

**PORTSMOUTH WATER Ltd**  
**CUSTOMER CHALLENGE GROUP (CCG)**  
**MEETING HELD ON TUESDAY 26 MARCH 2013**

**PRESENT:** Colin Buckle (Environment Agency), Charles Burns (Federation of Small Businesses) Cllr Paul Dendle (Arun District Council), Amy Denford (Secretary), Karen Gibbs (Consumer Council for Water), David Guest (Independent Chairman), John Havenhand (Consumer Council for Water), Douglas Hunt (Atkins Independent Reporter), Simon Oakley (Chichester District Council), Rod Porteous (Portsmouth Water), Nick Sheeran (Portsmouth Water), Gareth Simmonds (Portsmouth Water), Neville Smith (Portsmouth Water) and Jon Stuart (Havant & District Citizens Advice Bureau)

**Action**

**Apologies**

Apologies were received from Traci Baker (Hampshire Chambers of Commerce), Hugh Caley (Carillion), John Colley (Portsmouth Water), David Collins (Havant Borough Council), Elinor Cordiner (Drinking Water Inspectorate), Andrew Day (Ofwat), Cllr Evans (Fareham Borough Council), Richard Harris (West Sussex Hospitals Trust), Douglas Kite (Natural England), Chris Manning (South Downs), Cllr Stephen Philpott (Gosport Borough Council), Ian Rawson (KWS Defence), Tim Richings (South Downs), Stuart Wedgbury (East Hampshire District Council & Havant Borough Council), Cllr Victoria Weston (Winchester City Council) and Cllr Rod Wood (Portsmouth City Council)

David Guest expressed concern over the number of apologies being received. It was agreed that when apologies are received in the future they will be asked to send a representative.

AD

**1. Minutes & Actions of Meeting Held on 10 January 2013**

The minutes were taken as a correct record and approved by the CCG.

The following actions were reported on:

**Overview of process & draft itinerary**

Nick Sheeran confirmed that a revised timetable had been agreed and circulated.

**Governance Procedures**

Nick Sheeran confirmed that the revised Outcomes were included in the Draft Outline Business Plan which will be published on the website shortly.

**Outcome Assurance Statements**

Gareth Simmonds confirmed as above that the Outcome Assurance Statements had been updated and circulated to the CCG as part of the Draft Outline Business Plan.

**Customer Research: Results & Update**

Nick Sheeran confirmed that a revised Engagement Strategy had been drafted and sent to the CCG with the Agenda for this meeting to be discussed in AOB.

**2. Ofwat Methodology**

Gareth Simmonds presented to the CCG giving an overview of the Ofwat framework, highlighting the different approach from the last Price Review.

Gareth Simmonds raised concern over timescales if Ofwat decide to bring forward the deadline for the Final Business Plan submission from January 2014 to the beginning of December 2013. This would require the Final Business Plan to be

completed by November 2013 to submit to the Board for approval.

Neville Smith confirmed that work is underway on the Final Business Plan on the basis of Ofwat's previous Methodology as the Methodology for this Price Review is not anticipated to be available until the end of Summer 2013. The Company is concerned that this will not give the Company sufficient time to complete the Plan taking into account any changes to Ofwat's Methodology and will not give the CCG adequate time to give due consideration to the Plan to prepare their Report to Ofwat.

David Guest suggested writing to Ofwat expressing concerns over both the Company's inability to complete the Final Plan in a timely manner and the CCG's inability to prepare and submit their report on the Final Plan in the given timescales. The CCG were in agreement and it was decided that David Guest would write to Ofwat on behalf of the CCG and copy the other CCG Chairs into his letter, also writing to the CCG Chairs separately asking if they share the same concerns and what measures they are putting in place.

**DG/AD**

Gareth Simmonds highlighted that the Company and CCG need to work and co-operate with Ofwat in order to deliver a Business Plan for our Customers.

Neville Smith raised concern that there needs to be sufficient time for technical issues to be resolved and to look at the various options to approach Customers with which the new timetable is not allowing time for.

David Guest requested the Company draft a revised timetable that is workable with Ofwat's new deadline including possible rescheduling meetings, and that the Company circulates this to the CCG.

**GS**

Gareth Simmonds confirmed that Ofwat will be publishing their Information Requirements in April which will give some guidance. He also stressed that collectively all Companies had expressed their concerns to Ofwat at a recent Meeting.

Colin Buckle asked if the Water Resources Management Plan that informs the Business Plan is aligning with the new timescales. Gareth Simmonds confirmed that it was, however, the Water Resources Management Plan is not proposing any investment and therefore any further changes should not fundamentally change the Business Plan.

David Guest asked Karen Gibbs to update the CCG on a recent Ofwat Workshop.

Karen Gibbs informed the CCG that the Ofwat Workshop outlined the key aspects of the Methodology and its impact on the CCG's. She confirmed that Ofwat's thinking still hadn't got into the detail of what the CCG's Report should cover. Ofwat's new Team did not want to prepare a template as they feel this would stifle innovation. The point was raised to Ofwat that for the CCG's to be able to provide a Report that is fit for purpose more clarity is needed. Ofwat agreed to provide more information to CCG Chairmen and it was suggested that after the release of their Information Requirements at Easter another Workshop should be held to discuss reporting requirements.

Karen Gibbs advised that Regina Finn of Ofwat confirmed that the new approach is to move Companies away from being lead by Regulation and rather be informed by Customers.

Neville Smith confirmed that he thought the new approach was working and that Companies are taking genuine ownership of their Plan.

Karen Gibbs confirmed that Ofwat will provide comparative information to inform the CCG and is setting up a webpage for CCG Members to refer to.

### 3. Customer Quantitative Research

Nick Sheeran presented on the Final Results of the Customer Quantitative Research.

John Havenhand raised his concern over contextualising willingness to pay (WtP). The Company did ask Customers if they would be WtP if Southern Water increased their bill but did not then put it into context e.g. reminding them that their salary would remain the same and everything else they pay for will also be going up. Therefore, he stressed the need for the results to be looked at with care and not taken literally.

John Havenhand highlighted a good point made by MVA at the Customer Research Sub Group Meeting that Customers don't like to see increases in their bills, however, during the Research when asked how much their bill currently was they had no idea, so technically may not notice an increase.

Nick Sheeran highlighted that the WtP figures actually needed to be factored down, as at the end of the survey Customer's were asked "what is the maximum they would be WtP?" This was only £7.00.

Karen Gibbs commented that the Company would not have to spend the maximum WtP to address the improvements: e.g. in respect of water softening. The Company does not have to carry out full water softening but provide more information and advice to Customers on the issue of water hardness.

Nick Sheeran commented that would mean that the WtP for these aspects would therefore be reduced.

Karen Gibbs highlighted that the findings showing the Customers top six improvements is not a literal budget but customers' priorities.

Jon Stuart informed the CCG that the maximum WtP figure should not be taken literally as 25% of Customers didn't want any increase but were excluded from the Results. Douglas Hunt expressed concern over this; however, the Customer Research Sub Group reassured the CCG that MVA confirmed it was standard practice and they were happy with their explanation.

John Havenhand made the point that Customers may already be satisfied and therefore not willing to pay for any improvements. However, if they were dissatisfied Customers may be willing to pay.

John Havenhand spoke on behalf of the Customer Research Sub Group and confirmed that they were satisfied that MVA had done the job well but the methodology was open to interpretation and therefore care needed to be exercised when reviewing the Results.

David Guest confirmed that he would like Douglas Hunt to review the Customer Research and Results to give the CCG a level of confidence.

DH

Colin Buckle noted from the Results that it suggests 75% of Customers may be happy with metering.

Neville Smith agreed that the Company needs to get the message across to Customers that they could save money by going on a meter.

Paul Dendle suggested Portsmouth Water liaise with Local Councils to obtain Single Occupier Information and then they can target Customers that would benefit from switching to a water meter.

### 4. External Assurance Reporter

Nick Sheeran advised the CCG that the Company had undertaken a Tender

Process to select a new Independent Reporter. He introduced Douglas Hunt from Atkins as the newly appointed Reporter who would also be working for the CCG.

Douglas Hunt gave the CCG assurance regarding his experience, capability, independence and his involvement in the Engagement Process.

Neville Smith confirmed that he will circulate a schedule of work that Douglas Hunt is carrying out for the Company ahead of next times meeting so the CCG can decide what additional work they would like him to complete on their behalf.

NS

The CCG accepted the appointment of Atkins as their provider of assurance. It is essential however, that Douglas Hunt is regarded as independent of the Company when dealing with issues on behalf of the CCG.

## 5. Outline Business Plan

Nick Sheeran circulated the Draft Outline Business Plan that has been informed by the Customer Research and recently agreed by the Board.

Nick Sheeran confirmed that it was being put on the website and going out to Stakeholders for Consultation at the end of March. The Plan includes a Feedback Questionnaire. A summary will be included in Portsmouth Waters Customer Newsletter in May with a free prize draw as an incentive to encourage a good response from Customers.

NJS

Nick Sheeran welcomed comments on the Draft. Colin Buckle commented that the EA had seen five other Companies Outline Business Plans and that Portsmouth Water had the best suite of Outcomes. However, he noted that throughout the Leakage Section of the Plan the Company repeatedly says 'we will continue to...' when the Research shows that this is a priority for Customers and they want this to be heightened. Nick Sheeran confirmed that this wording was chosen following the Research as the Company did not want Customers to think it was a new approach as these things are already being done. However, the point was taken and the wording will be reconsidered.

Colin Buckle also commented that the Environmental Outcome is worded 'We aim to promote...' which is very subjective terminology and suggested it be replaced with more objective phraseology.

Karen Gibbs suggested within the Customer Priorities changing Water Softening to Water Hardness and re-wording the statement to be more positive as to what the Company intends to do.

The CCG's comments were noted and Nick Sheeran encouraged the Members to make any further representations during the Consultation period.

## 6. WRMP – Draft Plan and Consultation Process

Gareth Simmonds presented to the CCG on the Water Resources in the South East (WRSE) and Portsmouth Water's Water Resources Management Plan (WRMP).

Gareth Simmonds encouraged CCG members to make representations during the Consultation period. He noted that the CCG would comment on the Plan as it would form part of the business plan.

Neville Smith informed the CCG the WRMP will be submitted on the Base Plan.

David Guest questioned whether Climate Change is considered in the Plan.

Gareth Simmonds confirmed that Climate Change is taken into account in the Company's Drought Plan. The WRMP is based on a dry year / critical period average whereas the Drought Plan is based on a historical worst case event that

has already taken place to inform how to meet the demand. The WRMP plans up to a drought but does not include them.

John Havenhand commented that there is a logical problem with drought planning based on a historical worst case event as there still could be a more significant drought in the future. He noted that Havant Thicket was not required in the Base Plan and the Supply Demand Balance Graph looks quite tight towards the end.

Gareth Simmonds commented that this is the problem with Schemes that need a long lead time. By the time they are required you don't have time to put them in place. The WRSE is clear that Havant Thicket has an important part to play in sustaining supplies in the future for bulk supplies.

David Guest suggested that Havant Thicket would reduce the environmental impact of bulk supplies.

Colin Buckle agreed that Havant Thicket did have a regional benefit.

John Havenhand asked what needed to happen for the Alternative Plan to get some traction.

Gareth Simmonds confirmed that it was dependant on other Companies requiring bulk supplies.

Gareth Simmonds referred the CCG to the WRSE Scenarios in his presentation and commented that Scenario C3 would trigger the Alternative Plan.

Karen Gibbs asked what the current rate of meter optants were and Gareth Simmonds confirmed that it was 5,000 and would stay the same.

Karen Gibbs raised the point that Research shows Customers want meters and neighbouring Companies are bringing in metering.

Douglas Hunt commented that metering may be cheaper for individual Customers but metering the Customer base as a whole will increase bills for everyone.

## **7. Efficiency**

Neville Smith informed the CCG that Ofwat have historically set price limits based on RPI plus or minus K: an efficiency index for Companies. He raised the question of what the Company needs to provide in the way of evidence to the CCG to satisfy them of the Company's efficiency. Historically Portsmouth Water has always been regarded as the most efficient Company.

Neville Smith suggested not completing any further work but to rely on historical data and industry benchmarks that Ofwat may produce and commented that it would not be in anyone's interest to spend money on something already being carried out at industry level.

Karen Gibbs agreed that Ofwat's data published will be enough to satisfy the CCG.

Neville Smith confirmed that Ofwat will give Company a baseline of opex/capex and the CCG can challenge then, rather than doing a specific piece of work now.

Karen Gibbs commented that the CCG will need to compare Company's assumptions with those of Ofwat.

Douglas Hunt confirmed that Ofwat have historically published a paper that shows the relative efficiencies of companies and the CCG could compare this paper with the Company's assumptions. The paper assesses how much more efficient a Company should get: Comparative Benchmarking.

Neville Smith noted that if the end results are increased prices you could question a Company's efficiency. He commented that Ofwat published a paper stating that if there was pressure on prices because of competition Companies would find ways of being more efficient.

John Havenhand commented that efficiencies relate to input / output and therefore wanted to make sure that efficiencies are not delivered by reducing activity.

Neville Smith summarised confirming that the Company would not be doing a specific piece of work but will rely on Ofwat to inform the CCG of the Company's efficiency.

## 8. Base Opex

Nick Sheeran presented to the CCG on the Company's Base Opex, comparing the budget to Ofwat Determination and current projection.

Nick Sheeran confirmed that the actual operating costs came in lower than the Ofwat Determination and last years budget.

Jon Stuart questioned where the Company had spent less and Nick Sheeran confirmed that savings had been made on electricity usage and the Environment Agency decided not to impose abstraction charges.

Nick Sheeran commented that the prices given in his presentation were indicative as awaiting Ofwat's Methodology and still need to factor in Totex.

John Havenhand questioned if the figures were not subject to inflation then the retail element is not indexed resulting in RPI being less than actual RPI.

Neville Smith confirmed that Retail is 10% therefore can only increase 90% by RPI.

Jon Stuart asked what the commercial overspend related to, resulting in Capex being more than expected. Nick Sheeran confirmed that this was due to additional IT costs and a new Billing System.

Neville Smith confirmed that before the September meeting the Company will ask Douglas Hunt to look at the Base Opex to be able to reassure the CCG.

NJS/DH

## 9. Indicative Capital Maintenance – Infrastructure

Rod Porteous presented the Company's Infrastructure Indicative Capital Maintenance to the CCG.

He outlined the six types of Capital Maintenance Expenditure;

- Quality
- Security / Emergency Measures
- Enhanced Service
- Supply and Demand
- Management and General
- Capital Maintenance

Capital Maintenance is further split between infrastructure and non-infrastructure, below and above ground assets.

Rod Porteous highlighted that the Company has approximately 300,000 stopcocks and their repair / replacement accounts for 50% of the Company's Opex Expenditure. In recent years the Company made the decision to stop installing stopcocks on the Customers boundary but instead to mount them on Customers properties, known as wall-mounted meter boxes. This has dramatically reduced the Company's costs and referring back to John Havenhand's early comment regarding the difficulty in cutting the fat from something that's already lean. The

Company would find it difficult to find further efficiencies in this area.

Rod Porteous picked up on a term used by Milo Purcel at a previous CCG meeting; 'Stewardship'. As Portsmouth Water is a small Company there is a good understanding and knowledge of its Network and reassured the CCG of continual monitoring and investigation undertaken.

Rod Porteous confirmed that Douglas Hunt would be asked to look at the Deterioration Modelling completed by the Water Research Centre (WRC) on behalf of Portsmouth Water to give confidence to the CCG.

**RCP/DH**

Rod Porteous outlined the deterioration modelling that the Water Research Centre (WRC) was undertaking on infrastructure, work follows a similar approach to that taken for AMP4 & AMP5. He outlined an incremental increase in lengths of main lost with associated benefits such as leakage. The outcomes from WRC draft report are undergoing internal challenge, once the Company is satisfied upon the technical robustness they will arrange for the Reporter to review the work and report to the CCG.

Karen Gibbs raised concern over the Company's decision to undertake deliberative research on leakage in isolation as it could produce biased results.

Neville Smith commented that the Company's approach to leakage is one of the single biggest areas the CCG will need to challenge, as a reduction below the economic level is likely to increase the Customers bill. Customers will not necessarily see the results, as the Company already has a surplus of water.

**10. Any Other Business****Revised Draft Engagement Strategy**

Nick Sheeran confirmed that he had revised the Draft Engagement Strategy incorporating the feedback from the CCG at their last meeting.

**11. Date of Next Meeting**

Tuesday 25 June 2013