

**PORTSMOUTH WATER Ltd
CUSTOMER CHALLENGE GROUP (CCG)
MEETING HELD ON WEDNESDAY 23 APRIL 2014**

PRESENT: Jim Barker (Environment Agency), Jane Day (Secretary), Cllr Paul Dendle (Arun District Council), Karen Gibbs (Consumer Council for Water), David Guest (Independent Chairman), John Hall (John Hall Consulting), John Havenhand (Consumer Council for Water), Mike Kirk (Portsmouth Water), Kirk Phillips (Winchester City Council), Nick Sheeran (Portsmouth Water) (by phone), Gareth Simmonds (Portsmouth Water), Steve Morley (Portsmouth Water) and Neville Smith (Portsmouth Water) (by phone).

	Action
<p>1. Welcome and Introductions</p> <p>Neville Smith thanked everyone for attending today's CCG and apologised that he was unable to attend in person.</p> <p>He confirmed to the meeting that the Company's Business Plan did not pre-qualify for Enhanced status.</p> <p>However, the Company's Business Plan was classed as "marginal". It was considered by the Ofwat board for Enhanced Status but they did not consider that the Business Plan qualified for Enhanced Status. The Company is extremely pleased with Ofwat's assessment.</p> <p>Neville Smith advised that Ofwat were very complimentary about our research which is an excellent reflection on our processes and the CCG.</p> <p>Neville Smith advised the meeting that the Company is keen to re-submit early but after careful consideration it was agreed not too. The Company is now working towards re-submission by the end of June .</p>	
<p>2. Minutes & Actions of Meeting Held on 11 March 2014</p> <p>The minutes were taken as a correct record subject to the above amendment and approved by the CCG.</p>	
<p>3. Ofwat Risk Based Review – Recommendation to Ofwat Board</p> <p>It was stated that Neville Smith has already covered this in his introduction.</p>	
<p>4. RBR – Customer Engagement & WTP</p> <p>Gareth Simmonds circulated a paper detailing the following:</p> <ul style="list-style-type: none">• Ofwat do not require further information on<ul style="list-style-type: none">- Customer Engagement Strategy- Engagement with Wider Consumer Interest• Ofwat queries<ul style="list-style-type: none">- Mapping of willingness to pay data (inflation, sewerage, evidence on incremental changes to service)• Further Work<ul style="list-style-type: none">- No new customer research required- Providing more detail/further analysis to support existing plan	

Gareth Simmonds gave a summary of the areas of further work that Ofwat expected the Company to undertake noting some of the points were technical in nature. It is believed that the further work is unlikely to fundamentally change the plan.

Any changes to the plan would be presented to the CCG in a timely manner in order for them to make comments to Ofwat.

Karen Gibbs raised the issues of Outcome Delivery Incentives (ODIs) and it was agreed to discuss the ODIs under this item.

Karen Gibbs noted the CCWater research that showed customers did not support Companies receiving incentives for outperformance.

Gareth Simmonds explained that the Company had proposed 5 financial ODIs in its Business Plan. All 5 ODI's had financial penalties associated with them and 2 of the 5 also had a financial reward associated with them for outperforming the target: The rewards related to ODIs for leakage and the Environment. The ODIs incentives were derived from customer's willingness to pay and reflected the value customers placed on these outcomes.

John Havenhand noted that customers had not been asked directly about rewards for outperformance.

John Havenhand questioned whether customers actually support incentives? Did the Company raise this question?

Gareth Simmonds replied that it wasn't asked.

David Guest reported that we are eager to re-submit the Business Plan in such a way that Ofwat requires.

Gareth Simmonds replied that we will address all the shortcomings and then review with the CCG in a timely manner.

John Hall questioned whether customers are prepared to pay more money for green improvements? Is it similar in different regions? Are we aware of other research being carried out, for example, electricity and energy companies?

Gareth Simmonds replied that the Company has looked closely at the Company's very specific area of research and it adequately represents customers.

Paul Dendle reiterated that customers do not want to pay more than the industry average.

Cost of Capital was discussed. The Company will carry out further work and make available at the next CCG.

5. Feedback from Ofwat Workshops

Karen Gibbs reported that the discussions on 24 March mainly evolved round why the two Water Companies, Affinity and South West were awarded the Enhanced status.

It was, however, highlighted how appreciative Ofwat were of the work that the CCG had carried out. The research has made a marked improvement to the Business Plan, and the same process needs to be applied to the next price

review.

Karen Gibbs stated that the Company Business Plan was not judged on the CCG's research. Ofwat believed that the CCG reports provided reassurances of the processes delivered on customer research.

David Guest reported at the meeting that at a recent workshop it was agreed that the relationship between the Company and the CCG should be continued and this was the consensus of the CCG. It was suggested that a quarterly meeting would be beneficial to ensure communication continues.

Gareth Simmonds replied that it is important to continue with the CCG and that it should not just recommence when the next Price Review begins. It is essential that we need to continue to engage with our customers.

6. **RBR – Performance Commitments Outperformance/RORE Range/ODIs**

Gareth Simmonds circulated a paper detailing the following:

- Performance Commitments
 - 8 we have provided sufficient details on
 - 4 further information
 - Leakage
 - Biodiversity
 - Interruptions of supply
 - Local Suppliers
- Outcome Delivery Incentives
 - Proposed some 5 ODI's in plan
 - Ofwat used our submission as good practice at workshop
 - Should some reputational incentives be financial

David Guest questioned how the Company arrive at their choice of local suppliers?

It was noted that detailed discussion of the ODIs had taken place under item 4.

Gareth Simmonds reinforced that the Company does encourage using local people and local companies this does need reinforcing.

Chris Manning agreed to provide some paragraphs with regards to the National Park.

Action CM

7. **RBR – Financial Issues including Small Company Premium**

Nick Sheeran reiterated that at the last CCG meeting several different outcome scenarios were discussed.

It was reported that a meeting with Ofwat will be arranged followed by a feedback presentation to the CCG.

Nick Sheeran stated that the Company would resubmit all findings to the CCG. It was noted that where the customer is concerned the message is the same: flat prices over the next 5 years. The key financial ratios look favourable; therefore, the plan is financeable.

It was agreed to present the ratios at the next meeting.

Karen Gibbs questioned whether it was possible to see a comparison of bills?

Nick Sheeran replied that this is essentially should not change.

Karen Gibbs questioned whether the starting price would be different?

Nick Sheeran replied that it is an average bill, and it shouldn't be significantly different from the original plan.

8. Next Steps/Timetable/Additional work for CCG

After discussion it was agreed that the next CCG meeting would reconvene on 9 June 2014 to review the Companies revised submission.

9. Any Other Business

There was no other business.