

**MINUTES OF
CUSTOMER ENGAGEMENT PLANNING FORUM MEETING
HELD ON THURSDAY 10 JUNE 2014
AT 10.30 A.M. AT LONGHAM LAKES.**

PRESENT: Charles Howeson (Chair) – CH
Roger Harrington (SBW) – RH
Peter Bridgewater SBW (PB)
Tracey Legg (SBW) –TKL
David Harrison (SBW) –DH
Lindsay Cass (Christchurch & East Dorset BC)-LC
Gillian Mayhew (CCWater)-GM
Doug Kite DK (Natural England)
Mike Holmes (Borough of Bournemouth) -MH
Caroline Coleman (CCWater)-CC
Eddie Stevens (Environment Agency)- ES
Ed Vidler (CCWater) - EV

APOLOGIES: Jacky Atkinson (Drinking Water Inspectorate)-JA
Jonathan Holyhead (Dorset Blind Association)-JH
Philip Warr (Deputy Chair) - PW

Welcome and Apologies	Action
<p>Apologies were received from Jacky Atkinson, Philip Warr and Jonathan Holyhead.</p> <p>Chairman extended a welcome to Robin Clark of Halcrow (report writer) and Eddie Stevens who had replaced Stephen Russell as the representative of the Environment Agency.</p> <p>Chairman outlined where we were in the process and the objective of this meeting was to review SBW`s updated information and revised submission, challenge where necessary and ultimately agree on the report to be submitted by the Group to Ofwat alongside SBW`s revised business plan.</p> <p>RH pointed out to the members that there was one change of policy since the December submission in that SBW now propose fewer meters to be installed during 2015-20 and also to allow occupier change metered customers to revert to unmetered after 12 months (similar to the policy towards meter optants). This gives a reduction in totex of £1.2m. The number of meter installations will be broadly similar to the number installed in AMP5.</p>	
Minutes of the last meeting	
<p>These had been circulated to all members after the previous meeting and they were agreed with no matters arising.</p>	

Additional research.	
The results from the final piece of deliberative research had been circulated to all members and there were no matters arising.	
Questions and challenges on the re-submission	
<p>DK Challenged the new metering policy asking how confident were SBW that sufficient meters would be installed to keep the company on track with its long term aim of reducing domestic per capita consumption to 130 litres per head per day by 2030, given this change of policy and the reduction in meter optants recently experienced.</p> <p>RH replied that the anticipated uplift in the housing market would be a contributing factor along with a focussed program of marketing to all unmetered household customers to provide them with data to give them confidence with the option to meter. (Historically SBW has experienced only a handful of customers revert to unmetered charges.</p> <p>DK Asked what confidence SBW had on the trajectory to enable SBW to reach the target of 130ml/d by 2030.</p> <p>RH: replied that SBW believed the revised policy should still enable that to be achieved; the CEPF needs to be aware that Ofwat`s financial modelling does not recognise the need for increased metering in view of there being no supply / demand deficit, so the argument for doing this needs to be based on robust CBA..</p> <p>DK: observed that it is a disappointment that in view of this, NE will no longer be able to view SBW as an exemplar company.</p> <p>GM: another factor is that SBW don`t have WTP for metering which does not help the company in making its case to Ofwat.</p> <p>PB: Getting the meters through the Ofwat modelling may be difficult and SBW has listened to customers who tell the company they do not want compulsory meters.</p> <p>LC : asked where the £1.2m cost saving would be achieved by this change of policy</p> <p>PB: confirmed that this represents the meters that would've been fitted but unused for revenue purposes.</p> <p>TKL: clarified that the choice would be given to those customers whose meters were fitted under change of occupier, which differs from existing policy.</p> <p>SBW confirmed that it would clarify this aspect on re-submission.</p> <p>GM: asked if the revised plan reflected the data in the WRMP and if the Defra had approved the 2014 version?</p> <p>TKL: confirmed the WRMP data was correct in the business plan and that the EA had verbally advised our plan was in order but confirmation was awaited from DEFRA.</p> <p>GM: observed that SBW`s comments on the price freeze in the plan do not consider the impact of sewerage cost increases. CCWater`s view is that this could influence uptake of meter options and SBW would likely meet its target because of this.</p>	



<p>Supplementary Report</p>	
<p>EV: Challenged SBW over the leakage ODI reward in the revised plan; why had it changed?</p> <p>PB: confirmed that there was no reward in December`s submission but it was there in March. It`s the balance between WACC, shareholder reward and delivery of targets. The reward alters the balance. The two rewards are clear changes from December`s submission and is in response to customers` WTP</p> <p>GM: why is there a reward for just reaching a committed target rather than exceeding it?</p> <p>PB: confirmed that the reward for the 20ml/d is part of the re-balance between the WACC and the reduction. Agreed that the reward appeared to be a poor incentive to go from 20 to 17 as it`s a smaller incentive to go further.</p> <p>EV: pointed out that this doesn`t feel logical and that Ofwat is likely to agree.</p> <p>SBW confirmed that it would re-visit the situation regarding the leakage target</p> <p>Post meeting note: SBW confirmed that it will not seek a reward for meeting the target of 20 ML/d, but only for beating it.</p>	
<p>Cost of Capital</p>	
<p>CH :The CEPF had agreed with bill levels in December and supported the further reduced bill levels unveiled in February;</p> <p>CH: Felt it was important to explain to all members the position regarding the cost of capital. Historically Ofwat allowed small companies a small company premium for the cost of capital; this year they have not. SBW believe they have an argument in view of the unique situation with one very large user. However it was not appropriate for this forum to get involved in the negotiations between Ofwat and SBW. Suffice to say in respect of the effect on customer bills this forum has approved the worst case scenario for bills.</p> <p>GM: Stated that CCWater recognised that SBW is only asking for one aspect of the SCP rationale, not the whole premium.</p> <p>RH: responded that SBW now has a better plan outcome than it had in December and SBW will now present its case on the embedded debt.</p> <p>EV: believes that SBW have not effectively quantified the benefits to customers. The money has enabled SBW to be one of the best performing companies and has a performance value dragging others along with it.</p> <p>RH: SBW can`t really definitively demonstrate that this is because it is a small company, e.g. Wessex Water is also very good.</p> <p>PJB: As a company SBW has a choice; either give the shareholder a lower return, which may or may not be sustainable or the company may have to reduce customer service activities to compensate.</p> <p>GM: CCWater would not like to see a reduction in customer service activities.</p> <p>Following further open discussion it was noted that SBW would have to negotiate with Ofwat after draft determination and would only defer to the CEPF in the event of any major implications for customers at draft</p>	

Customer Engagement Planning Forum

Independent Chair: Charles Howeson
Independent Deputy Chair: Philip Warr



determination. This position was agreed by the members.	
Average Cost to Serve	
GM: Why have SBW included costs other than labour in the average cost to serve for input price pressure; i.e. post and print? PB : The quantum of the increase correlates with the Oxera paper GM: has reference to Oxera report highlighted local labour market pressures? Because other sections of the re-submission seems counter intuitive as SBW are shown to be efficient in the industry. PB: explained that from a labour point of view SBW is competitive and is not anticipating making major strides as the company is “already there”. SBW would however, always seek to become more efficient and reduce its costs further.	
Peer Review of WTP	
EV: Ofwat questioned the integrity of the WTP research, how is SBW responding to that? TKL: replied that SBW’s Peer Reviewer Scott Reid of ICS had analysed the results from the WTP research in more depth and is now able to provide robust evidence to Ofwat of the integrity of this research; his paper will be forwarded to the sub committee	
Chairman`s Closing Remarks	
The sub committee will meet immediately after this meeting closes to put the finishing touches to their report; this should be available on Friday and then all members would be asked to approve the content by Tuesday. It was expected that one final meeting of the CEPF would be required after the Draft Determination on the 29 th of August and a provisional date of the 23 rd of September was noted. Although the CEPF in its present format would then be disbanded it was likely that a similar group would be required going forward and members were asked to consider if they would like to be involved. Meeting closed at 12.05pm.	

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