in fact during 2013 the rate was improving largely due to the better housing market and targeting high users. The plan would not be adversely affected by the amount of switchers because with block installation of meters by street, we would be able to proactively contact unmetered customers with actual usage data to assist them in deciding whether to opt for metered billing.</p> <p>EV asked about the WTP peer review as this would support the CBA in the plan. TKL replied that SBW were confident that once received the review would confirm the CBA</p> <p>GM asked whether the Cost of Capital proposed in the business plan was fully post-tax. RH confirmed that it was. GM then asked whether there was scope to reduce the assumed Cost of Capital by 0,1% or by 0.2% and what impact his would have on customers' bills. RH replied that SBW was not in a position to negotiate the assumed Cost of Capital. TKL added that the assumed Cost of Capital (which included a small company premium) was consistent with that concluded by the research</p>	

company Oxera for small water companies such as SBW.

GM asked what happened to value for money which was originally included in the outcomes? TKL advised that this was changed to the wording "fair bills" after an outcomes and measures of success workshop with the CEPF on the 29th of January 2013. It was agreed that SBW could include VFM in the next tracking survey as part of its outcome for improved engagement with customers.

EV asked why the retail margin is nil. RH replied that as HH is not open to competition then there is no need to allow for risk. The NHH margin planned to be 2%.

EV asked about mains replacement: at 13km per year during AMP6. According to the details on the deterioration modelling this would leave a shortfall in subsequent AMP periods and therefore SBW could be storing up future price increases. RH replied that the company needed to take a cautious approach to what the deterioration model predicted the rate of replacement would need to be. The model is an indicator rather than an absolutely robust forecast and given that there is no current indication of falling service or undue trends in serviceability as measured for Ofwat, the company did not consider there to be a case for significant increases in infrastructure renewal at this time. EV felt that this could be explained better in the plan.

GM questioned the differing bench marks for interruption targets (when compared to Ofwat's KPI) in the MOS; RH replied that after listening to our customers we felt that the chosen benchmark was a clearer indication of our customers wants. TKL confirmed that the KPI was a very high level measure and the two complemented each other.

EV questioned the measure of success to repair visible leaks in 7 days which appeared to be substantially different to customers' wishes in the original quantitative research on customers' needs and wants. RH replied that we had learned that this subject was down to customer perception and it is noted that SBW needs to address this subject in its communications programme and the next tracking survey.

GM questioned a potential issue with interconnectivity with Wessex where differing chlorination levels were used. RH replied that this was being addressed by the construction of a mini treatment plant installed in the transfer pipeline which will control chlorination levels between SBW and Wessex.

Members discussed the next meeting and agreed that the purpose would be to sign-off the business plan. SBW will circulate the full plan before 4 November. Members were asked to note that the plan will still be subject to 'word smithing' and type setting at the point at which they receive it.

7: Date of next meeting.

12th November 2013

Meeting closed at 11.40am