

**MINUTES OF
CUSTOMER ENGAGEMENT PLANNING FORUM MEETING
HELD ON THURSDAY 27th FEBRUARY 2014
AT 10.30 A.M. AT LONGHAM LAKES.**

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

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

	Action
<p>1:Welcome and Apologies</p> <p>Apologies received from Doug Kite of Natural England, Jacky Atkinson of DWI and Jonathan Holyhead of Dorset Blind Association.</p> <p>CH acknowledge the apologies and advised that both Natural England and DWI had already confirmed their acceptance of the plan and that today`s meeting did not affect their contributions.</p> <p>CH advised the meeting of the developments from Ofwat since the business plan submission on the 2nd of December 2013 and stated that the objective of this meeting was to endorse or otherwise SBW`s proposed response to the revised requirements from Ofwat, should it be considered by Ofwat for enhanced status.</p> <p>PW asked the meeting to be aware that there was an element of politics in the background with 2014 being a pre- election period.</p> <p>.</p>	

<p>2: Minutes of last meeting and matters arising</p> <p>These were agreed without comment or matters arising.</p>	
<p>3: Ofwat`s new guidance on risk and reward issued January 2014.</p> <p>CH invited RH to present SBW`s response to the above.</p> <p>A paper had been distributed to all members ahead of the meeting.</p> <p>RH gave a verbal presentation based on this paper and advised that whilst SBW would like their business plan to be in the enhanced category, this could not be at any cost.</p> <p>RH emphasised that SBW did not have huge areas of improvement to aim for as the company was already a top performer. Although a series of outcomes had been set out in the business plan, there were only two specific areas where the company had attached financial penalties for non-delivery -leakage and supply network resilience.</p> <p>RH pointed out that Ofwat would benefit by being able to use SBW as a yardstick for other companies` performance.</p> <p>CH asked the meeting to recognise that SBW was already at the top of the SIM comparative tables and has a good track record of delivery of its obligations.</p> <p>RH concluded that he is confident that SBW could accept the challenge of taking more risk in line with Ofwat`s revised guidance.</p> <p>PB added that: 1)SBW would have to accept the reduced cost of capital; 2) that customers require real term price decreases; 3) that SBW still have to provide a return to the shareholders. (the shareholders will be taking more risk for less reward but there still has to be a balance,) and 4) SBW still need to confirm to Ofwat that our plan is financially sustainable and will enable SBW to maintain an investment grade credit rating.</p> <p>Questions invited from members:</p> <p>GM: raised the question of retail margins. SBW will use 1% margin on HH and fall in line with Ofwat`s requirements as this is an integral part of Ofwat`s proposed (and reduced) return to investors.</p> <p>EV: if SBW are not offered enhanced would that impact on customer prices? RH advised that if SBW is not offered enhanced status, then the package proposed in the paper in front of the meeting would not be on the table and the company would consider its arguments further in due course..</p> <p>PW: Do SBW believe that Ofwat trust them? Yes!</p> <p>Also suggested that SBW need to educate their customers, with particular regard to leakage and the connection to carbon footprint; PB noted that we had made a commitment to reduce energy use significantly in the period 2015 to 2020 and the reduction in power usage as a result of even lower leakage targets formed part of the cost case for the proposal.</p> <p>LC: what would the cost be of lower leakage? RH replied that there could</p>	

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Independent Chair: Charles Howeson
Independent Deputy Chair: Philip Warr



<p>be additional costs, but that any cost not included in the business plan would be borne by SBW.</p> <p>LC: how are rewards calculated? TKL advised using the Ofwat methodology on the range of returns to equity.</p> <p>GM: would the value of efficiency savings justify to Ofwat offering us a SCP? PB advised that there may be a correlation between company size and service performance but that doesn't prove a cause and effect. SBW were therefore not minded to suggest a general Small Company Premium.</p> <p>CH: will any SBW customer be worse off under the revised package? RH: no; there would be even lower prices, better service but at higher risk to SBW's shareholder.</p> <p>CH: what potential percentage reduction? PB advised potentially up to 1.3% compared with the December 2013 business plan .</p> <p>CH: what performance level can be quantified? RH responded that the revised incentive proposal requires SBW to reduce leakage by approx. 15% in order to provide an acceptable return by way of reward for out-performance, rather than the 5% proposed in the business plan. There was significantly greater risk to the shareholder of achieving this performance, however.</p>	
<p>CH then asked the members if he should write to SBW's board advising that while the CEPF does not like the principal of applying rewards as this was not generally supported by customer research, it nevertheless fully endorses the companies proposed response to an offer to be enhanced. This was agreed and CH proposed to send each member a draft narrative for comment before sending to SBW's Chairman.</p>	CH
<p>4: Future role of the CEPF</p> <p>This item was deferred..</p>	
<p>5: Social tariff research</p> <p>To be dealt by e-mail post meeting.</p>	
<p>6: AOB and date of next meeting</p> <p>There was no other business and CH advised that the date of the next meeting would be dependent on Ofwat's decisions.</p>	