



## Report on Portsmouth Water's PR19 Business Plan

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# Version Control

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# CCG Members

Following a widespread invitation exercise of potential stakeholder groups and the expertise gathered by existing members during PR14, the following representatives agreed that they would be part of the Portsmouth Water Customer Challenge Group for the PR19 process. Except where noted, these members attended the majority of the CCG meetings. All members have been provided with the opportunity to provide input to, and feedback on, the contents of this report.

Caroline Brooks	Winchester City Council
Charles Burns	Federation of Small Businesses
Karen Gibbs	CC Water
John Hall	West Sussex Growers Association
David Howarth	Environment Agency
Lakh Jemmett – Chairman	Independent Chairman
Doug Kite	Natural England
Andrew Lee	South Downs National Parks
Simon Oakley	Chichester District Council
Ingrid Strawson	CC Water
Jon Stuart	Citizen Advice, Havant
Raife West	Havant Housing Association

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# Glossary of Terms

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AIM	Abstraction Incentive Mechanism (a financial incentive framework used to incentivise water companies to reduce abstraction on environmentally sensitive water bodies).
AMP7	Asset Management Plan 7 (the period 2020 to 2025 that the PR19 Business Plan will be delivered over)
CAP	Customer Advisory Panel (a group of customers brought together by Portsmouth Water to understand their views)
CCG	Customer Challenge Group (independent group formed to challenge Portsmouth Water's plans and the authors of this report)
CCW	Consumer Council for Water (national NGO representing water customers)
C-Mex and D-Mex	Metrics used by Ofwat to measure water companies' customer service for commercial customers (C-Mex) and domestic customers (D-Mex)
CRI	Compliance Risk Index (a water quality monitoring metric used by the Drinking Water Inspectorate)
DWI	Drinking Water Inspectorate (water quality regulator)
EA	Environment Agency (environmental regulator)
ODI	Outcome Delivery Incentive (a system of reputational and financial rewards and penalties that are applied to Portsmouth Water in relation to exceeding or failing its Performance Commitment Targets)
Ofwat	Office of Water Services (economic regulator)
PAYG	'Pay of You Go' (in this case a measure of the cost that capital investment has on current customer bills)
PC	Performance Commitment (by Portsmouth Water in its Business Plan)
PCC	Per Capita Consumption (amount of water used daily by each customer)
PR19	Periodic Review 2019 (the process through which Ofwat determines Portsmouth Water's targets and bill levels for the period 2020 to 2025)
RORE	Return on Regulated Equity (measure of the amount of income relative to the total equity in the regulated business)
WRMP	Water Resources Management Plan (statutory 25 year water supply and demand planning document)
WTP	Willingness to Pay (economic assessment of the amount of money that customers are, on average, willing to pay for a given service level)

# Executive Summary

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1. This report has been written by the independent Portsmouth Water Customer Challenge Group (CCG) as a result of the requirements that Ofwat has set out for all CCGs in relation to the 2019 Periodic Review (PR19) of water companies' Business Plans. The key role of the CCG was to provide independent challenge, and from this, provide assurance to Ofwat on the following two questions:
  - the quality of Portsmouth Water's customer engagement; and
  - the extent to which the results of this engagement have driven Portsmouth Water's decision making and are reflected in the company's business plan.
2. A summary of our opinion on those two key requirements is provided below.
3. As part of its guidance, Ofwat also outlined six 'good practice' principles for the operation and governance of the CCG. The Portsmouth Water CCG has worked in accordance with these principles throughout the PR19 Business Plan challenge process. Evidence of this is provided below:
  - *'Arms-length' operation.* As well as formal terms of reference and an independent Chair with transparent, specified duties, the CCG has adopted a process of 'private' meeting sessions where the group had the opportunity to discuss key issues without Portsmouth Water being present. The CCG confirms that the nature of engagement or the Terms of Reference did not change as a result of the recent acquisition of Portsmouth Water.
  - *Necessary expertise.* The CCG contained members with specialist knowledge around customer vulnerability and the provision of services to lower income customers, representatives from business customers and local authorities, alongside representatives from the environmental regulators and the Consumer Council for Water (CCW). They were supported by an independent Engineering Advisor who provided information on business planning and economic regulation as required.
  - *Evidence of challenge.* This is provided within the body of this report, and in the 'challenge log' within the appendices, which was kept as a live document throughout the process.
  - *Engagement with the Board.* Members of both the executive and non-executive Portsmouth Water Board attended all CCG meetings and addressed questions when required. In addition, the CCG Chair met with the Board separately on three occasions during the PR19 engagement process.
  - *Clear statements of assurance.* These are provided in the sections below and in the conclusions to the report.
  - *Focus on required challenges.* Where appropriate, the content of this report has been set out according to the guidance in the 'aide memoir' that was sent out to the CCG chairs, and the conclusions of the report have been set out specifically to address the seven core questions raised by Ofwat. To ensure that Ofwat requirements were at the forefront of our challenges, members of the CCG were provided with a 'taking stock' document in February 2018 that contained the key questions and areas of focus. In addition, the questions raised in the aide memoir, structured by reporting theme, were sent out to the CCG in April 2018 as part of the initial process used to develop this report.

## *Comments on the Quality of the Company's Customer Engagement*

4. The CCG can confirm that we have been included in a meaningful, timely and transparent manner in the process of consultation that Portsmouth Water has used to elicit its customer preferences for PR19. We therefore consider that we are in a good position to comment on the

quality of the customer engagement, and note that we were able to challenge and influence the scope and process that was used.

5. Overall the CCG considers that Portsmouth carried out a high-quality process of customer engagement, with meaningful views being sought in relation to potential commitments, the importance of relative commitments and potential targets for those commitments. The CCG notes that the initial process of eliciting customer preferences was essentially carried out through qualitative methods, so there was some uncertainty and conflict around customer views, but this was managed through a process of triangulation. Where quantitative surveys were used later in the process to elicit Willingness to Pay (WTP) values, Outcome Delivery Incentives (ODIs) and levels of acceptability to both Performance Commitment targets and the overall Business Plan, the CCG can confirm that we were comfortable with the process and transparency of the survey methods and results.
6. Portsmouth Water used a variety of engagement methods, which started off with open consultation on a wide range of potential concerns and issues. It then refined these through a process of qualitative consultation based on focus groups and specific testing through the Customer Advisory Panel (CAP). CCG members were able to attend focus groups and interview the CAP, and confirmed that Portsmouth Water maintained a reasonable balance between informing customers whilst avoiding bias in their responses. Through these focus groups and CAPs we consider that there is good evidence that Portsmouth Water has engaged in a two way and transparent process that allowed them to inform customers and solicit feedback from them, before setting Performance Commitments (PCs) and associated targets.
7. Portsmouth Water used the qualitative process of engagement to identify customer preferences and turn these into Performance Commitments, before it then adopted quantitative consultation methods to check that potential targets were stretching. Quantitative surveys were also used to elicit customers' preferences in relation to rewards and penalties, review its Water Resources Management Plan (WRMP) proposals and consult on the acceptability of its Business Plan. At various points in the initial qualitative process the CCG challenged Portsmouth to adapt the scope of its consultation to try and obtain a better understanding, particularly in relation to attitudes to metering and leakage. Other sources of information beyond household customer focus groups and the CAP were also used, including engagement with business customers, schools and universities, to try and understand how potential customer priorities might vary between different groups. The CCG considers that, based on its consultation, Portsmouth Water was able to understand and consult with customers on the issues that matter to them. In terms of the identification of customer priorities and willingness to pay for those priorities, the CCG considers that Portsmouth Water did face some challenges, but this was as a result of conflicting feedback from different information sources rather than the consultation process itself, as discussed below.
8. Portsmouth Water's consultation process did seek to provide customers with a range of options to support decision making in the Business Plan, particularly in relation to the Water Resources Management Plan demand reduction initiatives (metering and leakage), environmental metrics and, to a lesser extent, for proposals relating to resilience and supply interruptions. In relation to the range of options that were considered, the CCG notes that there was conflict between different sources of information about customer preferences on demand management approaches. It was apparent that customer engagement had identified a resistance to compulsory metering from some sources, but strong support for metrics associated with reducing abstraction and improving the environment. Responses to the WRMP consultation indicated much broader support for metering. Portsmouth Water did therefore try and 'triangulate' between these sources, and, following CCG challenge, adapted its approach to metering, and the associated targets in the Per Capita Consumption (PCC) commitment. The final proposals for change of occupier metering where there is an existing meter box, and inclusion of some 'not for revenue' metering do therefore represent a compromise position.
9. The CCG challenged whether the final set of ODI rewards and penalties adequately reflected customer preferences for environmental protection, as one of the key initial environmental PCs became redundant as a result of the Environment Agency not requiring any river flow/resources schemes under the Water Industry National Environment Programme (WINEP). Portsmouth Water did consider transferring the expressed customer value to the reward and penalty structure

for the other environmental PCs contained in its Business Plan as a result of this challenge. However, the nature of the other PCs meant that this would have resulted in a large 'upside' risk (i.e. increased the likely range of rewards), which would not have been in line with customer preferences around rewards and penalties generally, and would be unlikely to be viewed favourably by Ofwat. We consider that this omission is therefore reasonable and results from the process of Business Plan development, rather than a specific desire to reduce the rewards and penalties on environmental issues, but note that their relative importance within the financial rewards and penalties in the Plan may be smaller than customer preferences suggested.

10. Consultation around asset health and water quality tended to be based on initial customer feedback, which showed that customers view it as Portsmouth Water's role to maintain, rather than significantly change, current supply system health and reliability. Portsmouth Water therefore chose to focus on testing the acceptability of targets that seek to maintain asset health and upper quartile system performance, and used ranges of performance to determine WTP and associated rewards/penalties, rather than set targets for those metrics.
11. The development of metrics for vulnerable customers and affordability was a particularly strong area of liaison and feedback with the CCG, as Portsmouth Water completely changed its approach to the development of the vulnerability metric following CCG challenge and subsequent advice from suitably qualified members. The nature of the affordability metric was also challenged and reviewed with the CCG before targets were consulted upon with customers.
12. As noted above, Portsmouth sought to engage on long term resilience issues with its customers from various perspectives, including future drought resilience through the WRMP, resilience of the network to major events (e.g. losses of treatment works) and the maintenance of asset health. This included consultation with younger people in schools and universities. From this Portsmouth Water was able to identify relatively clearly that customers value maintenance of, and possibly marginal improvements in, resilience and asset health, provided bills are kept low both now and into the future.
13. Portsmouth Water's consultation on the acceptability of its proposed PC targets contained reasonable, digestible information on current performance (and where available industry comparable information). This was tested using 'Town Hall' style methods before the consultation was carried out. They also used the CAP and some focus groups to test specific options for performance commitments based on 'informed' decisions. The CCG were able to observe the processes used to inform customers and we do not have any significant concerns that the process used to inform customers of current performance and the costs and risks of different future performance was intentionally leading or biased. Testing of 'informed' customers was particularly important when technical issues such as levels of leakage reduction and options for resilience were being discussed, and when the affordability implications of the small company premium and 'pay as you go' costs were being tested for acceptance.

#### ***Comments on the Extent to which the Business Plan Reflects Customer and Stakeholder views***

14. The CCG consider that the Business Plan that has been presented is a clear reflection of customer views across the majority of the PCs, rewards/penalties and associated investment. As noted above, we do have some concerns about the level of support for the metering strategy that has been adopted, but that is due to conflicting views between the consultation responses and direct customer engagement, rather than any particular unwillingness to take on board customer views. Portsmouth Water's approach in that case appears to be a reasonable trade-off between different views. For the ODI rewards and penalties the CCG note that customers do not particularly support rewards, and were not supportive of large ranges of Return on Regulated Equity (RORE) risk/reward for the Business Plan, but there is a clear regulatory pressure from Ofwat to include 'significant' rewards and penalties in the Plan. The CCG therefore consider that Portsmouth Water has adopted a reasonable approach whereby penalties and rewards (in particular) are low if they outturn within the range that is likely to be experienced, and only become larger if their performance outturns at highly stretching values.



15. Early on in the consultation process it was clear that low, stable bills are a key priority for customers, and their support for additional costs associated with the small company premium and the Pay as You Go (PAYG) cost of capital premium were at least partly related to the fact that they have the lowest water bill in the country. Portsmouth Water's proposals that are associated with large capital investment needs, relating to areas such as asset health, water quality management, resilience, leakage and metering are reflective of this underlying preference, where investments now are not intended to put pressure on bills in the longer term. At the same time Portsmouth has sought to identify low cost ways of making improvements and set itself targets that customers agree are stretching for commitments that are more closely related to operational management. Therefore, the underlying long-term nature of Portsmouth Water's plans appears to be in line with customer preferences. The Havant Thicket reservoir proposal was a particular area of focus and challenge for the CCG, particularly in relation to longer term risks to customer bills. We note that discussions with Southern Water and the regulators are ongoing, but Portsmouth Water has provided assurances that this will not unduly affect their bills, both during AMP7 and in the longer term.
  
16. The acceptability level of the proposed Business Plan to customers was notably high, at over 80%. The CCG can confirm that this testing was representative of the customer base and that survey respondents understood the questions that were being asked of them. This gives further confidence that the proposed Business Plan has a high level of support amongst Portsmouth Water's customer base.

# Report on Portsmouth Water's PR19 Business Plan

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## 1. Introduction

### 1.1. Role of the CCG and Scope of this Report

17. The Portsmouth Water Customer Challenge Group (CCG) consists of members that are fully independent from Portsmouth Water, with a remit to provide independent challenge to the company and assurance to Ofwat. For the 2019 Business Plan, the key role of the CCG was to provide independent challenge and from this provide assurance to Ofwat on the following two questions:
  - the quality of Portsmouth Water's customer engagement; and
  - the extent to which the results of this engagement have driven Portsmouth Water's decision making and are reflected in the company's business plan.
18. This report sets out how the CCG has fulfilled this task, the challenges we have made to the company as it developed its customer engagement strategy and Business Plan, and the conclusions that we have drawn in relation to these two questions. Where we can, we also try to provide comment on the range of additional questions Ofwat asked of the CCGs in its Aide Memoire' published on 13/02/18, which incorporates the May 2016 Customer Engagement Policy Statement and Expectations for PR19 (the "Customer Engagement Policy Statement");
19. Based on the CCG guidance described above, this Report has therefore been structured into the following sections:
  - **Section 2** provides an overview of the **CCG governance** and process of engagement and challenge between the CCG and Portsmouth Water undertaken for PR19. This includes a demonstration of how Portsmouth has engaged with the CCG and evidences how the Ofwat criteria for good practice in terms of CCG challenge and reporting have been met.
  - **Section 3** provides comment on Portsmouth Water's **Customer Engagement** incorporating the scope, consultation process, results and analysis and the conclusions drawn by Portsmouth Water. This includes comments on Portsmouth Water's understanding of customer preferences, and the adequacy of engagement over longer term issues;
  - **Section 4** provides comment on the adequacy of the **Reflection of Customer Priorities in the Business Plan**, covering the setting of Performance Commitments, development of Outcome Delivery Incentives (ODIs), the reflection of customer priorities in Business Plan and customer acceptability of the costs and activities proposed and resultant bill profile.
20. Where appropriate, all sections use sub-headings that reflect the questions set out within the Ofwat 'aide memoir'.

## **2. CCG Governance, Engagement and Challenge**

### **2.1. Membership and Working Arrangements**

21. The CCG for Portsmouth Water comprises the following contributors:

- The Chair, who has been appointed by Portsmouth Water based on an open selection process, employed under the terms of a specified contract. Within this contract the role of the Chairman is stated as follows:
  - Chair the meetings of the Portsmouth Water Customer Challenge Group the terms of reference for which are attached.
  - Ensure that all stakeholders which participate in the Group will be heard.
  - On behalf of the Group, produce reports to the Regulator as required, commenting on the Company's proposals and which reflect the views of the Group.
  - Be accountable to the Group, not the Company.
  - Ensure that Governance Arrangements are in place which will maintain the independence of the Group.
- The members, who all represent external stakeholder organisations and have voluntarily agreed to provide their independent input to the process. Many of these were involved in the PR14 CCG process. A full list of the active members is provided in Appendix A of this report.
  - Two sub-groups were formed to review and challenge specific features of the consultation process outside of the main CCG meetings. These were a research and customer engagement group and an environmental challenge group.
- An Engineering Advisor, who is employed by Portsmouth Water, but acts entirely on behalf of the CCG to provide recording and monitoring of the challenge process, plus provide clarifications or opinion on papers submitted to the CCG by Portsmouth Water.

22. The terms of reference for the CCG were formally set after the PR14 process, based on the lessons learned from that process. These are replicated in Appendix A of this report.

23. The frequency of meetings has varied depending on the requirements of the AMP6 and PR19 programme, moving from quarterly meetings during the pre-business planning period to monthly meetings during 2017 and 2018. A full list of meetings is provided in Appendix B of this report. During the intensive 2017/18 period, meetings were held alternately by telephone and face to face at Portsmouth Water's offices.

### **2.2. Process of Engagement and Challenge with Portsmouth Water**

24. All CCG meetings followed an agenda set by the CCG chair, in consultation with Portsmouth Water. Members were consulted on the agenda prior to the meeting and additional items were included where appropriate. During the 2017 and 2018 period there was a private (CCG Members only) session prior to the main meeting, where members discussed issues arising from the CCG meeting papers, challenges and key issues without Portsmouth Water being present.

25. All papers were issued to the agreed timescale prior to the meetings, and a draft set of minutes were circulated to the CCG prior to finalisation. All presentations were also circulated to members, where possible in the formal meeting paper pack.

26. Relatively early on in the PR19 process the CCG challenged Portsmouth Water to provide greater clarity on key milestones in the PR19 programme and importantly when the CCG would have an opportunity to input and challenge the company as it conducted its engagement with stakeholders and customers and as it developed the key components of its Business Plan. In response the company produced a helpful timeline that gave the CCG a clear understanding of the overall

programme, an opportunity to plan meetings appropriately and attend key engagement activities. The customer and stakeholder research programme was appropriately constructed and scheduled to allow each phase to inform the next.

27. In addition to the main CCG, a small working group was set up to focus on the customer research activity. This group was informed in advance of, and made comments on, the proposed programme of customer engagement, research proposals and materials.
28. The company undertook a range of engagement activities including public consultation, stakeholder events, customer and stakeholder surveys and focus groups. Results of all the customer and stakeholder engagement activities, and the customer advisory panel (CAP) meetings were provided to the CCG through a series of presentations by Portsmouth Water.
29. In addition, where consultants were employed to conduct research of a more technical nature the CCG were provided with access to the consultants who presented their findings at CCG meetings and were themselves open to challenge. This included:
  - A presentation by the consultants, Accent, on initial findings on customer preferences, and feedback on the CAPs by Community Research.
  - A report on the derivation of the Outcome Delivery Incentives (ODIs) by Portsmouth Water's consultants, ICS.
  - Interim findings from the acceptability testing, also by ICS.
30. The CCG also pressed the company to demonstrate that it was using a robust approach to triangulate the insight it was gathering through the engagement programme, third parties and its 'business as usual' activities. In response to this challenge the company produced a 'triangulation' table that tracked all of the evidence sources, the key conclusions so this could be linked to the generation of Performance Commitment targets and the associated ODIs.
31. The CCG's challenges to Portsmouth Water were recorded through the use of an 'Active Challenge Log'. This document recorded all areas of significant challenge according to subject area, and was updated with both Portsmouth Water's responses and any further related CCG challenges until the point that the challenge was resolved through the engagement process. All closures were proposed to the CCG and agreed before they were formally signed off. Portsmouth Water linked this to the outstanding issues log that it maintained in response to queries and issues raised in the meeting minutes. A copy of the live challenge log is provided in Appendix C of this report.

### **2.3. Ensuring Technical Capability and Relevant Expert Challenge**

32. The CCG contained members from the Consumer Council for Water (CCWater) who have expertise in the methods used for customer engagement. A member from Citizens Advice (CA) provided inputs on the survey methods used to derive the vulnerable customers metrics. The CCG also included members of local authorities, horticultural interests, small business and a housing association, who have experience of the issues with affordability and budgeting that customers face across the supply area.
33. Proposals relating to the Water Resources Management Plan (WRMP) form a large part of the PR19 Business Plan, Technical expertise on these matters was provided by a representative of the Environment Agency, who was a permanent member throughout the PR19 CCG engagement and a representative of Natural England.
34. Technical challenge and understanding of other issues, such as the 'line of sight' between investment proposals and the PC targets, and any potential issues surrounding the definitions and reporting of targets, was provided to the CCG by the Engineering Advisor.

### 3. Engagement with Customers and other Stakeholders

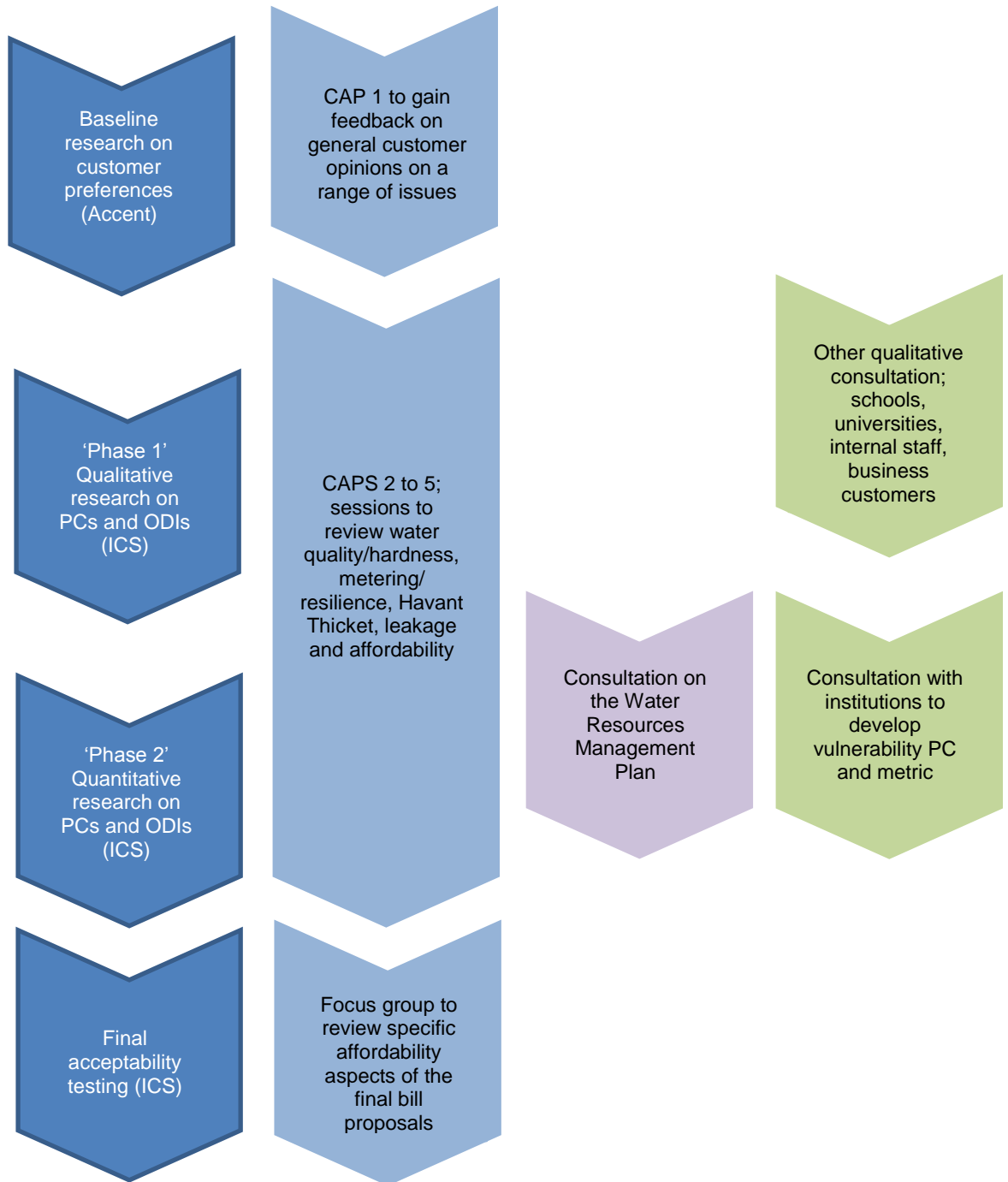
#### 3.1. Comments and Challenge on the Scope and Process of the Customer Engagement

##### 3.1.1. Overview and CCG Involvement

35. Portsmouth Water engaged actively with the CCG in relation to the breadth and scope of its customer and stakeholder engagement programme for PR19. In terms of the scope of *who* was consulted, this comprised:
- A series of qualitative surveys made up of small groups of customers, including focus groups that were recruited for one-off activities, and a Customer Advisory Panel (CAP). This was a new feature of PR19, and consisted of a small group of customers that was convened to allow Portsmouth Water to consult on issues with a group of customers that became more informed over time.
  - Quantitative surveys of much larger numbers of customers, which were used to test Willingness to Pay (WTP) for the Outcome Delivery Incentives (ODIs), test the acceptability of Performance Commitment (PC) targets (500 customers), answer specific questions on the Water Resources Management Plan (WRMP) (2,200 responses) and carry out acceptability testing of the final Business Plan (500 customers).
  - Face to face meetings and telephone interviews with a small number of business customers, along with attempted consultation with the main water retailer in the region (Castle Water).
  - Consultation with external specialist organisations in relation to vulnerable customers.
  - Public consultation- seeking answer to specific questions on the Water Resources Management Plan (WRMP) (2,200 responses).
  - Other activities, including internal surveys amongst Portsmouth Water staff, face to face and online surveys at schools and universities to understand the concerns and preferences of younger generations and specific surveys of customers that might benefit from reduced bills from switching to a measured bill.
36. The CCG was consulted on and kept informed of the selection process used for both the qualitative research and quantitative customer surveys, and made aware of all other engagement activities as they occurred. The general timeline of the consultation process is provided in Figure 3-1 overleaf.
37. During the initial qualitative stage, CCG members were able to sit in on the focus groups in most cases. During all of these checks the CCG were able to confirm that the engagement process was appropriately managed, without any notable attempts by Portsmouth Water to bias opinion when it was providing the information required to inform the focus group discussions.
38. The CAP was given an opportunity to engage directly with the Portsmouth Water Board, which demonstrated their commitment to the engagement process. The CAP was also invited to a 'private' session of the CCG, where they were able to confirm that at no point had they felt unduly influenced or pressured by Portsmouth Water during the engagement process.
39. The CCG can confirm that Portsmouth Water did provide all water retailers in their area with opportunities to engage in the Business Plan, but no responses were provided.
40. The CCG research sub-group was given the opportunity to review and comment upon the quantitative research, and was provided assurance that survey samples were statistically and demographically representative. The surveys themselves were tested on a small group of customers prior to the event, using both a cognitive interview process and a hall test to evaluate responsiveness to the proposed questions, The CCG also requested, and were provided with, the detailed methodology and data that were used to elicit reward and penalty issues. Through these interactions the CCG was able to gain confidence in the methodologies that were used and

confirm that Portsmouth Water carried out its consultation and analyses in an open and transparent manner.

Figure 3-1 Generalised Timeline of Customer Engagement



### 3.1.2. General Points of Challenge

41. The CCG provided a number of challenges that either led to changes in the scope and process of engagement, or were responded to by Portsmouth Water to provide additional confidence in the process. These are summarised below.

42. For the online **quantitative survey** used to derive the ODI penalties and rewards, the CCG provided direct challenge to the consultants (ICS) about the representativeness of the sample. Some changes to the sample were made as a result of this challenge and further assurance was provided to the CCG through direct questioning of the consultants.
43. For **vulnerable customers** the CCG challenged Portsmouth Water to engage with charities and agencies that have experience of vulnerable customers, and influenced the questionnaire that was subsequently sent out to 130 organisations. Of those 130 organisations, 80 returned the questionnaires and this feedback was used to develop the satisfaction survey that will be used for the metric and associated PC in AMP7.
44. The CCG challenged the relevance and **makeup of the CAP** in relation to the WRMP proposals, as there are key questions surrounding metering and inter-generational equity that could be strongly affected by the background and experience of the individual members. Portsmouth Water, via its consultants Community Research, was able to provide assurance to the CCG that the CAP contained a reasonable cross section of ages, and both measured and unmeasured customers.
45. The CCG challenged Portsmouth Water on its engagement with **business customers**, which Portsmouth Water responded to by slightly increasing the scope of its process to include a telephone interview process alongside the face to face forum.
46. A number of challenges relating to consultation with rural customers and the use of student questionnaires were also made by the CCG and adequately addressed by Portsmouth Water's responses.
47. One of our main challenges on the consultation process related to the way in which the information from the different sources was collated and compared by Portsmouth Water to derive its Business Plan, the list of preferred PCs, the targets for those PCs and the rewards/penalties associated with the targets. As a result of these challenges, Portsmouth Water implemented a process of transparent 'triangulation', which is discussed further in Section 3.2.1 of this report.
48. The process used to test PC targets with customers was an ongoing area of challenge for some time. As part of its Phase 2 quantitative surveys, Portsmouth Water therefore developed a process whereby a set of proposed targets were developed based on the previous research, and these targets were subject to quantitative acceptance testing with customers. As part of that quantitative testing, customers were provided with information on Portsmouth Water's current performance relative to the rest of the industry for all of the relevant metrics. The CCG are therefore confident that a reasonable process was used to test whether the proposed PC targets are sufficiently stretching as far as customers are concerned.

### 3.1.3. Engagement on Vulnerable Customers

49. Portsmouth Water sought feedback from the specialist members of the CCG, when it was designing its approach to engagement on vulnerable customers, to make sure that its online (Survey Monkey) approach provided meaningful feedback on the nature of the metrics and targets. Based on this, surveys were undertaken to elicit opinions on key issues associated with vulnerability and bad debt from 80 relevant institutions (80 responses out of 159 organisations that were contacted). This was followed up by some face to face meetings. The CCG provided input on the types of organisations that should be contacted during that survey and the framing of the questionnaire. The PR19 survey metric that will be used for the vulnerability PC reflects the outcomes of that consultation process, and incorporates those areas of performance that are likely to be linked to increasing levels of bad debt amongst vulnerable customers if they are not addressed.

### 3.1.4. Engagement Around Affordability and Acceptability

50. The CCG note that the results of the final acceptability testing of the Business Plan were provided to us very late in the process, as expected, but the CCG, and CC Water, were given an opportunity to provide opinion and challenge on the questionnaire and stimulus materials before

the survey was undertaken. This was taken on board by Portsmouth Water, so the CCG is able to confirm that it is confident in the results that were elicited from the survey.

### **3.2. Comments and Challenge on the Approach used to Draw Results and Conclusions from the Customer Engagement**

51. As shown in Figure 3-1, the selection of PCs and initial setting of targets relied on multiple sources of information that were gathered prior to the Phase 2 quantitative surveys. The approach that was used was therefore based on a process of 'triangulation', which is discussed in Section 3.2.1 below.
52. The outputs from the qualitative assessments (Focus Groups) varied according to the type of engagement and topics that were covered in each group and were, by their very nature, qualitative. Nevertheless, based on our attendance at the focus groups, the CCG found that the summary comments that Portsmouth carried forward into its decision-making processes were reasonable and reflective of the opinions expressed in the focus groups. Where ranking processes were used to determine customer preferences, then the potential metrics that were being tested were clearly presented to customers and results appear to be meaningful.
53. The CCG observed at an early stage in the qualitative Phase 1 consultation that customers considered Portsmouth Water should maintain its position as the lowest cost water provider. The CCG ensured that this was reflected in all our challenges about the PCs, ODIs and proposed expenditure. The CCG also identified relatively early on that customer opinions relating to metering were not clear, and provided ongoing challenge around Portsmouth Water's choice of approach to metering, as discussed in Section 4.3. Portsmouth Water did seek to use evidence from a wide range of sources, including a limited trial to determine the reasons why customers were opposed to metering, and sought to test options such as 'not for revenue' metering through its CAP. However, the feedback from the different sources was conflicting and, despite Portsmouth Water's efforts, the CCG is not sure if the results were robust enough to provide clear conclusions in this area. Portsmouth Water therefore adopted a 'compromise' position for its Business Plan, which is described in 4.1.2 below.
54. Once the preferred list of PCs and potential targets was determined, the remaining customer consultation relied on single sources of information. These covered:
  - Quantitative acceptance testing of the proposed 'stretch' targets
  - Quantitative testing of Willingness to Pay (WTP) that was used to derive the ODI rewards and penalties, supported by testing to determine the preferred structure of the ODI (i.e. penalty only versus reward/penalty).
  - Final acceptability and affordability testing of the preferred Business Plan.
55. These latter parts of the process were therefore largely numerically based and directly dependent on defined surveys and customer responses, so the process used to draw conclusions was straightforward and the CCG challenges related to the technical method rather than Portsmouth Water's decision-making process. In a few cases the Portsmouth Water Board opted to adopt targets that were more challenging than those that were tested with customers, and we have commented on those cases where appropriate in Section 4 below.
56. The analysis methods used to determine whether PC targets were 'stretching' in customer's opinion, and to elicit rewards and penalties from customers in the quantitative panel incorporated standard good practice procedures, such as initial 'Town Hall' testing processes to determine whether the questions would be sensible to customers when the surveys were being developed. In the CCG's opinion the percentage acceptability outputs that were elicited from these surveys were therefore meaningful and reliable, and we can confirm that Portsmouth Water used these as the main basis of its target setting process.
57. The CCG noted that the WRMP consultation responses were not statistically representative like the quantitative customer survey, and customer levels of understanding of the issues involved



could not be tested in the process. Therefore, whilst the response rate was high (over 2,200 customers), the CCG did question the weighting given to these responses. Portsmouth Water was aware of this and made allowances for the potential bias in the results when they were triangulated with the other customer engagement activity and results.

58. Similarly, while the CCG commended the company on the CAP initiative the group was not fully demographically representative, and over the course of 5 meetings were not typical of the customer base. That said the CAP gave the company valuable insight and opportunity to test proposals and thinking on an enthusiastically engaged group of customers who at the end of the process had a much better insight/understanding of their water service and provider.

### **3.2.1. Use of 'Triangulation' to Determine Customer Priorities and Associated Investment**

59. Following early feedback and challenge from the CCG, Portsmouth Water made its process of comparing data sources more transparent through the use of a 'triangulation table', which was shared as a live document with the CCG during the spring and summer of 2018. This table listed all of the elements of research carried out by Portsmouth Water and, in a text format, indicated what each source of research had concluded in relation to the PR19 Outcomes. This table therefore effectively provided a summary of the consultation findings, and allowed the CCG members to see where there was conflict between the sources. Portsmouth Water's Business Plan has used this triangulation process to demonstrate how customer engagement has been used to inform each of the outcomes and PCs that it has adopted.
60. No 'formal' process of scoring or weighting was given to the different sources referenced in the triangulation table. However, the CCG considers that it provided sufficient transparency to allow us to understand why the PCs were selected and how this, plus the proposed PC targets, then fed into the key quantitative piece of research that was carried out to determine customer views on the degree of 'stretch' that was present in the targets. The triangulation used by Portsmouth Water was therefore focused on the selection of PCs and the setting of target proposals for subsequent acceptance testing. The CCG considers that this was appropriate, as the acceptance testing of PC targets required that consultees were informed of Portsmouth Water's current performance and position in relation to the rest of the industry, so had to be a single, targeted piece of consultation activity.

### **3.3. Management and Interaction with other Stakeholders**

61. Members of the Environment Agency and Natural England were present on the CCG and were able to provide the CCG with their position about the status of ongoing interactions with the environmental regulators. [The EA representative on the CCG raised no specific concerns about the company's proposals to comply with statutory environmental obligations, while recognising that the EA is undertaking its own comprehensive assurance process directly with the companies and will be reporting to Ofwat and Defra in due course.](#) The CCG understands that an initial point of disagreement with the EA in relation to the activities required under the Eels Directive was addressed prior to final development of the Business Plan. We are aware that Portsmouth Water's proposals under the Abstraction Incentive Mechanism (AIM) are considered to be relatively conservative as far as the environmental regulators are concerned, but Portsmouth has provided commentary on this issue, as detailed under Section 4.1.2 of this report.
62. The Drinking Water Inspectorate (DWI) provided clear direction to the CCG in relation to its support (or otherwise) for schemes proposed in PR19 through a letter that was provided to us dated 29/06/18. The CCG was able to confirm that Portsmouth Water's investment proposals are aligned with that letter, and they do not materially affect the PC targets that have been proposed by Portsmouth Water.
63. CC Water, local government authorities and South Downs National Park were represented on the CCG, and were able to raise any issues that they had in relation to Portsmouth Water's engagements with those key stakeholders. No significant issues were identified through the CCG process.

## 4. Reflection of Customer Priorities in the Business Plan

### 4.1. Development of Business Plan Objectives and Commitments

#### 4.1.1. Selection of Performance Commitments.

64. The CCG note that many of the PCs that were selected by Portsmouth Water were effectively mandated to them as 'common metrics', so these were included in the list irrespective of customer preferences. For the 'bespoke' PCs, Portsmouth Water amended its approach and definitions in three key areas as a result of ongoing challenge by the CCG:

- The CCG challenged that affordability and vulnerability should be separated out and tracked as separate metrics, based on Ofwat guidance. These were therefore separated out prior to target setting.
- The definition of the PCs on biodiversity and catchment management were reviewed and amended a number of times as a direct result of challenge from the CCG. As discussed in Section 4.1.2 below, the CCG can confirm that the Environmental Regulators support the format and definition of the final measures that have been used.

65. In addition to the above challenges, which resulted in changes to the PCs, there were a number of areas where the CCG challenged the content of the preferred list and Portsmouth Water provided adequate responses that meant no changes were required. These are summarised in the table below.

*Table 4-1 Summary of Additional Challenges and Responses on the Selection of PCs (where no changes were made)*

Challenge	Response
No financial sustainability ODI included in the preferred list	The balance between commitments, affordability, risk and financial sustainability was one of the key tests carried out by Portsmouth Water during the final stages of the Business Plan generation and customer consultation on affordability of the Plan. These tests formed the check on financial sustainability, and are considered more appropriate as there is relatively little Portsmouth Water can do to improve the situation once the Final Determination has been set for AMP7. CCG comments on the RORE from the performance commitments are provided in Section 4.2.2 of this report.
Challenged the use of bursts, unplanned outage and CRI metrics as reflections of asset health (which was a customer priority).	Suitable explanation and supporting evidence was provided that these are the most direct reflections of investment and maintenance of the asset base in the long term
Reduction of abstraction was a high priority within the focus groups, but no specific PC was included in the preferred list	Portsmouth Water considered that PCC, leakage and AIM all represented ways in which the pressures on abstraction would be reduced, and these would be less dependent on weather and random site-specific issues than a direct measurement metric. This was accepted by the CCG, but we note that there is still some difference of opinion on the ambition of Portsmouth Water's proposals on AIM, as discussed in Table 4-2.
Water softening not included despite some initial support	A specific piece of research was carried out that informed on health implications and costs, and this clearly demonstrated that customers do not support water softening once they are 'informed' on the issue.

66. Once these challenges had been addressed, for the remaining 'bespoke' PCs, the CCG is confident that the initial Phase 1 qualitative process was adequate to allow Portsmouth Water to identify the objective and general nature of the PCs in line with customer preferences.

#### 4.1.2. Target Setting and Setting Stretching Commitments

67. The CCG reviewed Portsmouth Water's proposals for its PC targets based on the following principles:

- How well they reflect Ofwat principles on transparency (i.e. clear, unambiguous, complete and concise). Where there was a lack of clarity in the definition (e.g. for Biodiversity), then this was challenged and clearer definitions were set in agreement with the CCG.
- How well they represent customer views and represent a reasonable level of 'stretch'.

68. A core component of Portsmouth Water's approach to testing the level of 'stretch' included in its targets was to carry out quantitative acceptability testing with customers of targets that were set based on current performance, industry comparators and the initial stages of customer consultation. Part of this acceptance testing therefore required a presentation of Portsmouth Water's current and expected performance in comparison to other water companies (where appropriate) to the surveyed customers. The CCG requested assurance that these performance data were reliable and consistent with the way in which the metric will be reported during AMP7, and this assurance was satisfactorily provided. The CCG noted that the target for one of the performance metrics used in AMP6 (water quality contacts) had been set based on incorrect baseline data, and therefore requested additional assurance that this issue would not be repeated for the PR19 Business Plan. A relevant risk assessment document and associated Board assurance was provided on this issue.

69. The CCG raised specific challenges around the process of initial target setting, acceptability testing and final decisions on the targets for a number of the PCs. A summary of those challenges and the CCG's final opinion about the appropriateness of the targets for each PC are summarised in Table 4-2 below.

*Table 4-2 Summary of Challenges and Opinion on PC Targets*

<b>Performance Commitment</b>	<b>Key Challenges Around Target</b>	<b>CCG Opinion on Adequacy of Company Response</b>
<b>Leakage</b>	The target on leakage was effectively set based on the Ofwat 'expectation' of leakage reduction. The CCG challenge therefore largely focused on whether this was sufficiently stretching, and whether Portsmouth Water had adequately considered innovation in leakage control when costing the proposals, as the costs of leakage reductions had a strong influence on customers perceptions of affordability and hence support for the targets.	Whilst Portsmouth Water were able to demonstrate that customers support substantial leakage reduction, the selected level (15%) was not obvious from the initial research, although the initial testing with informed customers showed that 60% of customers considered the 15% was adequately stretching, when faced with the anticipated bill impacts. This increased to over 70% during the Phase 2 quantitative surveys. Following the CCG challenges on the influence of costs on these findings, Portsmouth Water was able to provide reasonable evidence that innovation had been considered in its leakage investment strategy, so costs should have been representative of future innovations when they were presented to customers. Cross industry comparisons and trends in leakage and burst performance were also provided as supporting evidence to customers when the acceptability testing was being carried out. Based on this evidence the CCG considers that the 15% target is reflective of customer expectations.
<b>Per Capita Consumption (including metering)</b>	The main challenge around PCC related to the metering strategy, as this had the largest impact on the target. Results from the focus groups were mixed and appeared to be particularly	Given the uncertainties and the CCG challenges, Portsmouth Water considered a number of alternative approaches to metering that might satisfy the somewhat conflicting customer priorities. They also looked to other sources of information to better determine its position on metering, including the results of trials carried out to determine the appetite for switching from customers where

	<p>influenced by the individual experiences and concerns of the focus group members, but there was a general resistance to metering, reflecting perceptions around choice and affordability, particularly when the Southern Water sewerage element of the bill is considered. The WRMP consultation appeared to run counter to this, with a large preference for metering in principle, whilst the quantitative survey demonstrated a mid-range level of support for rewards and penalties on PCC reduction (which would need to be driven by metering).</p>	<p>Portsmouth Water could demonstrate a clear monetary advantage to them from switching. Of the approaches that were considered, the 'not for revenue' (NFR) metering appeared to be potentially useful, but there are large uncertainties and potentially excessive costs associated with this initiative, so the CCG considers that the inclusion of trials in AMP6 and some NFR in the Business Plan is an appropriate response. The bulk of metering costs in the Business Plan therefore relate to change of occupier metering where meter boxes are already present. Whilst this is a logical compromise between promoting metering to lower PCC, and maintaining costs as low as is practical, the impact on customer perceptions of fairness (i.e. why one customer is metered when another is not) have not been investigated. Portsmouth Water has noted that this issue should be relatively limited as meter boxes will tend to have been installed during renewals project that cover whole streets, so metering policies should tend to appear consistent within individual neighbourhoods.</p> <p>Overall the CCG recognises that the proposed PCC targets had one of the highest customer acceptability scores for being a 'challenging' target (86%) and Portsmouth Water considers that this is one of its highest risk PCs. It appears that Portsmouth Water has therefore achieved a reasonable balance between the expectations of external stakeholders, and customer concerns over metering and bill affordability.</p>
<b>CRI</b>	<p>Challenged whether the maintenance of upper quartile performance would be a sufficiently stretching target.</p>	<p>This is effectively an indicator of underlying asset health and control systems, so improving performance would require an investment in asset health, which is expensive and would not reflect customer preferences to <i>maintain</i> asset health at an affordable price.</p>
<b>Interruptions to Supply</b>	<p>Portsmouth Water has elected to stretch beyond the existing 4 minutes performance, down to 3 minutes, well ahead of the level supported by customers. The CCG challenged Portsmouth Water to assure that the target is achievable without additional funding.</p>	<p>The Portsmouth Water Board has assured this target and provided the CCG with a narrative as to why it is reasonable.</p>
<b>Bursts</b>	<p>Challenged whether the maintenance of upper quartile performance would be a sufficiently stretching target. The CCG also challenged Portsmouth Water to assure that the target (maintaining current burst rates) was in line with capital investment proposals. That included confirmation and evidence to demonstrate that the recent increases in burst were not reflective of a deteriorating network.</p>	<p>This is an asset health indicator metric, so improving performance would require an investment in asset health, which is expensive and would not reflect customer preferences to <i>maintain</i> asset health at an affordable price.</p> <p>Independent technical challenge and assurance was provided on the investment proposals to confirm that they were reflective of long term, sustainable maintenance, and the CCG notes that Portsmouth Water updated its investment proposals during that process of challenge. The CCG raised concerns that burst rates had been increasing recently, but Portsmouth Water was able to provide data on the influence of leakage related activity that addressed those concerns.</p>
<b>Unplanned Outage</b>	<p>Challenged whether the maintenance of upper quartile performance would be a sufficiently stretching target.</p>	<p>This is an asset health indicator metric, so improving performance would require an investment in asset health, which is expensive and would not reflect customer preferences to <i>maintain</i> asset health at an affordable price.</p>

	The CCG also challenged Portsmouth Water to confirm that treatment works maintenance investments support the target.	Portsmouth Water ultimately decided on a 3% target for the metric.  Satisfactory independent challenge and assurance provided on the investment proposals.
<b>Severe Drought Restrictions</b>	Not at risk, so there was no logical challenge to maintaining the target	N/A
<b>C-Mex and D-Mex</b>	This target (upper quartile) is essentially 'expected' by Ofwat, so no significant challenge.	N/A
<b>Voids</b>	The CCG noted that the acceptability testing showed marginally less support for the target than for other PCs.	A penalty only approach was selected, which seems to be reasonable given the marginally lower support.
<b>Affordability</b>	The CCG was concerned that this PC was just another facet of vulnerability	The selected affordability PC is specifically designed to measure Portsmouth Water's support of customers that will potentially have problems with paying their water bill, and they have set themselves a stretching target of recruiting 8,000 customers to their social tariff by the end of the AMP. The setting of affordable bills in a more general sense is better represented through the Business Plan acceptability testing, and the commitment to maintain Portsmouth Water's position as the lowest water bill in the country.
<b>Vulnerability</b>	The main challenge on vulnerability related to the derivation of the measure itself, as it was not clear if the survey format would reflect its commitments to vulnerable customers.	Portsmouth Water liaised with the CCG to identify a range of organisations to consult on the content and approach that is should used for the metric, and obtained a high level of response, from which it designed the PC. The CCG are pleased to note that Portsmouth Water have selected a performance target that is significantly higher than the target that was consulted on, even though that achieved more than 70% acceptability during testing.
<b>Catchment Management</b>	Challenged the percentage contact target to ensure this was ambitious.	Portsmouth Water has chosen a target for this PC that is much higher than the percentage supported by customers. It reflects Natural England's expectations of a 'stretching target'. The CCG therefore considers that the final target is sufficiently stretching.
<b>AIM</b>	The AIM target was challenged by environmental regulators as being rather conservative and not particularly challenging.	Portsmouth Water noted that one of the key reasons that it is not able to commit to AIM on other sites is because it has committed to provide bulk supplies to Southern Water, which will reduce its available headroom under the WRMP and mean that spare water will not be available in its network. Providing this bulk supply means that abstraction stress on the rivers Itchen and Test will be reduced, and the transfer of water in this way reflects a regulatory preference to protect those rivers. Portsmouth Water also noted that some of the environmental regulators proposals, to reduce abstraction under the AIM during conditions outside of the Q95 was not consistent with the intention of the AIM and would be very difficult to incentivise in practice. Overall the CCG accepts that the setting of AIM targets is a complex technical process, which is beyond the CCG's remit.
<b>Resilience Schemes</b>	The CCG notes that this PC target was not tested with customers.	The inclusion of the proposed four schemes is generally in line with the specific customer consultation carried out in CAP5, where customers were supportive of low cost options to increase resilience. Further commentary on resilience is provided in Section 4.2.1below.

<b>Biodiversity</b>	The definition of the biodiversity metric was challenged extensively by the CCG.	The final wording on the metric was agreed following a specific working meeting and is acceptable.
<b>Low Pressure</b>	The low-pressure target was not set based on the consultation target.	Portsmouth Water individually contacted all customers on the register and, from this, determined that a stretch target beyond the consultation was appropriate.
<b>Number of contacts for water quality (orange/black/brown water)</b>	The CCG challenged that, since performance is better than upper quartile, the target effectively represents no improvement and hence not particularly stretching.	The current rate of contacts is demonstrably very low already in comparison to the rest of the industry, and the AMP6 evidence shows that a lower target would almost certainly result in a penalty. Portsmouth Water will include a narrative around the target in its Business Plan.

70. In addition to those targets that are associated with rewards and penalties, Portsmouth Water included reputational targets for carbon emissions, health and safety and temporary usage bans. The targets in each case are straightforward and appeared to be reasonable to the CCG, given the outputs of the customer engagement.
71. The CCG note that the PC target for resilience does not reflect any impact that the development of the Havant Thicket reservoir may have on the future resilience of the Portsmouth Water system. The CCG therefore challenged this, as there are potential implications on resilience and inter-generational equity, and Portsmouth Water's customers have indicated that they are only potentially willing to fund amenity at the site, plus, potentially, low cost resilience improvements. Portsmouth Water assured the group that the scheme would be 'bill neutral' (i.e. no cost to customers unless there is a defined resilience benefit to them) and confirmed that this applied to *all* aspects of the development, meaning that all costs associated with network changes and the maintenance of system (treatment and transfer) 'headroom' to current standards would be incorporated into the charging structure. The CCG further challenged Portsmouth Water on the impact that Havant Thicket might have on the financial resilience of the company and were provided with assurance that the charging structure (and associated charges recovered from Southern Water) will cover any risks associated with financing and gearing.

## 4.2. Comments and Challenge on the ODI Rewards and Penalties

### 4.2.1. Customer Consultation on Rewards and Penalties

72. The process used to elicit customer willingness to pay values for the setting of ODI rewards and penalties followed a conventional stated preference choice experiment, where 'feasible targets' were set and both the structure of the rewards and penalties and the WTP values were elicited from the quantitative responses. The CCG note that the targets used in the experiment were not necessarily the same as those that were eventually included in the PC targets for the Business Plan, but only for those PCs where Portsmouth Water's Board decided to pursue targets that were *more* stretching than those contained in the quantitative research. The WTP and hence rewards and penalties for interruptions, vulnerability, catchment management, AIM and low pressure reflect additional ambition from Portsmouth Water.
73. The CCG also note that Portsmouth Water has not followed customer preferences in terms of the reward/penalty structure for the leakage, interruptions to supply and contacts for water quality PCs. The quantitative research showed that customers were only supportive of penalties on those particular PCs, but Portsmouth Water has proposed a reward and penalty structure in its ODIs. The reasons why rewards were included is therefore a reflection of Ofwat's preferred approach to creating an incentive structure and the need to balance RORE risk/reward, rather than customer preferences.
74. The CCG challenged Portsmouth Water in relation to the rewards and penalties surrounding environmental PCs. During the initial consultation, customers had expressed a high WTP for river restoration activities, but as there were no requirements for schemes under the WINEP, this potential PC was not taken forward to the assessment of rewards and penalties. That is reasonable, but the CCG expressed concerns that the overall rewards and penalties for

environmentally related PCs were low in comparison to the original consultation. Portsmouth Water considered this, but the remaining environmental PCs meant that adding in this WTP resulted in a large 'upside' risk to its rewards and penalties structure. This would not have reflected overall customer expectations, and would be unlikely to be acceptable to Ofwat. Therefore, whilst this does represent a departure from customers' stated preferences, it is has resulted from practical constraints and does not represent a specific desire to reduce the rewards and penalties associated with environmental issues.

75. The CCG note that the reward and penalty structure for **resilience schemes** was not tested with customers. The resilience schemes that have been proposed by Portsmouth Water were based on a detailed analysis of options long lists, system resilience and risks. This process was presented to the CCG and independent technical assurance provided from the Engineering Advisor. The actual ODI proposal is based on the delivery of the four 'best value' schemes that were identified by this process and is effectively there to protect customers against non-delivery. It was not clear to the CCG how rewards for this metric should be structured, as there is no explicit customer support for out-performance on timing on schemes, and there is no clear support from customers for the delivery of additional schemes within AMP7. Portsmouth Water has therefore decided that this PC should be reputational only.
76. For the ODIs that are associated with **asset health** the CCG can confirm that Portsmouth Water explicitly identified customer preferences associated with the bursts and CRI PCs, and used the stated preference experiment to elicit WTP for those two metrics. Explaining asset health and links to investment is extremely challenging when water companies are consulting with their customers, but the CCG was able to review consultation materials before they were used and are therefore able to confirm that Portsmouth Water did use reasonable endeavours to explain such issue to customers.

#### 4.2.2. Implications of the Final Company Choices (RORE)

77. The CCG is confident that Portsmouth Water has reflected customer WTP within its ODI setting process. It has then taken the ranges consulted on during that process and stretched them to generate the 'exemplar' performance that is associated with its stretch targets. This has been done to a large extent to satisfy Ofwat expectations, but is reasonably consistent with customer preferences, which generally support much lower RORE impacts for performance that lies within a more 'realistic' range. The final range of RORE impacts was also tested as part of the customer acceptability testing, through questions relating to the overall size of the rewards and penalties represented in the Business Plan. This was tested via the overall impact on customer bills, with a +£2 to -£3 range used to reflect the P90 to P10 RORE range. The CCG considers that this is a reasonable approach to use to test the overall impact with customers. Our comments on acceptability testing are provided in Section 4.3.2.

### 4.3. 'The Golden Thread' – Reflection of Customer Priorities in the Business Plan

#### 4.3.1. Links Between Investment, PCs and Long-Term Sustainability

78. The CCG was presented with evidence that Portsmouth Water has used triangulation to link the Business Plan to customer preferences, and specifically detailed this process in its Business Plan. Portsmouth Water presented its investment proposals to the CCG and indicated how this related to the PCs contained within the Business Plan, along with the risks and mitigation associated with each of the main expenditure lines. Whilst the CCG is not able to comment on the appropriateness of the activities or costings included in the investment programme, we can confirm that the Business Plan investments have been *designed* to link through to the PC targets that have been decided based on customer preferences. As noted previously, investments associated with maintenance seek to maintain the 'status quo' in terms of bursts, CRI and unplanned outage. Investments associated with other PCs are based on specific requirements (schemes to deliver environmental improvements, costs of leakage reductions etc). The Portsmouth Water Board have sought independent external assurance on this and confirmed to the CCG that the proposals have been assured.

79. As well as the maintenance of asset health, the long term (inter-generational) equity of the Plan is reflected by Portsmouth Water's proposals relating to resilience and environmental indicators, including commitments to reductions in abstraction, through reductions in PCC (metering) and stretching leakage targets. In relation to resilience, customer preferences are relatively clear and, as noted previously, Portsmouth Water's proposals seem to reflect a fair balance between affordability and incremental improvements. In terms of leakage and PCC, the CCG did challenge the sustainability of the current system in the longer term, and Portsmouth Water has included an ambition to deliver another 15% reduction in leakage during the AMP8 to AMP10 period. This would seem to be more reflective of the position on the environment and abstraction that was expressed by younger generations in school and university engagement.
80. The long term strategy on metering is less clear, but the CCG acknowledges that this is partly due to the need for Portsmouth Water to gain a greater understanding of the effectiveness of its AMP7 proposals and the results of its representations to government on possible changes in government policy/guidance on metering.
81. The construction of Havant Thicket reservoir is a significant feature of the Business Plan, and Portsmouth Water has provided the CCG with assurance that the charging mechanisms associated with this will not impact on current customers, and there will be some benefits to existing customers in terms of resilience and possible amenity. This approach reconciles with customer preferences, where they have expressed a preference for maintaining resilience at the same time as maintaining bill levels at their current low levels. The CCG has had relatively little information on the long-term bill impacts of Havant Thicket beyond these high-level assurances, but can confirm that the figures presented to us indicate no effect on bills from the scheme during AMP7.

#### 4.3.2. Affordability and Acceptance Testing

82. The following particular aspects of affordability were tested with a focus group of 30 customers prior to the main acceptability testing of the Business Plan:
- . The inclusion of a 'specific company premium'
  - [The inclusion of a 'Pay as You Go' \(PAYG\) adjustment to reflect financing constraints on the business in its notional capital structure.](#)
83. This focus group was attended by CCG members, and we are able to confirm that there was clear customer support for the proposals, with almost no notable negativity from customers. This came from the fact that the water bill is the lowest in the country, and customers felt that the better service and local nature of Portsmouth Water was a reasonable trade for the £3.80 average bill impact from these two factors, particularly as the impact of the lower WACC allowance in AMP7 meant that the net adjustment was to lower the bill by £1.
84. The acceptability testing was carried out using an online survey approach, and the CCG was provided with the opportunity to comment on the methodology prior to testing. We can confirm that the survey took account of the Consumer Council for Water (CCW) guidance, and the process included a 'soft launch', with cognitive testing on sample groups prior to the main survey. This was reflected in the high levels of positive responses to questions about clarity and understanding of the questionnaire. The CCG challenged the statistical representativeness of the survey sample, but it was clear from the consultant's responses that any discrepancies in demographics between the Portsmouth Water customer base and the on-line sample were appropriately handled.
85. Acceptability testing was carried out before and after inflation, and in combination with the Southern Water sewerage bill. Acceptability levels for the Plan in isolation without inflation were very high, but remained in excess of 80% even when inflation and potential Southern Water bill impacts were considered. Acceptance of the rewards and penalties incentives package was also high, with over 80% of customers supporting the +£2 to -£3 reward and penalty range.



## 5. Conclusions

86. In carrying out our duties, the Portsmouth Water CCG have provided the independent challenge on Portsmouth Water's process of customer engagement and Business Plan development that is required to provide Ofwat with the independent assurance that it has sought in relation to:
- the quality of Portsmouth Water's customer engagement; and
  - the extent to which the results of this engagement drove Portsmouth Water's decision making and are reflected in their business plan.
87. The process of engagement with Portsmouth Water and the level of challenge that we provided is described within the body of this report. We have used this to provide our summary conclusions in relation to the two assurance topics raised by Ofwat, as described below.
88. In addition to these two general requirements, Ofwat raised seven questions in its 'aide memoir' that the CCG answer should as part of our report (Box 1 of the 'aide memoir'). Paragraphs that specifically address these questions are highlighted as appropriate in the sections below.

### 5.1. Comments on the Quality of the Company's Customer Engagement

89. The CCG can confirm that we have been included in a meaningful, timely and transparent manner in the process of consultation that Portsmouth Water has used to elicit its customer preferences for PR19. We therefore consider that we are in a good position to comment on the quality of the customer engagement, and note that we were able to challenge and influence the scope and process that was used.
90. *[Response to Ofwat question 3]* Portsmouth Water used a variety of engagement methods, which started off with open consultation on a wide range of potential concerns and issues. It then refined these through a process of qualitative consultation based on focus groups and specific testing through the Customer Advisory Panel (CAP). CCG members were able to attend focus groups and interview the CAP, and confirmed that Portsmouth Water maintained a reasonable balance between informing customers whilst avoiding bias in their responses. Through these focus groups and CAPs, which went on to inform later quantitative research activities, we consider that there is good evidence that Portsmouth Water has engaged in an ongoing, two way and transparent process that allowed them to both inform customers and solicit feedback from them, before the Performance Commitments (PCs) and associated targets were set.
91. *[Response to Ofwat question 1]* Through this staged process we consider that Portsmouth Water was able to identify customer preferences and turn these into Performance Commitments, before it then adopted quantitative consultation methods to check that potential targets were stretching and acceptable. Quantitative surveys were also used to elicit customers' preferences in relation to rewards and penalties, review its Water Resources Management Plan (WRMP) proposals and consult on the acceptability of its Business Plan. At various points in the initial qualitative process the CCG challenged Portsmouth to adapt the scope of its consultation to try and obtain a better understanding, particularly in relation to attitudes to metering and leakage. Other sources of information beyond focus group and the CAP were also used, including surveys with business customers, schools and universities, to try and understand how potential customer priorities might vary between different groups. The CCG considers that, based on its consultation, Portsmouth Water was able to understand and consult with customers on the issues that matter to them. In terms of the identification of customer priorities and willingness to pay for those priorities, the CCG considers that Portsmouth Water did face some challenges, but this was as a result of conflicting feedback from different information sources rather than the consultation process itself, as discussed below.
92. *[Response to Ofwat question 2]* Portsmouth Water's consultation with customers did seek to provide customers with a range of options to support decision making in the Business Plan, particularly in relation to the Water Resources Management Plan demand reduction initiatives

(metering and leakage), environmental metrics and, to a lesser extent, for proposals relating to resilience and supply interruptions. Consultation around asset health and water quality tended to be based on initial customer feedback, which showed that customers view it as Portsmouth Water's role to maintain, rather than significantly change, current supply system health and reliability. Portsmouth Water therefore chose to focus on testing the acceptability of targets that seek to maintain asset health and upper quartile system performance, and used ranges of performance to determine WTP and associated rewards/penalties, rather than set targets for those metrics.

93. In relation to the range of options that were considered, the CCG notes that there was conflict between different sources of information about customer preferences on demand management approaches. It was apparent that customer engagement revealed there was resistance to compulsory metering, but strong support for reducing abstraction and improving the environment. The WRMP consultation, on the other hand, indicated a broad support for metering. Portsmouth Water did therefore try and 'triangulate' between these sources, and adapted its approach to metering, and the associated targets in the Per Capita Consumption (PCC) commitment, as a result of this feedback and CCG challenge. The final proposals around change of occupier metering where there is an existing meter box, and 'not for revenue' metering do therefore represent a compromise position. The CCG challenged whether the final set of ODI rewards and penalties adequately reflected customer preferences for environmental protection, as one of the key initial environmental PCs became redundant as a result of the Environment Agency not requiring any river flow/resources schemes under the Water Industry National Environment Programme (WINEP). Portsmouth Water did consider transferring the expressed customer value to the reward and penalty structure for the other environmental PCs contained in its Business Plan as a result of this challenge. However, the nature of the other PCs meant that this would have resulted in a large 'upside' risk (i.e. increased the likely range of rewards), which would not have been in line with customer preferences around rewards and penalties, and would be unlikely to be viewed favourably by Ofwat. We consider that this omission is therefore reasonable and results from the process of Business Plan development, rather than a specific desire to reduce the rewards and penalties associated with environmental issues.
94. *[Response to Ofwat question 4].* The development of metrics for vulnerable customers and affordability was a particularly strong area of liaison and feedback with the CCG, as Portsmouth Water completely changed its approach to the development of the vulnerability metric following CCG challenge and subsequent advice from suitably qualified members. The nature of the affordability metric was also challenged and reviewed with the CCG before targets were consulted upon with customers.
95. *[Response to Ofwat question 5].* As noted above, Portsmouth sought to engage on long term resilience issues with its customers from various perspectives, including future drought resilience through the WRMP, resilience of the network to major events (e.g. losses of treatment works) and the maintenance of asset health. This included consultation with younger people in schools and universities. From this Portsmouth Water was able to identify relatively clearly that customers value maintenance of, and possibly marginal improvements in, resilience and asset health, provided bills are kept low both now and into the future. Resilience was also the focus of CAP5 and the results of that CAP were shared with the CCG.
96. *[Response to Ofwat question 6]* Portsmouth Water's consultation on the acceptability of its proposed PC targets contained reasonable, digestible information on current performance (relative to other water companies where appropriate), and this was tested using 'Town Hall' style methods before the consultation was carried out. They also used the CAP and some focus groups to test specific options for performance commitments based on 'informed' decisions. The CCG were able to observe the processes used to inform customers and we do not have any concerns that the process used to inform customers of current performance and the costs and risks of different future performance was intentionally leading or biased. Testing of 'informed' customers was particularly important when technical issues such as levels of leakage reduction and options for resilience were being discussed, and when the affordability implications of the small company premium and 'pay as you go' costs were being tested for acceptance.

97. Overall the CCG considers that Portsmouth was able to carry out a high-quality process of customer engagement, with meaningful views being sought in relation to potential commitments, the importance of relative commitments and potential targets for those commitments. The CCG notes that this early process was essentially carried out through qualitative methods, so there was some uncertainty and conflict around customer views, but this was managed through a process of triangulation. Where quantitative surveys were used later in the process to elicit WTP values and levels of acceptability to both PC targets and the overall Business Plan, the CCG can confirm that we were comfortable with the process and transparency of the survey methods and results.

## **5.2. Comments on the Extent to which the Business Plan Reflects Customer and Stakeholder views**

98. *[Response to Ofwat question 7]* The CCG consider that the Business Plan that has been presented is a clear reflection of customer views across the majority of the PCs, rewards/penalties and associated investment. We do have some concerns about the level of support for the metering strategy that has been adopted, but that is due to conflicting views between customer research and the WRMP consultation responses. Portsmouth Water's approach in that case appears to be a reasonable trade-off between different views. For the ODI rewards and penalties the CCG note that customers do not particularly support rewards, and were not supportive of large ranges of RORE risk/reward for the Business Plan, but there is a clear regulatory pressure from Ofwat to include 'significant' rewards and penalties in the Plan. The CCG therefore consider that Portsmouth Water has adopted a reasonable approach whereby penalties and rewards (in particular) are low if they outturn within the range that is likely to be experienced, and only become larger if their performance outturns at values that are well beyond customer expectations.

99. Early on in the consultation process it was clear that low bills are a key priority with customers, and their support for costs associated with the small company premium and the PAYG cost of capital premium were at least partly related to the fact that they have the lowest water bill in the country. Portsmouth Water's proposals that are associated with large capital investment needs, relating to areas such as asset health, water quality management, resilience, leakage and metering are reflective of this underlying preference, where investments now are not intended to put pressure on bills in the longer term. At the same time Portsmouth Water has sought to identify low cost ways of making improvements and set itself targets that customers agree are stretching for commitments that are more closely related to operational management. Therefore, the underlying long-term nature of Portsmouth Water's plans appears to be in line with customer preferences. The Havant Thicket reservoir proposal was a particular area of focus and challenge for the CCG, particularly in relation to longer term risks to customer bills. We note that discussions with Southern Water and the regulators are ongoing, but Portsmouth Water has provided assurances that this will not unduly affect their bills, both during AMP7 and in the longer term.

100. The acceptability level of the proposed Business Plan to customers was notably high, at over 80%. The CCG can confirm that this testing was representative of the customer base and that survey respondents understood the questions that were being asked of them. This gives further confidence that the proposed Business Plan has a high level of support amongst Portsmouth Water's customer base.

# Appendix A: List of Active CCG Members and Terms of Reference

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## 1. Introduction

1.1. The Portsmouth Water Customer Challenge Group (CCG) was established in 2012. Its objectives and terms of reference were agreed by the Group in the same year. Its purpose was to challenge and advise Portsmouth Water during the development of its Business Plan and more generally on its Customer Engagement Activity.

1.2. The Company placed customers at the heart of its plan. The CCG ensured that the company's customers had been consulted and the plan took account of customers' views, particularly on issues which impacted on levels of service or the level of bills.

1.3. The Company now wishes the role of the CCG to evolve to enable it to report on the progress of Portsmouth Water in the delivery of its commitments arising from the Final Determination of prices in 2014.

1.4. The CCG will have a role in developing our next Business Plan providing independent challenge to the Company and independent assurance to Ofwat on the quality of the company's customer engagement and the extent to which this is reflected in the Business Plan.

1.5. The Terms of Reference were agreed by the CCG at its meeting on 12 July 2016.

## 2. Role of the CCG

2.1 This role includes:

- Reviewing the performance against each of the Company's commitments and Outcome Delivery Incentives in its Business Plan
- Understanding and challenging how particular rewards or penalties are applied
- Where the CCG requests it may form specific sub-groups of the CCG who will have access to further detail underpinning the performance of the Company in a chosen outcome. Access may be via the Engineering Advisor or directly to management as requested by the sub-group.
- Producing an annual report to the Company's Board summarising its findings on the above, which will accompany the Company's Risk and Compliance Statement or Assurance Report. This report will also be shared with customers and stakeholders.
- Advising on and monitoring the effectiveness of, Portsmouth Water's ongoing engagement with its customers in each community recognising all socio economic groups which it serves
- Involvement in any Relevant Change of Circumstances, if necessary
- In preparation for the next business plan, PR19, provide independent challenge and independent assurance to Ofwat:-
  - on the quality of the company's customer engagement and
  - the extent to which this is reflected in the Business Plan.
- The CCG will submit an independent report to Ofwat when the Company submits its Final Business Plan and a subsequent report if the Company is required to re-submit its business plan (or any part there-of).

### **3. CCG Reporting Role**

3.1 The CCG will have the opportunity to comment on Portsmouth Water's performance to customers and other stakeholders in the form of an annual report to coincide with the publication of the Annual Statement on performance

3.2 The CCG will produce a report once a year for the Portsmouth Water Limited Board commenting on the performance by the Company in meeting its performance commitments and agreed outcomes.

3.3 The CCG will have access to reports from auditors and technical reports and may seek further assurance as required, subject to prior discussion and agreement with the management of the Company.

3.4 The CCG may be invited to attend some of Portsmouth Water's community engagement events.

### **4. Membership of the CCG**

4.1 The CCG will be independently chaired with a membership of no more than twelve. The quorum will be six of any of the members including the Chair.

4.2 Members will be drawn from representative bodies or interest groups that are active in their community. A diversity of membership will be achieved. The Chair of the CCG will work with the Company and be involved in the selection and recruitment of members.

4.3 Members will be drawn from

- o Community representatives:
- o Consumer bodies and interest groups
- o Business customers
- o Vulnerable and special needs consumers
- o Environmental Interest Groups
- o Local/public authorities
- o Other NGO's, including national bodies
- Representatives from Regulators and other bodies including:
  - o Consumer Council for Water
  - o Environment Agency
  - o Drinking Water Inspectorate
  - o Natural England

4.4 The Chair of the CCG may invite to the CCG meeting as necessary:

- Specialist advisers and business experts from within Portsmouth Water or their suppliers, contractors or consultants;
- Representatives from other water and sewerage providers in the region;
- Regulators including Ofwat; and
- The Portsmouth Water Reporter or other independent assurance bodies used by Portsmouth Water

## **5. Governance**

5.1 The CCG will as a minimum report to the Board on an annual basis. The Chair will attend Board meetings during the year to report progress. A Non-Exec Board member will be nominated facilitate the link with the Board on an on-going basis.

5.2 The CCG also has a working relationship with the Company's executives, where the Finance and Regulation Director and Regulation Manager have responsibility for supporting the CCG's work and will attend all meetings with other Execs attending as necessary.

5.3 The CCG may establish sub-groups to review specific areas, which will report back to the CCG on various subjects covered by the Company Business Plan.

### ***The Chair of the CCG***

5.4 The Chair of the CCG will be appointed by committee, comprising one member from the Company, one CCG member and one representative of CCW, and will recommend the Chair for approval by the Company.

5.5 The Chair of the CCG will facilitate discussions with the CCG and make sure every member has a full and fair chance to contribute to discussions and challenge the business as appropriate.

5.6 In between meetings the Chair of the CCG will be the principal link between the CCG and the Company and will ensure that all members are kept informed as appropriate.

5.7 The Chair of the CCG will have access to the Executive, and access to the Chair of the Portsmouth Water Limited Board and the Independent Non-Executive Directors.

### ***Ways of Working***

5.8 Members are asked to respect the potentially sensitive nature of the information provided by the Company to the CCG, be that be that commercial, intellectual property or personal data.

5.9 Portsmouth Water will provide the secretarial and administrative support and costs of meetings. The Chairman will be paid an appropriate fee for fulfilling this role. Members are not paid. Expenses will be paid according to an agreed policy.

5.10 A work programme will be established by the CCG and will include:

- Ways of working with Portsmouth Water
- Confirmation of objectives, including the report once a year to the Portsmouth Water Limited Board
- Frequency and location of meetings, attendees, substitutes, etc.
- Boundaries of disclosure, including meeting outputs
- Liaison with customer engagement groups such as the Customer Advisory Panel.

5.11 Agenda and other materials will be provided in a timely and accessible way.

5.12 Minutes and records of meetings will be maintained and kept in a suitable format and published on the Company website

5.13 Where possible the CCG will rely on material that already exists within the business to limit the amount of unique material generated.

## **6. Review of the Terms of Reference**

6.1 The Terms of Reference will be reviewed annually by the Chair of the CCG and the Company.

## **7. Approval of these Terms of Reference**

7.1 The Terms of Reference were approved jointly by the Board and CCG of Portsmouth Water at a meeting on 12 July 2016

# Appendix B: List of Meetings

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**2017** – 9 May, 7 June, 27 June, 13 September, 5 October, 19 October & 7 December

**2018** – 2 February, 2 March, 6 April, 3 May, 1 June, 6 July, 3 August & 16 August



# Appendix C: Challenge Log

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## Portsmouth Water Live Challenge Log

### Summary of Outstanding Challenges

None remaining

### Challenge List Awaiting Closure

None remaining

### Fully Closed Challenges

Date Raised	Topic	Issue	Company Actions/Business Plan Response	Status	Significance/Implications
PC2: 19/10/17	ODI and Performance Commitment Setting	How did the company actually choose the bespoke and 'company existing' ODIs and how does that link to customer research?	Common measures are effectively mandatory. 'Ofwat bespoke' are areas where Ofwat expect ODIs, but the format is not prescriptive. The rest are company own measures – these should affect customer preference, but there is a presumption that existing measures should be kept, but modified through customer engagement.	Closed	H
		Why were the two ODIs on asset health chosen compared with the others?	Consider these are the two that most affect customers. In terms of water quality, further presentation and justification was provided on 02/03/18, explaining the water quality Compliance Risk Index (CRI)	Closed	

Date Raised	Topic	Issue	Company Actions/Business Plan Response	Status	Significance/Implications
		<p>Biodiversity – provided feedback on aspects around catchment management and metrics for company own land (e.g. % in appropriate management). Noted that links with WRMP benefits should be considered. The penalty requirements on the ODI was discussed in detail.</p>	<p>and showing that other ODIs would not be a challenge for PW to meet.</p> <p>Agreed at meeting 14<sup>th</sup> June – exact wording as per the minutes. Includes definition of ‘sites. These will form the actual PC</p>	Closed	
<p>PC3: 19/10/17</p> <p>Further challenge on 06/04/18</p>		<p>Concerns about how stretching targets can be set for PCs given the lack of comparative data with any form of track record. E.g. Vulnerability set at 70% versus customer request at 80%.</p> <p>Need to see a balance between stretching targets and financial stability of the company. The stretching targets need to reflect customer preferences, and reflect innovation where appropriate. Still need to see how the targets triangulate with the data that have been gathered.</p> <p>For the customer consultation, were customers aware of current performance?</p>	<p>Ofwat are providing some guidance and this will be reflected. Look at aspects such as ‘possible’, ‘economic’ etc. A programme of customer consultation on this was provided and sub-group working set up.</p> <p>Variability around the central targets tested as part of the ODI setting (see below). The targets were either current performance where Portsmouth is already near the frontier, others have some in built reduction where Portsmouth isn’t at the frontier. The Board still has to make a judgement where other companies might be in future. Visibility should be provided through the Ofwat ‘6 steps’ – the outputs from this will be provided to the CCG when available [still to be provided].</p> <p>Yes – table summary provided including how past performance was shown</p>	<p>Closed</p> <p>Closed</p>	<p>H</p>

Date Raised	Topic	Issue	Company Actions/Business Plan Response	Status	Significance/Implications
AF1: 13/09/17	Affordability	<p>Evaluation of affordability needs to include vulnerable customers and bad debt</p> <p>Challenged breadth of organisations that were surveyed. How will the CCG know what 'good' looks like? Want to see a concrete metric and evidence of improvement/maintenance in vulnerable customer management.</p> <p>The CCG notes that the customer view is that Portsmouth should stay as the lowest bill.</p>	<p>Vulnerability will be separated out as a specific performance commitment, based on surveys of representative agencies (CAB, MIND etc). 130 initial surveys sent out with 30 responses. The survey approach to the PC was developed off the back of this.</p> <p>Additional evidence provided on performance relative to industry and other comparators (energy and council tax) provided, and also provided bill forecasts.</p>	<p>Closed</p> <p>Closed and noted</p>	M
AF2 19/10/17		<p>What is the appetite for inter-generational spending. How does Havant Thicket affect bills and is that acceptable to customers?</p>	<p>The capex and fixed opex from the scheme will be covered by the reservation charge paid by Southern Water, so there will be no effective risk of under-recovery. Volumetric charges are then related to variable operational costs, so should be no impact. Confirmed as zero bill impact.</p> <p>CAP update indicates that there is widespread support for Havant Thicket, but not sure if amenities associated with it should be paid for.</p>	<p>Confirmed – close ref. 3.8. minutes from June CCG</p>	H
WR1: 13/09/17  Further challenge on 07/12/17	WRMP	<p>Seeking proof that innovation is being considered to reduce the cost of leakage ambitions. What are public perceptions and how can the control plans be communicated to the public? Link to metering and supply pipe leakage, doesn't this support the case for increased metering?</p>	<p>A 15% reduction is being proposed, although this is effectively being driven by Ofwat. Looking to spend £300k this AMP to increase the coverage of the district meters, and looking to reduce the size of the larger DMAs. Even though the 15%</p>	Closed	H

Date Raised	Topic	Issue	Company Actions/Business Plan Response	Status	Significance/Implications
<p>Further challenge 06/04/18</p> <p>Further challenge on 07/12/17</p> <p>Further challenge on 03/05/18</p>		<p>As with metering, will need to see a 'triangulation' of evidence</p> <p>Customers view leakage as relatively high at Portsmouth. Requested how leakage management compares with the rest of the industry; comparators both quantitative in terms of leaks detected and repair times, but also qualitatively. If this can't be provided then what is the 'vision' for reducing leakage to by the 15%. What are the implications of moving to the new leakage calculation methodology?</p> <p>Challenged to provide further clarification on the outcomes of the strategy to review future technologies – what is the direction of travel and what technologies are likely to be used. This affects costs, so although customer support for the 15% target is there, looking for assurance that innovation has been appropriately considered.</p> <p>If leakage is reduced by 15%, then what are the implications of expenditure on other parts of the business plan. CCG are looking for proof of innovation.</p>	<p>is Ofwat driven, it still represents a challenging step change in leakage. CAP basically supported 15% or just over, although there was some support for higher values. Triangulation report provided.</p> <p>The 'vision' was provided and some industry repair time comparisons were provided. Also showed 96l/prop/d versus industry average of 122. Lowest is 80l/prop/d.</p> <p>Paper on PWs strategy demonstrating innovation and 'stretch' to keep costs low is to be provided in July. Customer research on targets finished on 5<sup>th</sup> June. Final paper on leakage strategy presented on the 5<sup>th</sup> July</p> <p>Looking into advanced metering infrastructure (AMI) type network technology to carry out 'shadow metering', which will also to help identify customer side leaks.</p>	<p>Accepted and supported. Closed</p>	
<p>WR2: 13/09/17</p> <p>Further challenge on 07/12/17</p>		<p>Seeking evidence that metering is being promoted as well as is reasonable given lack of water stressed status.</p> <p>Challenged whether change of occupier metering should be implemented. There appears to be customer support for this in terms of the environment/PCC management desires, so should this extend to change of occupier metering? Can</p>	<p>Company initiative around 'metering – not for revenue' was proposed and described. Initial customer views were against metering itself – should the company really pursue this in light of that evidence? The Company is carrying out further research on this in relation to the WRMP, in the</p>	<p>Large amounts of movement on this topic - see below for current position</p>	<p>M</p>

Date Raised	Topic	Issue	Company Actions/Business Plan Response	Status	Significance/Implications
<p>Further challenge on 07/12/17</p> <p>Further challenge on 03/05/18</p>		<p>the company <i>show</i> that this is something customers <i>don't</i> want?</p> <p>Challenged whether shadow metering or the use of sensors/wide area networks is more economic Are boundary boxes being installed and can change of occupier metering be applied where 'shadow' meters are installed?</p> <p>Need to understand how much 'lost opportunity' there is in not pursuing change of occupier. Also need to understand and for Portsmouth to see the economic case <i>against</i> doing this.</p> <p>Challenged that this policy could be divisive, as not all customers will be treated the same. Look to learn lessons from others (e.g. good briefing of estate agents).</p>	<p>round with sharing of water across the SE.</p> <p>Shadow metering is a separate study – to be reported on. Boundary boxes are already part of the strategy when mains renewals are carried out. The company is considering change of occupier and expect feedback on the WRMP from this, but currently shadow metering and information provision to customers with existing boundary boxes is the preferred approach. Much more expensive to do the change of occupier approach, as boundary boxes are not necessarily present. Circa 17,000 households per annum not being metered due to not pursuing change of occupier, but reduces rapidly initially, so possibly down to 10,000 or so per annum. Change of occupier introduced as a response to the challenge from the CCG, with meters being installed where a boundary box is already present, as this is low cost and maintains affordability.</p> <p>Accepted, but as boundary boxes tend to have been installed for whole estates etc, then neighbours should be treated the same. Will seek to learn lessons to minimising complaints, including discussing with others.</p>		

Date Raised	Topic	Issue	Company Actions/Business Plan Response	Status	Significance/Implications
Further challenge on 02/03/18		<p>Looked for evidence of the benefits from the not for revenue metering – will this actually save any water?</p> <p>Concerned that the WRMP consultation questions (shared on 02/03/18) are somewhat closed, and may not elicit useful responses, particularly in relation to meters.</p> <p>Has sufficient evidence been provided that the preferred option represents customers views – need to <i>triangulate</i> quantitative survey versus CAP etc. The WRMP is clearly different from the CAP and quantitative results – highly biased sample. 73% support for change of occupier metering</p> <p>What is the <i>evidence</i> that non-revenue meters actually work and affect customer behaviour?</p>	<p>Currently doing a trial to ascertain this – no evidence at the moment. Only 500 per year – will need to carefully word Business Plan to make it clear the programme may be stopped if it is not providing the benefits.</p> <p>Focus group activity is being brought forward to examine this approach.</p> <p>Noted, but currently not enough support for change of occupier metering from the informed groups, but they will be testing this within the current plan (selective to customers with boundary boxes). This will be used to demonstrate benefits.</p> <p>Acknowledged that there is a diametrically opposed position r.e. change of occupier metering: CAP supported 'for information' only, whereas WRMP responses in favour of change on occupier. Noted that the CAP is actually reflective of demographics across the customer base, but acknowledged this is a very small sample.</p>	Accepted - closed	
WR4: 07/12/17		As reducing abstraction is a high priority in the focus groups, why isn't this in the WRMP?	As well as the PCC reductions, the company is looking to see how it might re-configure abstraction to reduce stress on key rivers. Evidence to be provided, but noted that the AIM will cover this.		M

Date Raised	Topic	Issue	Company Actions/Business Plan Response	Status	Significance/Implications
		Can the links to PCC reduction and AIM be demonstrated to achieve this? Main outstanding challenge is on the AIM locations – Company not yet discussed with the EA.	Finalised once sites were discussed with EA, but still some challenge over ambition of targets	Closed but point of conflict noted	
WR5: 02/03/18		Do the WRMP consultation responses represent all communities (including rural)? Need to understand how reliable this data is and whether communities are engaged.	Accept that this is not necessarily a representative sample. Less weight than customer research that has been developed specifically to cover all communities. Also addressed through non-hh research with farming communities. Catchment management work also engaging with them.	Closed	L
RES1: 02/02/18	Resilience	<p>Want to be sure that asset health and other resilience risks are being addressed. Need to demonstrate that this has been tested, allowing for financial resilience and affordability issues. The schemes seem sensible, but not clear if this is adequately tested with customers – no significant details on customer views of resilience.</p> <p>Leads onto financial resilience, and in particular the small company premium. How is this going to be shared with customers and support gained? If customers have some risk of increased bills as a result of Havant Thicket, then are they willing to pay for the resilience benefits? Will gearing be maintained if Havant Thicket is built?</p>	<p>One of the later customer engagement pieces, as this needs to be presented based on the whole plan approach. Paper on customer view of resilience was shared in June. Assurance provided that resilience has been tested appropriately.</p> <p>Yes – finance will be a mix of debt plus equity from the new owners.</p>	<p>Closed</p> <p>Closed</p>	
CE7: 07/12/17	Customer engagement	The willingness of existing generations to pay for resilience in future was not really picked up in the qualitative focus groups. This will need to be reflected in the quantitative surveys – need actual evidence.	Paper provided in June, but not quantitative. Looked at in the most recent CAP (5). Customers broadly support proposals for low cost measures to improve network/treatment resilience, and Portsmouth consider that the lower	Closed	H

Date Raised	Topic	Issue	Company Actions/Business Plan Response	Status	Significance/Implications
Additional on 02/02/18.		Challenged the use of the CAP again for WRMP/Havant Thicket/resilience studies. Is it representative – e.g. mix of measured versus unmeasured.	<p>cost/high impact schemes proposed in the Business Plan is the most reasonable.</p> <p>Review what is being covered by who as part of the engagement subgroup. Call held. WRMP feedback from customers was also very high, so there is a large amount of evidence to draw from. Triangulation between the CAP, quantitative survey and WRMP carried out, plus views from other stakeholders.</p>	Closed	M
<p>CE8: 07012/17</p> <p>Questions on Phase 2 raised on 02/03/18</p>		<p>Rewards and penalties. Is it justified to apply rewards for better performance compared with the past? Rewards are not a popular concept.</p> <p>Wanted to understand why the ranking of importance in the ICS document of 02/03/18 didn't reconcile well with the ranking of rewards/penalties (Table 5 versus Table 6 in the ICS Phase 2 report dated February 2018). (expanded below)</p> <p>A balance needs to be set that reflects what Ofwat want, but also what customers actually want to pay for. This may end up being an area of disagreement between CCGs and Ofwat.</p> <p>How were the responses in Table 7 of the ICS document elicited – e.g. was the regulatory structure explained?</p>	<p>Rewards this time are only likely to apply for frontier companies. Ofwat are driving the framework, not customers. Ofwat are defining some areas themselves (e.g. CMEX and DMEX)</p> <p>One is based on a tradeoff of costs/packages, whilst the other is based on a simple absolute preference ranking. Table 6 does not account for the preferences around which measures should be more strongly geared towards penalties (Table 7)</p> <p>Yes, but cost of capital means that rewards may be needed to actually make any money. To a certain extent – the responses logically support what regulators might expect.</p>	Closed	H



Date Raised	Topic	Issue	Company Actions/Business Plan Response	Status	Significance/Implications
<p>following the draft ICS report</p> <p>Final comments following the updates on 06/04/18</p>		<p>The CCG needs to see the more complete conclusions to make sense of the initial findings of the ICS document. Also need a few more details about what is in the statutory requirements versus enhanced biodiversity ODI. How were rewards/penalties actually set? General approach accepted, but requested a full version of the report.</p> <p>CCG will need to highlight where final decisions are not in line with the customer consultation.</p> <p>Needed to understand how preferences have been triangulated from different data sources.</p> <p>Challenge -are there any areas where there is contradiction between consultation sources?</p> <p>Challenge – need to understand <i>how</i> decisions have been made where there is conflicting evidence.</p> <p>Why does environment/biodiversity have the highest WTP reward when the customer preferences indicated this was quite low down the list.</p> <p>Who evaluates the risks of penalties to the company?</p>	<p>Provided the final document – elicited WTP around feasible limits for each PC with the central target set to be equal to or slightly better than the current performance (see challenge PC3 above). Methodology based around a conventional choice experiment approach, with weighting where groups were over-represented. Used the focus group to help set the limits – the findings in Table 5 are reasonably reflective of the focus group stage. The full report was be sent to the CCG.</p> <p>The current problem is that customers are not supporting rewards and penalties, so there is a disconnect with Ofwat’s preferred approach.</p> <p>Research and Triangulation Table provided</p> <p>Yes – hardness given as an example, plus conflict between WRMP consultation and other data sources on metering.</p> <p>Accepted – papers similar to the metering proposals were provided on the 1<sup>st</sup> June where there is conflict.</p> <p>The more important factors tend to be penalty only – which are higher in</p>	<p>Closed once provided</p> <p>Close, but note in report</p> <p>Closed once update of the triangulation report and the ICS report was provided</p> <p>Closed – addressed under item PC3</p>	

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		<p>Challenged the representativeness of the Phase 2 sample. Is an online panel adequate/representative? Addressed</p> <p>Challenged about the 15 inclusions and the exclusions, as some of the facets of the business plan (5 themes) were not well covered. Affordability only has one - shouldn't this have others? Isn't it dangerous to do this in light of the small size of the group. Greater justification of the decision over which ODIs should be financial is required.</p>	<p>total. Environment is more of a 'nice to have'.</p> <p>Portsmouth to provide the financeability assessment at July meeting (as previous)</p> <p>Addressed by ICS</p> <p>Acknowledged, and low pressure dropped in favour of vulnerability.</p> <p>Paper mapping customer preferences and key themes provided, but final conclusions still not there.</p>	<p>Closed</p> <p>Closed</p>	
CE8a: PC Targets		<p>General challenge on targets – see previous challenge for leakage efficiency and challenge over 'innovation stretch'. Do customers think the targets are stretching enough?</p> <p>What is the impact of the CCG comments and other stakeholders?</p> <p>Sought assurance that the PCs are actually achievable.</p>	<p>Customer research on targets complete on 5<sup>th</sup> June. Initial paper provided in June CCG. A full breakdown of customer opinion</p> <p>Some targets were stretched beyond customer acceptability, as per July paper. Used the Ofwat tests (e.g. CBA, expert opinion etc) to stretch beyond customer acceptability where appropriate.</p> <p>Went through each item and explained the Board view. Leakage is a particular concern.</p>	Closed except AIM (see below)	

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		<p>CRI – challenged whether the target was stretching given that Portsmouth is a small company.</p> <p>Leakage – why not upper quartile rather than just the 15% given customer views? Can the penalty be capped? May need to put this in the context of longer term ambition, particularly if compulsory metering may be on the horizon.</p> <p>Similarly PCC, why not upper quartile?</p> <p>Low pressure – why not tested with customers?</p> <p>Water quality contacts – accepted that performance is better than upper quartile, but is no improvement realistic. Accepted, but requested a narrative around this.</p> <p>Is the affordability ODI really another vulnerability ODI?</p> <p>WINEP/Biodiversity. Required clarification of where all 18 WINEP schemes are included. Is a PC on a single scheme appropriate?</p>	<p>Clarified that ‘small company’ includes NAVs, which are the ones that tend to do better; not true for water wholesalers.</p> <p>Very expensive in a short space of time, and would have to take the money from elsewhere. Not possible to cap the penalty, and too much uncertainty at this stage. Point accepted on longer term—the Final WRMP will include stretch beyond AMP7 by 15% over the following 3 AMPs.</p> <p>Target will actually be 10l/h/d reduction, so is very stretching; customers support this .</p> <p>Only 70 experiencing this – contacting them individually. Reduced further following CBA challenge</p> <p>Very low already, and risks of events causing a penalty failure. Narrative will be provided in the Business Plan.</p> <p>Very low bills – comes out as a narrative in the plan? Vulnerability incorporates aspects other than income.</p> <p>13 in biodiversity (ODI13), the single ‘pure’ water resource scheme is in</p>	<p>Some remaining dispute but closed</p>	

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		Target on AIM still needs to be agreed.	ODI 12. ODI 12 reviewed and agreed on the 15 <sup>th</sup> June.  Finalised in early Aug CCG.		
06/04/18  CE9: Cost factor claims		Are the company going to raise any cost factor claims and have they consulted on the small company premium?  What is customer support?	Initial report back on 3 <sup>rd</sup> May. Leakage may be excluded. Eels and Havant thicket will be submitted.  There was specific research on the small company premium. A technical study was carried out prior to that. Qualitative focus groups held in July, with findings presented in August meeting. Strong support	Closed	H
02/02/18		Non-households; need to see more evidence of engagement with this group. Challenged that there should be better involvement from the retailer(s).	A focus group of 6 customers was convened. Higher importance on the interruptions to supply metric. Plus 10 phone calls of around an hour to date. Not quantitative in the same way as domestic customers. Water retailers were interviewed separately.	Closed	M
CE10 02/03/18		Still challenging how findings on ODI consultation are actually going to be reflected in the Business Plan (query came of the back of the changes identified following the updated Phase 2 survey).  Need to see the proposed business plan acceptability testing before we can confirm line of sight between ODI testing and the Business Plan.	Highlighted the example of understanding how the capital programme would change if, for example, the preferences of the younger generations were better reflected. Ongoing area of development.  Acceptability testing provided on 16/08/18	Closed	M
AM1: 19/10/17	Asset management/delivery plus	Is the company able to demonstrate that future expenditure on assets is adequate to manage risks of failure events going forward? This includes 'events' rather than just asset health. E.g. what	E.g. The WRc mains burst and leakage model produces good 'guideline' figures for the near term, but further work will be carried out in		H

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	capital programme	<p>would happen to mains bursts in the event of a very bad winter? Is the customer impact acceptable? What happens when the network ages in areas/pipes not seen as bursting before.</p> <p>Requested confirmation that the Board is confident the investment programme is sufficient to meet Performance Commitments.</p> <p>Requested cross company comparisons of leakage level trends and burst history to show how this has varied.</p> <p>Can the company demonstrate that the increasing trend in bursts is not reflective of a deteriorating network.</p>	<p>AMP7 to see what might happen in the longer term as the network and conditions start to fall outside of the range of historic evidence. This was covered on an assurance basis by D Hunt during the capital maintenance audit review in March/April, and resulted to changes in the proposals to ensure that investment is reflective of long term sustainability.</p> <p>Yes, provided PCs like leakage and interruptions are not increased beyond proposals. Independent assurance has been provided on capital programme/investment. Assurance on the targets not yet in place</p> <p>Leakage presentation provided, showing movements in leakage since 2010.</p> <p>Findings on bursts vs ferrules provided at the early August CCG</p>	<p>Close</p> <p>Closed</p>	
AM2 05/07/18	Operational PC targets	Looking for confidence that operational targets for PCs don't contain mistakes/misunderstandings as happened in PR14.		Board assurance provided in August CCG	Closed
AT1 05/07/18	Acceptability testing	Will informed views be sought alongside the online survey?	Yes, included in testing.	Findings presented in final CCG.	Closed
PC1: 05/10/17	ODI and Performance	Challenged the exclusion of financial sustainability of the company as an ODI. Given Portsmouth Water is a small company, it is vulnerable to unplanned	Customer research suggests this not a priority and Ofwat does not support the need for such ODIs.	Close but keep as a	M

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Additional challenge 02/03/18	Commitment Setting	<p>significant capital costs (e.g. Eel screens/cost overruns on large projects (e.g. Havant Thicket – note AF2) given its borrowing profile and OFWAT pressure to minimise price rises. Cumulatively they could affect the financial stability of the company which in turn could affect customers via reductions in quality/consistency of supply and customer service. We can understand that customer research does not flag this up as a customer priority due to its abstract nature, however this will be borne in mind as a background issue when considering the cumulative impacts of other measures and ODIs.</p> <p>Challenged and confirmed that the approach would not change as a result of the takeover of PW.</p>	<p>Financing of Havant Thicket will be discussed at later CCGs, but as a specific issue.</p> <p>Confirmed that the approach to charging for the reservoir (i.e. mainly reservation fee from Southern) would not change</p>	background issue.	
AF3 02/03/18	Affordability	Requested a description of what is being done to manage bad debt and affordability – the paper describes what is being done currently, but not necessarily what might be done. CCG agrees that affordable tariffs are not necessarily going to help with bad debt levels	Paper provided. Proposals are essentially an extension of the same – e.g. extending direct debit, vulnerable customer bills etc.	Closed	L
WR3: 13/09/17	WRMP	Need to understand the implications of Havant Thicket on Portsmouth customers, particularly in terms of financial risk	Portsmouth Water to present on financing issues	Close – merge with AF2 Above	H
PR1: 13/09/17 & 19/10/17	Business Plan CCG engagement process	<p>Timing and use of inputs from the CCG need to be clarified in a programme</p> <p>Particular issue with the 'bespoke' Performance commitments as the CCG needs to have the chance to comment on how well the choice and nature of the metrics fits with customer research. Requested greater clarity about when CCG inputs/sign off are required. Agreed calls with whole CCG would be held at that point.</p>	<p>Programme being prepared</p> <p>See above r.e. ODIs and PC setting.</p> <p>Timetable now provided.</p>	Closed	H

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CE1: 13/09/17	Customer Engagement*	Further understanding of the effectiveness of the 'Ofwat approach' to reward/penalty consultation is required. Agreed that WTP is more appropriate for setting priorities, but results should be considered when other approaches are being used	To address all technical engagement questions the overall principle of 'CCG sign-off' was agreed (18/10/17)	Closed – moved to challenge PR1	H
CE2: 13/09/17		Requested a private discussion with representatives of the CAP to evaluate the potential for bias or influence in the process.	Company arranged a private session, with sufficient time for questions. Positive meeting with no significant issues or concerns raised by the CAP.	Closed	M
CE4: 07/12/17 (date of paper presentation)		Student questionnaire – CCG were fully involved in designing the questions, but concerns over the mode of engagement (Portsmouth freshers fair), as they were new to the area and unlikely to be paying bills.	Looking to stay in touch and get further data, and actually year of study was not all year 1. Will look beyond Portsmouth Uni in future years.	Closed	L
CE5: 07/12/17		Staff engagement – why so small and only qualitative? Will it be ongoing/updated? This came from a challenge to try and broaden the engagement.  Rise wider question r.e. social media etc.	Just a trial, larger survey carried out by institute of customer service. Not sure whether it is particularly useful to carry on.	Close, but social media use kept open	L
CE6: 07/12/17		Water hardness. The customer consultation was done to try and generate revealed preferences in terms of activity to manage hardness. No major challenge?	Company using as a reason to exclude any further studies on water softening for the Business Plan.	Closed and accepted	H
02/02/18		Developer services - is there an incentive for water efficiency given customer preferences?	Yes – a discount on the infrastructure charge is offered.	Closed	L
CE3: 07/12/17	Customer Engagement*	With the vulnerability study and engagement with vulnerable customers – what is actually being done about the information gathered from this. Can we	Described changes around activities such as communication and use of pay point – list not yet provided.	Close	L

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		have a list of what is being done and how this will translate into actions? E.g. Vulnerable customer survey is about to go out via survey monkey; is this a suitable way to go about such as study?	Presentation provided by Rachael Dixon, including responses from CAB etc. and all of the other activities that are being carried out. The company is committed to keeping this member of staff in place, plus looking to have an annual survey of support agencies, with a PC on the returns. This will be documented in the Business Plan document.		
EN1: 19/10/17	Environment/ NEP	CCG is not clear on its role in relation to the Itchen intake screens and the Eel Directive.	Fairly clear this is a statutory requirement, so no CCG involvement.	Closed	L

**Examples of engagement/support to the CCG**

- 1) Action log run by company and re-structured as requested.
- 2) Closed sessions and feedback n live challenges log
- 3) Actively requested feedback on the nature of PCs/ODIs (particularly biodiversity and affordability)



