

Customer Scrutiny Panel Report on SES Water's 2020-2025 Business Plan

Report to Ofwat : September 2018

Document Issue details:

Version #	Date	Version status	Issued to
0.1	13/06/2018	First draft circulated to CSP	CSP
0.2	26/06/2018	Updated draft to CSP & SESW	CSP, SESW
0.3	13/07/2018	Updated draft to July 20 CSP	CSP
0.4	27/07/2018	Draft following initial Bus Plan review	CSP, SESW
1.0	10/08/2018	Draft following further Bus Plan inputs.	CSP, SESW
1.1	16/08/2018	Draft following CSP feedback	CSP, SESW
1.2	24/08/2018	Draft following 20/8 CSP	CSP
2.0	31/08/2018	Final version to Ofwat	CSP, SESW, Ofwat

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NB: Note for Ofwat/other reviewers: Appendix 5 References: For ease of clarity, in the accompanying reference document uploads, each file name commences with the number referred to in this CSP Report e.g. numbers 01-27, then M1-M11, R1-R8. An example being [Appendix 5 ref 1](#) is file name "01 Challenge log"; [Appendix 5 ref M1](#) is file name "M1 January 2017 CSP meeting".

1. Executive Summary

1.1. Introduction

As Chairman of the Customer Scrutiny Panel (CSP) for SES Water (SESW), I am delighted to present this assurance report, on behalf of my Panel members, in support of the company's 2020-2025 Business Plan.

The report sets out the evidence of how the CSP has performed its role to advise, scrutinize and challenge the company in the development of the Business Plan, in line with the guidance¹ provided by Ofwat in March 2018 which requires the CSP to provide independent challenge to SESW and independent assurance to Ofwat on:

- the quality of the company's customer engagement; and
- the extent to which the results of this engagement are driving the company's decision making and being reflected in the company's Business Plan.

The CSP is pleased to report that there has been a positive working relationship between SESW and the CSP, with effective meeting and review processes agreed and implemented to enable the CSP to fulfil its objectives whilst maintaining its independence. This has enabled the CSP to achieve its objectives to:

- Provide constructive feedback on the scope, quality and effectiveness of SESW's customer engagement programme.
- Ensure that the customer research and wider engagement was appropriately used to help shape the SESW Business Plan.
- Scrutinise the development and testing of the proposed Business Plan commitments in relation to their justification, acceptability and affordability for customers.
- Follow up with SESW on any perceived shortcomings in its engagement and planning activity.

The CSP can thus confirm that SESW has co-operated fully with the CSP in responding positively and openly to its challenges and information requests. The CSP has been given adequate and appropriate access to company information and personnel in order to carry out its work in line with Ofwat's guidance and objectives, although because a significant amount of the Business Plan material was provided late in the process, this limited the CSP's ability to fully and effectively discuss and challenge all content. The CSP has also had contact, as appropriate, with members of the Board, including private meetings with NED's.

SESW has welcomed and acted on the advice and input of the CSP, and agreed, where appropriate, amendments to its plans. This includes changes to the customer research approach, outcomes and measures of success, improvements to the clarity of the company's communication with its customers, as well as updates to the final Business Plan.

1.2. CSP assurance statement to Ofwat

As a result of the detailed review, challenges and follow up undertaken by the CSP, we consider that SESW has struck a reasonable balance between meeting the company's statutory obligations, maintaining current performance and accounting for customer feedback on affordability and perceptions of value for money. Notwithstanding that there are some outstanding points of note, as summarised below, **the CSP is able to confirm to Ofwat that as a result of this process, it can provide positive assurance** that:

¹ Aide Memoire for Customer Challenge Groups – Ofwat March 2018 [Aide-memoire for CCGs](#)

In relation to the quality of the company's customer engagement

- 1) The customer engagement and research employed by the company was appropriate and was conducted by specialist accredited market research providers; it was subject to CSP and third party review and followed good industry practice. (See Sections 2, 3.2)
- 2) SESW's engagement provided a genuine understanding of customer priorities, and presented an appropriate range of service options which were effectively tested for acceptability and affordability. (See sections 3.2, 3.6, 3.7)

In relation to the extent to which the results of this engagement are driving the company's decision making and being reflected in the company's Business Plan.

- 3) SESW's 2020-2025 Business Plan and its resulting impact on bills appropriately incorporates the views of its customers. (See Sections 3.2, 3.6)
- 4) The Plan is focused on a series of outcomes that reflect a sound understanding and reasonable balance of different customer and stakeholder views and priorities as evidenced by its research, and engagement. (See Sections 3.2, 3.7)
- 5) In the opinion of the CSP, SESW has, in its Business Plan, endeavoured to meet statutory obligations, improve levels of service and account for customer feedback on affordability and value for money. (See Sections 3.3,3.6)
- 6) SESW is proposing additional measures to assist those customers who are struggling to afford their bills, through the evolution of its social tariff. (See Section 3.3.2)
- 7) SESW is proposing to use a reasonable set of measures to monitor progress against its stated outcomes. (See Section 3.7)
- 8) SESW's Plan includes a clearly defined set of incentives, rewards and penalties. (See Section 3.7)

In relation to securing confidence and assurance:

- 9) The CSP has had assurance from the SESW non-Executive Directors that the Board has approved a Business Plan that is high quality and deliverable, and that they have challenged management to ensure this is the case. (See Section 3.8)
- 10) SESW has ensured that the Business Plan, and before that the draft Business Plan consultation document, underwent full independent assurance; and has shared the assurance statements with the CSP.
- 11) The bespoke research was carried out in partnership with specialist accredited market research providers, who went through a rigorous tender process.
- 12) The CSP received independent advice and opinion from its technical adviser (Atkins) on aspects of SESW's engagement conclusions and Business Plan in terms of good practice, industry norms and interpretations of Ofwat guidance, coherence and clarity of purpose; and particularly regarding performance commitments and willingness-to-pay.
- 13) The CSP received assurance from DWI and EA that they had no specific concerns to report about the company's obligations. (See Section 3.7.2).

In forming these conclusions the CSP has focused its attention on responding to the various questions defined by Ofwat in the *Aide memoire for Customer Challenge Groups*¹, the "Customer Engagement Policy"², and the "Final Methodology"³. Table 3.2.3i plus sections 3.2-3.8 of this report include the CSP view, and supporting evidence, of SESW's conformance in respect of the appropriate Ofwat questions relative to that section. A summary of the key points, and evidence, that support the above CSP conclusions is provided below, including also the key outstanding challenges and points of note.

² [Ofwat Customer Engagement Policy](#)

³ [Ofwat Final Methodology](#)

Summary of key points and evidence supporting the CSP conclusions

Quality of Engagement

- High level of SESW engagement with the CSP (at senior management and Board level), and responsiveness to CSP challenges and information requests. SESW MD, Executive Directors and senior managers attended CSP meetings; monthly review meetings of CSP chair with MD and PR19 managers; private meetings of the CSP with Board NEDs.
- The Customer Engagement process was comprehensive and effective (ref Business Plan Chapter 1), and the CSP was involved at all stages (ref Appendix 3) e.g. reviewing proposals, draft content, attending focus groups and stakeholder events. Outputs were fed back to the CSP at each stage.
- The CSP put in place a Challenge Log (refer to Appendix 2, also [Appendix 5 ref 1](#)) in order to keep an ongoing record, and hence evidence, of challenges raised by the CSP and the associated responses and outcomes from SESW. The company welcomed and acted on the advice and challenges provided by the CSP, and agreed, where appropriate, changes and amendments to SESW's plans; e.g. changes to customer research approach and materials, amendments to outcomes and performance measures, and more clarity in the company's communication with its customers.
- There was broad and effective engagement with customers on the acceptability of performance commitments and willingness-to-pay (ref section 3.6.1, 3.7.1).
- The CSP commended the quality of the customer communications used to support the engagement process (e.g. SESW Vision, and Business Plan consultation documents).

Impact on business Plan

- Well-constructed range of detailed plans, actions and commitments in the SESW Business Plan that refer to, and take account of, appropriate customer engagement; e.g. Chapter 1, Section 1 ("What we'll deliver –how insight shaped our plan").
- Following the CSP challenging SESW regarding a lack of "triangulation" evidence, SESW provided ([Appendix 5 ref 2](#)) helpful explanation of evidence sources and linkages to clarify the starting point conclusions on customer priorities, how the research refined that, and then how it flowed through to the Plan.
- Good engagement with customers on acceptability of the overall Business Plan, and clear linkages of customer feedback and support to stretching Plan commitments (ref section 3.6.1, 3.7.1) e.g.
 - SESW aims to achieve upper quartile performance for supply interruptions; and remains one of best performing companies for leakage per property/day.
 - SESW has a performance commitment aimed at maintaining industry leading performance for the number of bursts.
 - SESW has one of the best % achievement for all water companies relating to social tariff uptake per 10k customers, and following targeted and detailed research (ref Phase 2/3 output [Appendix 5 ref R2-8](#)) is proposing a significant increase in subsidy and uptake of the social tariff.
 - SESW includes additional longer term projections for key PCs (e.g. PCC reduction to 118 l/day and leakage/bursts reducing by 50% by 2050)
- Good evidence that SESW has taken customer views into account on the profile of bills over time, and bill impact acceptability.
 - SESW ensured that it informed customers of the overall bill impact, and how it might change over time, in a way that customers could easily understand (as per [Appendix 3 fig 4.3. 1x](#) and p12-14 of [Appendix 5 ref R7](#)).
 - Phase 2 analysis of WTP and Phase 3 acceptability testing (ref Appendix 3, section 4.3.1), plus the broader Business Plan consultation provided good evidence of customer views on bill impact being taken into account.
 - SESW undertook specific customer engagement on the willingness to pay a premium for continuing to be served by a small local company ([Appendix 5 ref R4](#)).

- Clear assurance from the Board NEDs that the company has closely considered the Ofwat guidance on financial structures and has agreed plans to ensure the company gearing is within the required levels (ref section 3.8).

Outstanding challenges/points of note

While overall the CSP is reporting positively on the quality of SESW's customer engagement, and the impact this has had on the Business Plan, there are a limited number of challenge areas and points of note that the CSP would still flag at the end of this process, i.e.;

Quality of Engagement

- The CSP considers that SESW's engagement approach, while comprehensive and effective, could have benefited from stronger project planning with regard to engagement and the wider business plan process at the outset.
 - The CSP accepts that there was a clear Customer Research brief and plan but considers that there could have been a clearer overall engagement strategy including e.g. strategic aims, initial hypotheses, the role of research vs other engagement sources (e.g. BAU data) and how "triangulation" would be embedded in the approach.
 - SESW's view is that they intended Phase 1 ("Listen/Learn") as a basis to inform a more detailed approach and plan; and the CSP agree that the engagement approach did evolve over the plan period and did ultimately deliver an effective output but the CSP maintains the view that the process would have been more efficient had it included clearer aims and project plans at the outset.
- While the CSP provides an overall positive assurance on the quality of the customer engagement, there were some limited areas where the CSP concludes the sampling and evidence could have been improved, and thus provided stronger assurance e.g.
 - CSP considers there could still have been more assurance of evidence of sufficient engagement with customers specifically relating to non-financial support for those in vulnerable circumstances; i.e. while there was good evidence of engagement on the Social Tariff aspects of vulnerability, plus inclusion in the Plan of improved future initiatives on non-financial support, the specific sampling of customers in non-financial vulnerable circumstances was somewhat limited.
 - While SESW has sought to engage with customers on co-creation/co-delivery, and refer to good examples of this in the Business Plan, the CSP considers that the depth and scope was not fully in line with the Ofwat guidance proposed in their Tapped In Report, which includes examples of other companies doing more in this area.
 - Limited assurance on Future Customers viewpoints and the impact on longer term commitments (e.g. in resilience), where the CSP challenged re low sampling of specific future customer groups (although there was a larger sample of future customers in phase 3, and there is detail and evidence for longer term resilience actions in the Business Plan Chapter 4 and 7).
 - Business Customers: the CSP agree that SESW engaged effectively with Business customers, but consider that the segmentation and sampling could have been broader (250 customers and 2 small workshops), e.g. engaging with a broader sample of large/medium enterprises.

Impact on Business Plan

- The timetable for production and approval by the SESW Board of the detailed Business Plan, and the overall sequencing of customer engagement, CSP discussions and Board considerations meant that the CSP was constrained in terms of having adequate time to fully consider the drafts or final version of the Plan. This limited the CSP's ability to fully and effectively discuss and challenge all Business Plan content and updates.

- The CSP did recognise that the Ofwat requirement to submit both the Plan and CSP Report on the same day would create constraints; and that CSP did have earlier insight and engagement with SESW, e.g. on PCs/ODIs, which enabled some review of how the customer engagement was impacting the business plan; plus SESW did attempt to provide a drip-feed of Plan outputs as they became available.
- However the CSP did not see a fully consolidated draft of the Plan prior to Aug 15th, which limited the ability to review and provide feedback to SESW (for their Board meeting on Aug 20th). SESW accepts this is a learning point and has agreed to make changes in its Business Plan process to make the next price review planning process easier.
- There was good and helpful debate on outstanding points at the 20th Aug CSP meeting, and SESW responded promptly with proposed improvements to the Business Plan (ref SESW Business Plan Appendix A1.7).
- Although this final iteration of review was constrained by the limited remaining time for mutual final drafting, and report finalisation before 3rd September, **the CSP notes positively that the final version of the Business Plan is a high quality, and SESW has taken good account of the final CSP feedback.**
- The CSP would prefer to see a greater % of reward/penalty based ODIs, in line with Ofwat guidance, to improve accountability; although agrees that SESW has provided (ref Business Plan Chapter 2) appropriate justification as to why a financial reward/penalty is not sensible in each relevant case (13 out of 24 PC's).
 - SESW's viewpoint is that reducing the number of commitments by removing some with non-financial incentives would set aside some customer priorities to meet the regulator's assumptions (that financial incentives should be the default), and SESW conclude that that this would not be appropriate.
- Despite a stretching PCC commitment (requiring high metering penetration), the level of PCC will remain high, and still be outside the forecast upper quartile at the end of the plan period. It would seem unwarranted, therefore, to allow an "ODI reward" for exceeding a PCC target which still leaves SESW outside the upper quartile and thus it might be more appropriate to set a threshold of the upper quartile level to only allow a reward if that level is reached.
- While SESW has enhanced its commitment on reducing leakage, excessive leakage will remain a key customer concern (despite SESW being one of the best performing companies on leakage per property/day).
- SESW did not specifically test with customers any potential ODI reward/penalty impacts on the bill. SESW provided the rationale for this (ref section 3.7.2), but the CSP remains of the view that any bill impact of rewards/penalties above a net-zero is not justified based on customer evidence, and it remains a non-conformance with Ofwat guidelines.
- The CSP recognised that Innovation is embedded in the culture of SESW and there is a sound strategy in place to empower staff to innovate which has led to incremental improvements in a variety of areas to strengthen the operation – although such improvements appear stronger in operational areas than in customer engagement. Although the final Business Plan does include some future customer service innovation initiatives, the CSP concludes that the Plan content could still cover a broader balance of non-operational (e.g. customer service, environment) initiatives versus the many (and good) operational initiatives.
- The Small Company premium, at £1.75, is a significant portion of the overall bill impact, and the CSP agrees there is customer support for this amount. The CSP considered, however, that the evidence and rationale supporting this could come out more consistently throughout the Plan, which SESW has now included in the final version of the Business Plan.

Graham Hanson

Chair, Customer Scrutiny Panel for SES Water

2. SESW's Engagement Process

2.1. Overview

SESW's approach and process for the PR19 Customer Engagement Programme is set out in detail in its (Chapter 1, Section 1), and was previously shared with the CSP via document "SES Water customer engagement and insight for PR19 – working draft" ([Appendix 5 ref 9](#)). Following PR14 feedback, SESW made a number of enhancements to its engagement activity for PR19, which are summarised in its Business Plan (Chapter 1, Section 1, "Enhancing our approach – what we have done differently").

The following extract from the Business Plan (Chapter 1) provides a helpful summary of the engagement methods and techniques (fig 2.1i).

Fig 2.1i
Engagement methods
and techniques

	PHASE 1	PHASE 2	PHASE 3
	Listen, learn and inform	Test and review	Seeing the full picture
Bespoke activity	Qualitative workshops with: <ul style="list-style-type: none"> household customers business customers Future customers In-home interviews with vulnerable customers	Co-creation workshop with: <ul style="list-style-type: none"> household customers Future customer event Vulnerable customer research through existing community support groups In-depth stakeholder interviews Willingness to Pay research - household and business customers Draft WRMP customer panel	Draft plan acceptability research Social tariff co-design Small company premium research
BAU insight	Complaints root cause analysis Quarterly domestic customer tracker survey Ofwat SIM survey	Shadow SIM survey data Customer feedback through our billing system Supply chain partner research	
Channels	WRMP stakeholder workshop	Public consultation on our draft WRMP Online community forum Media and social channels	Public consultation on our draft Business Plan Online Community Forum Community events Media and social channels

This Chapter of the Business Plan explains in detail SESW's customer engagement strategy, and SESW's intent "to deliver a high-quality programme of engagement that directly influences its plan". This section also covers;

- Engagement methods/techniques: i.e. details of the research methodology for each phase and the different techniques used to gather high-quality insight for the plan.
- Customer insight: i.e. reporting on customer priorities and preferences gained from each stage of the research about what they want in terms of SESW services.
- Influence on the PR19 Plan: i.e. explaining how the customer insight has shaped the Business Plan in terms of what SESW plans to deliver in the plan and the targets set.

Further detail on the engagement strategy and process can be found in the SESW Business Plan (Chapter 1) and is not, therefore, explained further here.

2.2. SESW Assurance and Governance

Key elements of SESW's assurance and governance during the PR19 process were;

- The bespoke research was carried out in partnership with specialist accredited market research providers, who went through a rigorous tender process, to ensure appropriate and valid techniques were used.
- SESW drew on economic expertise to review the WTP survey and to build a model that allows it to combine the information coming out of the survey with other sources.
- The Business Plan, and before that the draft Business Plan consultation document, underwent full independent assurance. The customer engagement programme, including raw data, survey scripts and discussion guides etc. are all available within the SESW Business Plan.
- A dedicated PR19 Steering Group which included ongoing consideration of the customer insight through the various methods to ensure it led the development of the Business Plan.
- The independent scrutiny of the CSP regarding the customer engagement activity throughout the process, and CSP's role in challenging SESW's approach, plus the CSP's assessment of the quality of the engagement programme and the extent to which it informs the Business Plan by considering how the company has performed against Ofwat's key questions.
- Regular interaction with the CSP in the form of formal and informal meetings, alongside regular sharing of information and tracking of progress through the challenge log. In addition, each CSP member was given responsibility for an Ofwat theme on which to focus their attention and assure the rest of the group that appropriate activity has been carried out. The CSP was invited to be involved at all stages from inputting into the research briefs to observing activities.
- Board members were also each allocated responsibility for an Ofwat theme so there should be a clear link between the company, CSP and Board throughout the process to ensure that the plan reflects customers' views and there is clear ownership at Board level.
- Board members attended CSP meetings throughout the process and the CSP members had the opportunity to discuss the customer engagement process with the relevant non-executive director, as well as dedicated private sessions with the Board.

3. SESW's Engagement with its Customers – CSP conclusions and evidence sources

3.1. Overview of CSP role and process for PR19

The Terms of Reference of the CSP, and its role and membership is included in Appendix 1. In particular the key objectives of the CSP, in the context of PR19 and in accordance with the guidance¹ provided by Ofwat in March 2018, are to provide independent challenge to SESW and independent assurance to Ofwat on:

- the quality of the company's customer engagement; and
- the extent to which the results of this engagement are driving the company's decision making and being reflected in the company's Business Plan.

Ofwat stipulated that the independent assurance needed to be provided in the form of an assurance report submitted by the CSP alongside the company Business Plan, with a due date to Ofwat of 3 September 2018. The assurance report is required to set out the evidence of how the CSP has carried out its independent challenge role.

It should be noted that Ofwat have confirmed¹ that it is not the role of the CSP:

- to endorse the company's overall plan;
- to provide assurance that all costs included in the company's plan are efficient;

The CSP's review and challenge activity has also covered the wider consultation activity associated with the company's longer term strategic direction and water resources management planning (WRMP). The focus has been on SESW's:

- Customer engagement and research (methodologies, results, analysis and conclusions drawn)
- Development of Strategic outcomes and measures (including Performance Commitments/ODIs)
- Stakeholder engagement on the long-term vision and Business Plan
- 2020 -2025 Business Plan development and how it accounts for customer engagement outputs and other available insight (triangulation)
- The acceptability testing of the business plan package and impacts on customer bills

The CSP has also challenged the company on the scope, justification, cost-effectiveness and affordability of its plans, and the evidence from customer engagement, both from the research programme plus wider engagement (e.g. business as usual data, online community data and other customer/stakeholder interviews and interaction). This included specific review and challenge (ref sections 3.3 - 3.7), as appropriate, on the company's plans for;

- Affordability/Vulnerability
- Resilience
- Financeability
- Performance Commitments/ODIs
- Innovation

The CSP and SESW agreed, and implemented, effective meeting and review processes to enable the CSP to fulfil its objectives whilst maintaining its independence. The CSP process allowed for review and robust challenge of the company's customer engagement programme, and how this then influenced its Business Planning, assumptions and outcomes.

The CSP participated in quarterly meetings with SESW during 2017, but then instituted a more intensive schedule of meetings for 2018 (as below) to ensure an appropriate focus on the PR19 process.

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<i>Date</i>	<i>Meeting type</i>	<i>Purpose</i>
05/12/2017	Private CSP meeting	Review of SESW engagement plan, phase 2 outcomes and CSP challenges
23/01/2018	Full CSP meeting	PR19 final methodology – summary of Ofwat publication; Phase 2 research findings to date and impact on business plan; Discussion theme: resilience.
09/02/2018	Private CSP meeting	Review CSP concerns re phase 2 slippage and sampling etc
20/02/2018	CSP meeting with SESW	Review and debate the phase two engagement conclusions.
12/03/2018	Full CSP meeting	Talk on Water - draft plan engagement material; Research material; Discussion theme: customer service.
21/03/2018	CSP meeting with SES NEDs	A few CSP members would meet privately with the non-exec directors after the meeting.
17/04/2018	Private CSP meeting	Discuss the draft business plan and how the customer evidence has fed in. Potentially also a discussion about phase three.
01/05/2018	Full CSP meeting	Research findings on social tariff and small company benefits; Phase 3 research material and impact on business plan; Performance commitment definitions; Special cost factor claims in context of customer costs and benefits; Discussion theme: affordability.
12/06/2018	Full CSP meeting	Phase 3 research output; CSP feedback to SESW on initial conclusions against the Ofwat questions and guidance
03/07/2018	Full CSP meeting	Phase 3 research findings and impact on business plan; Discussion of draft CSP report; WRMP statement of responses.
18/07/2018	CSP meeting with SES NEDs	Review Board assurance re engagement and business plan
20/07/2018	Private CSP meeting	CSP review of PR19 draft report and SESW draft business plan content
20/08/2018	Full CSP meeting	Review with SESW of CSP PR19 draft report and SESW draft business plan

In addition the CSP Chair initiated and participated in monthly meetings with the SESW MD plus appropriate management, to review progress and challenges/issues, and individual CSP members had follow up meetings with SESW managers on specific PR19 topics (e.g. vulnerability, resilience, innovation). The CSP Chair also attended the quarterly Ofwat plus CCG Chair meetings (involving the CCG Chairs from the other water companies). These meetings were extremely valuable in receiving regular updates and debates with Ofwat, plus sharing issues and discussions with the other CCG Chairs.

The full CSP meetings generally included a pre-meeting in private (i.e. excluding SESW management) for the CSP to discuss key issues and agree a consensus view to carry forward to the main meeting. The main meeting then consisted of presentations given by SESW (or consultants working on its behalf) on customer engagement and technical aspects of its water resources plan, Business Plan, its planning methodologies and assumptions and on its interpretation of Ofwat's business planning requirements. The CSP reviewed and challenged the company on the basis of the supplied information from the presentations and supporting documents. Conclusions and actions were agreed by the CSP, documented and fed back to SESW. For ease of reference, the minutes of all CSP meetings are available via the SESW website, as well being included in Appendix 5.

As part of the PR19 process **the CSP put in place a Challenge Log** (refer to Appendix 2, also [Appendix 5 ref 1](#)) in order to keep an ongoing record, and hence evidence, of challenges raised by the CSP and the associated responses and outcomes from SESW. The scope of these challenges reflects the robustness of the CSP process in seeking to closely monitor the SESW customer engagement programme and the impact of this on the SESW Business Plan, as well as adhering to the Ofwat methodology guidance and expectations. The company has welcomed and acted on the advice and challenges provided by the CSP, and agreed, where appropriate, changes and amendments to SESW's plans. This includes, for example, changes to customer research approach and materials, amendments to outcomes and performance measures, and more clarity in the company's communication with its customers. The Challenge Log is updated after each CSP meeting and also reviewed with SESW. The detail of challenges made by the CSP, and how these were dealt with, are explained as appropriate in the following sections (3.2 – 3.7).

Following the review of the Phase 2 research output and conclusions, and the commencement of Phase 3, the CSP Chair documented a week by week calendar (from

May 2018 onwards) in order to ensure an appropriate focus of the necessary activities to progress the CSP PR19 review, and align with the SESW schedule of activity and Board meetings (ref Appendix 4).

The CSP commends the management commitment of SESW in supporting the CSP review process. SESW is a relatively small Water-Only company, with limited resources, and yet there has been strong commitment to the process by the whole team. The SESW MD and Finance Director attended almost all CSP meetings, and individual Board members also consistently joined specific meetings. In addition the CSP was given access to the Board and particularly the NED's in order to discuss their perspective and insight on the PR19 process.

The CSP and the company have been able to work constructively together in order to achieve their respective objectives. It has been an iterative process and the significant changes the company has made during the customer engagement activity, and then during the Business Plan drafting and review, is further evidence of the company listening and responding to customers, its stakeholders and the CSP. **The CSP can report that SESW has co-operated fully with the CSP, and has responded positively and openly to its challenges and information requests.**

It should be noted, however, that the CSP did raise concerns that the timetable for the production of the draft Business Plan, and approval by the SESW Board of the Final Business Plan, has constrained the CSP in terms of having adequate time to fully consider the drafts and final version of the Plan. This has limited the CSP's ability to fully and effectively discuss and challenge all Business Plan content and updates.

3.2. Customer engagement & quality of Plan

3.2.1. CSP review and challenges during the customer engagement

Appendix 3, section 4.3.1 provides a detailed account, on a chronological basis, of the review and challenges made by the CSP during the three phases of the customer engagement process, and also identifies the responses from, and any actions agreed with SESW, as well as illustrating examples of evidence in support of the CSP conclusions.

3.2.2. CSP review and challenges regarding Triangulation

Ofwat's guidance identified Triangulation as a useful tool to help ensure the review of engagement evidence was more robust. Appendix 3, section 4.3.2 outlines the review and challenges from the CSP relating to SESW's approach to Triangulation, and the improvements agreed to provide a more appropriate use of Triangulation in the process.

3.2.3. CSP conclusions relating to Quality of SESW Customer Engagement & the Impact on the Business Plan

As above, Appendix 3 (sections 4.3.1 and 4.3.2) provides detail on how the CSP reviewed and challenged, as appropriate, the SESW activity on customer engagement, triangulation and the subsequent conclusions and actions that SESW followed through to its business planning. The conclusions from this process need to be considered against Ofwat's requirement that the CSP comment on the overall quality of SESW's customer engagement, which the CSP considered in relation to the following criteria;

- Seeing evidence of a clear starting point of customer views
- A robust and appropriate research plan

- The quality of the research sample; how representative it was and the mix of qualitative and quantitative research
- The quality and inventiveness of the research analysis and feedback, and the linkages of the qualitative and quantitative outputs
- The extent to which there are clear linkages of the output conclusions to evidence of having an impact on the final Performance Commitments and Business Plan content

In the context of the above, the CSP has focused its attention on responding to the various questions defined by Ofwat in the *Aide memoire for Customer Challenge Groups*¹, the “Customer Engagement Policy”⁴, and the “Final Methodology”⁵. Table 3.2.3i plus sections 3.2-3.8 of this report include the CSP view of SESW’s conformance in respect of the appropriate Ofwat questions relative to that section.

Overall conclusions from the CSP in the context of the above, and based on the more detailed comments in Appendix 3, sections 4.3.1 and 4.3.2, are summarised in the following table (Table 3.2.3i). These enable the CSP to conclude that;

- **SESW has ensured the customer engagement and research employed by the company was appropriate, sufficient and good quality; it was supported by CSP and third party review and followed good industry practice.**
 - SESW progressed a comprehensive engagement programme in 3 progressive phases that refined the identified customer priorities and acceptability of proposals. The CSP provided review and challenge on such as questionnaires, sampling and perceived gaps in approach. Overall SESW calculated 2,706 retail customers were engaged with in the research and Business Plan consultation.
 - although the CSP considers that the overall engagement would have benefited from a clearer programme plan including strategy, aims, objectives and triangulation approach at the outset of the process. The CSP also considers that the quantitative research was stronger and of more consistent quality than the qualitative research
 - The CSP is confident that it was appropriately involved in reviewing and challenging the outputs and conclusions of each phase of the customer engagement, and had the opportunity to attend and observe components of the research (workshops etc).
 - The CSP agrees that there was clear evidence of SESW understanding customer priorities, and testing an appropriate set of service options; with an effective programme of acceptability testing in Phase 3; and that SESW has effectively engaged with and understood the needs and requirements of different customers.
 - The CSP considers that the quality of customer communications improved as the engagement process progressed. Recent consultation documents on WRMP, SESW Vision, and SESW Business Plan were commended by the CSP.
 - SESW co-operated well with the CSP and responded positively and constructively to its challenges and information requests. As a consequence the CSP is confident that its challenges have significantly improved the customer engagement quality and output; e.g. amendments to customer research approach, outcomes and measures of success (e.g. PC’s and ODIs), the clarity of the company’s communication with its customers and wider stakeholders, plus updates to the Business Plan content.
- **SESW has ensured that the evidence from customer engagement has driven and informed the development of the SESW Business Plan**
 - The CSP concludes that there was a well-constructed range of detailed plans, actions and commitments in the SESW Business Plan that refer to, and take account of, appropriate customer engagement; e.g. Chapter 1, Section 1 (“What we’ll deliver –how insight shaped our plan”) summarises the linkage between key customer priorities and SESW planned actions.

⁴ [Ofwat customer engagement policy](#)

⁵ [Ofwat Final methodology](#)

- o In particular the Customer Experience Transformation programme is a key component of the ongoing customer service planned improvements that were partly influenced by engagement feedback (ref Business Plan Chapter 3). Chapters 2, 3, and 7 of the Business Plan also include clear linkages to forward plans on resilience and performance commitments.

Table 3.2.3i

Questions re Quality of Engagement	CSP conclusions
<p>Customer engagement; What is the quality of the company's customer engagement and participation and how well is it incorporated into the company's business plan and ongoing business operations?</p>	<ul style="list-style-type: none"> • The CSP concludes that overall SESW has ensured effective and good quality Customer Engagement; and that output from this programme has impacted upon and been incorporated in the SESW Business Plan • SESW has progressed a comprehensive engagement programme in 3 progressive phases that refined the identified customer priorities and acceptability of proposals. The CSP has provided review and challenge on such as questionnaires, sampling and perceived gaps in approach. • The CSP involved in reviewing and challenging the outputs and conclusions of each phase, and concludes there was clear evidence of SESW understanding customer priorities, and testing an appropriate set of service options, and acceptability testing. • The CSP considers the quality of customer communications improved as the engagement process progressed. Recent consultation docs on WRMP, SESW Vision, and SESW Business Plan commended by the CSP as good customer orientated documents.
<p>Has customer engagement been an <u>ongoing, two-way and transparent process</u>, where companies are informing their customers as well as soliciting feedback from them?</p>	<ul style="list-style-type: none"> • The CSP concludes that the overall customer engagement has been an effective and transparent process, with clear linkages and evolution across the 3 phases. • Section 2.1 explains the SESW customer engagement process, and Appendix 3 section 4.3.2 covers the CSP's review and challenge during the process, which are good evidence of the extent of an ongoing, transparent and detailed programme of customer engagement, which was refined as the programme progressed. • SESW actively sought to ensure that material and structure of all engagement activity was designed to educate and inform, and the CSP was actively involved in review, comment and challenge on content and outputs. Workshops during the programme were used to help inform/educate customers as well as gain input and feedback. • SESW also implemented a customer portal to facilitate ongoing engagement with research participants and other customers; SESW also created a brand for customer communications ("Talk on Water") to provide a theme and link for communications. • SESW put significant effort into producing customer friendly communications and documents, commended by the CSP, notably the SESW Vision, WRMP Consultation, and Business Plan Consultation documents.
<p>Has the company developed a <u>genuine understanding of its customers' priorities, needs and requirements</u> – and where appropriate customer valuations – drawing on a robust, balanced and proportionate evidence base? Has the company engaged with customers on the issues that really matter to them?</p>	<ul style="list-style-type: none"> • The CSP concludes that SESW has provided sufficient evidence that it understands its customers and stakeholders, and an appropriate set of priorities was defined and tested. • The Phase 2 output (ref figs 4.3.1i and 4.3.1iii) displayed good evidence of informing customers and gaining effective insight into their priorities, coupled also with the quantitative analysis (ref figs 4.3.1iv - 4.3.1vii). The Business Plan consultation exercise provided further evidence of engaging with customers on priorities. • The "Triangulation and trade-offs" document (Appendix 5 ref 2) provided a helpful explanation of evidence sources and linkages to clarify the starting point conclusions on customer priorities, and then how the research refined that. • The comprehensive 3 phase engagement approach was designed to achieve the objective of understanding priorities, needs and requirements with the inclusion of research into customer valuations. • Some challenges from the CSP e.g. some limited Phase 2 sample sizes for qualitative research; and view that some areas short-term focused and not enough input on e.g. environmental and long term resilience.
<p>Where appropriate, has the company engaged with its customers on a <u>genuine and realistic range of options</u>?</p>	<ul style="list-style-type: none"> • The CSP concludes that SESW has identified a realistic package of options and engaged effectively with customers for acceptability testing, • ...although the CSP has challenged some levels of performance commitments. • Phase two quantitative research used a genuine and realistic range of options influenced by what SESW knew was important to customers and other stakeholders. • Deliberative workshops (particularly those held as part of Phase 2) focused around setting challenges, e.g. design of customer journeys, the dry winter challenge. • Box Clever research in Phase 2 (ref figs 4.3.1iv - 4.3.1vii) & Phase 3 seen as innovative in way they packaged plan options and interactively tested with research groups.

<p>Where appropriate, has the company considered <u>how customers could help co-create and co-deliver solutions to underlying challenges?</u></p>	<ul style="list-style-type: none"> • The CSP concludes that, while SESW has sought to engage with customers on co-creation/co-delivery, the depth and scope was somewhat limited; • e.g. the CSP considers that the SESW definition and evidence of co-creation/co-delivery does not fully align with guidance in Ofwat's Tapped In report. • SESW view is that they had met the requirement, including reference to customer workshops in the engagement programme on e.g. design of customer journeys, the dry winter challenge and implementing compulsory metering. Phase 3 included co-creation workshops on a preferred social tariff process. • The Business Plan identifies SESW plans for further co-creation activity.
<p>Has the company effectively engaged with and <u>understood the needs and requirements of different customers, including those in circumstances that make them vulnerable?</u> Has the company considered the most effective methods for engaging different customers, including those that are hard to reach?</p>	<ul style="list-style-type: none"> • The CSP concludes that the company has effectively engaged with and understood the needs of different customer groups; including those in vulnerable circumstances. • SESW response is that they ensured a degree of segmentation in the sampling, plus implementing a range of different contact approaches (e.g. home visits, carer workshops, community groups). • SESW sought to ensure that the appointed research agencies created engagement activity designed to provide a representative sample and therefore represented a broad group of different customers. Overall 2,706 retail customers engaged with. • Deliberative workshops focused around setting challenges, e.g. design of customer journeys, including how to better support customers in vulnerable circumstances. • Phase 3 research also included broad sampling, and segmentation, including some targeted activity on customers in vulnerable circumstances and the social tariff. • However the CSP maintains that the engagement relating to non-financial aspects of customers in vulnerable circumstances could have been broader (ref 3.3.1). • After CSP challenge during Phase 2 regarding the limited sample of customers in vulnerable circumstances and future customers; SESW responded and took some account of the challenges raised - augmenting via e.g. community based workshops, and adaptations to Phase 3 approach.
<p>Business Customers Has SESW engaged with business retailers to learn about their views and the views of their customers?</p>	<ul style="list-style-type: none"> • The CSP concludes that SESW has met the requirement to engage with business customers, and account for their views <ul style="list-style-type: none"> ○ although the CSP view is that SESW could have done more sooner on business customer engagement; i.e. the main significant engagement was late in Phase 3 (105 interviews with Business Customers). • Overall conclusions aligned with household customer outputs, although stronger appetite for SESW to do more on leakage and PCC.
<p>Has the company effectively <u>engaged with its customers on longer term issues</u>, including resilience, impacts on future bills and longer-term affordability? Does the Business Plan adequately consider and appropriately reflect the potential needs and requirements of future customers? Wherever appropriate, has the company engaged with its customers on the long-term resilience of its systems and services to customers?</p>	<ul style="list-style-type: none"> • The CSP concludes that SESW has effectively engaged with customers on some aspects of longer term issues; and included in its Business Plan consideration of potential needs/requirements of future customers. <ul style="list-style-type: none"> ○ but did flag some challenges (see under 'Resilience/consumption' below). • WRMP research (ref Appendix 5 ref 3), in particular, focused on meeting the longer-term supply-demand balance. • Particular focus of qualitative research was on educating customers regarding the dry winter challenge and debates on what SESW and customers can do. • Phase 2 quantitative research covered a number of options related to the long-term resilience of supplies – metering rate, supply failures, leakage reductions and pipe replacement rate, education and water efficiency. • Phase 3 research also had some focus on this, where SESW tested a package of future services and bill impacts (ref <i>figs 4.3.1iv - 4.3.1vii</i>), plus consultation on the WRMP. The Phase 2/3 research purposely included targeting future bill payers
<p>Has the company effectively informed and <u>engaged with customers on its current levels of performance</u> and how does this compare to other companies in a way customers could be expected to understand?</p>	<ul style="list-style-type: none"> • The CSP concludes that SESW did effectively inform and engage with customers on current levels of performance, but less so regarding comparisons with other companies. • SESW has used comparative data to assist in evidencing its rationale for performance commitments, and longer term targets (e.g. for leakage, PCC, bursts) and then tested the PCs with customers. • SESW state that current performance is reported though its Annual Report including in an accessible customer-focused format. • Some elements of comparative performance included in Phase 2 workshops, and in Phase 3 quantitative research, and the Business Plan Consultation document referred to improvements vs current performance. • However, despite the CSP challenge, SESW consciously chose not to test the impact of providing comparator information in Phase 2 quantitative research, stating that “prior research by water companies has showed that providing comparative information has no statistically significant impact on the choices made by customers”.

Questions re Impact on Business Plan	CSP conclusions
<p>Has the evidence and information obtained from customers (including through the company's day-to-day contacts with customers) <u>genuinely driven and informed the development of the Business Plan to benefit current and future customers</u>? What trade-offs (for example between different customers) have been identified and how has the company proposed to deal with these?</p>	<ul style="list-style-type: none"> • The CSP concludes that there is appropriate evidence that overall SESW has ensured that the customer engagement programme has genuinely impacted the development of its Business Plan. • The SESW document (Appendix 5 ref 2) agreed as helpful to the CSP in clarifying the starting point conclusions on customer priorities, and how the 3 phases of research refined that, and then flowed through to the Business Plan. • The CSP initially strongly challenged SESW approach to Triangulation, following which SESW reviewed revised proposals with the CSP, which was agreed as an appropriate basis of evidence (ref Appendix 3 section 4.3.2), and thus improved the evidence of the linkages between the customer engagement and Business Plan proposals. However a clearer strategy and methodology around this from the start would have strengthened the evidence gathering and analysis for the Business Plan. • The WRMP and Business Plan Consultation documents (Appendix 5 ref 4, 5) have a clear link back to the research conclusions from customers, and the proposed PCs (ref section 3.4 and 3.7) are also well evidenced from the engagement outputs. • Regarding trade-offs between different customers, SESW identified 3 core groups of customers (Cost Conscious, Water Conscious, Water Blind – ref section 4.3.1) and used these to segment output from research and then create balanced options of service packages (ref <i>figs 4.3.1iv-viii</i>) to test in the further research phases. • The Business Plan (e.g. in chapters 1, 3, 4) provides good evidence of detailed plans for customer and service improvements based on customer engagement evidence. • A key challenge from the CSP has been that the timetable for production and approval by the SESW Board of the detailed Business Plan (as opposed to the Business Plan Consultation doc) means that the CSP has been constrained in terms of having adequate time to fully consider the drafts or final version of the Plan.
<p>Vulnerability Has SESW a bespoke performance commitment on addressing vulnerability – CSP view</p>	<ul style="list-style-type: none"> • SESW has met the requirement and have proposed 2 related bespoke PC's for addressing vulnerability. • These are (ref section 3.3.1); <ul style="list-style-type: none"> ○ Vulnerable support scheme awareness: ○ Vulnerable support scheme helpfulness:
<p>Resilience/consumption How has customer engagement impacted on SESW plans for Resilience/ Consumption; and do the plans reflect the needs and requirements of future customers, as well as current ones.</p>	<ul style="list-style-type: none"> • The CSP concludes that PR19 research and customer engagement on resilience/consumption was broad and effective, with good engagement across customers and stakeholders, including educating/informing of disruption risks. • The CSP concludes that SESW had effectively researched a range of mitigation options and undertaken acceptability testing on an appropriate range of packaged options to identify an optimal value for money to customers, based on the WTP research. • The CSP considers that SESW has effectively engaged with customers (including future customers) on some aspects of longer term issues. <ul style="list-style-type: none"> ○ but did flag some challenges re (i) future customer research samples being small; (ii) limited assurance on the customer engagement on levels of service for longer term resilience (e.g. customer views on asset resilience to extreme weather, and ecosystem resilience); (iii) potential for improved regional planning within WRSE to consolidate resilience risk assessment across water companies WRMP outputs; (iv) Performance commitments more short-term (to 2025) than long-term, although Business Plan (Chapter 4) includes section on long-term resilience.
<p>Innovation How well does the company's business plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?</p>	<ul style="list-style-type: none"> • The CSP concludes that SESW has a well embedded culture of innovation, led from the Chair, with concrete examples of existing and planned innovation. • The Business Plan has a specific Chapter on innovation, with good evidence of how SESW has made progress on innovation both culturally and practically, and how innovation will deliver results for customers. • The CSP recognise that Innovation is embedded in the culture of SESW and there is a sound strategy in place to empower staff to innovate. • The CSP has also seen bottom up innovation in some aspects of the customer engagement; and innovation appears to have been promoted and secured as part of the approach to qualitative and quantitative customer research. • SESW has been exploring the use of new innovative techniques of mains condition assessments and techniques used to lay new mains. • Although the final version of the Business Plan is much improved in this area, the CSP concludes that the Plan detail on innovation still appears stronger in operational areas than in customer engagement; and that the Plan content could have included a broader balance of non-operational (e.g. customer service, environment) initiatives versus the many (and good) operational initiatives.

<p>Financeability Is there evidence of customer support where companies take steps to address financeability constraints? Cost efficiency/investment Is there evidence re customer support for cost adjustment claims and investment plans projects?</p>	<ul style="list-style-type: none"> • The CSP met with Board NEDs on 18 July and received assurance from Board that the Plan is financeable. • The NED's provided assurance on SESW's approach to reducing the gearing, in line with Ofwat guidance. Thus, no specific steps to address constraints are proposed in SESW Business Plan, as defined actions on gearing/equity injections mean no need to add anything to customers' bills to ensure they remain financeable. • The CSP assured by SESW that the only cost adjustment claim is in relation to SESW's statutory obligation on softening; so no relevant cost/investment projects.
<p>Accounting for past delivery Is there evidence customer support for proposed adjustments to 2015-20 price controls?</p>	<ul style="list-style-type: none"> • SESW has assured the CSP that the impact of adjustments for past delivery have all been incorporated in the draft Business Plan overall acceptability research. • PR14 rulebook methodology has been followed; and the key point from SESW's perspective is that customers are not being asked to pay more than they would do if there were no adjustments.
<p>Performance commitment levels</p> <ul style="list-style-type: none"> • What is CSP's view on how the company has approached this? • Is there evidence of Customer engagement and support for each proposed outcome, performance commitment... • ...and ODI? 	<ul style="list-style-type: none"> • The CSP considers that SESW completed an effective programme of engagement on PCs, and took account of the views of customers as expressed by the WTP research; and took on many of these views. • The CSP concludes that there is good evidence supporting the acceptability of PCs; and that on balance the degree of stretch seems appropriate. • SESW has increased the level of ambition on per capita consumption and leakage, in part following customer and the CSP views, as well as EA/Ofwat WRMP feedback. • The CSP also considers that the customer facing publication containing the draft commitments was very clear and appropriately pitched. • The CSP flagged a number of challenges on PC's/ODI's, which SESW responded to (ref section 3.7.3). • However the CSP challenged that SESW has not specifically tested the potential impact of ODI rewards/penalties with customers; although SESW has explained their rationale for this (ref section 3.7.2).
<p>Affordability of the proposed business plan for customers Has SESW appropriately tested affordability with customers; and what is the CSP opinion/ assessment?</p>	<ul style="list-style-type: none"> • The CSP concludes that the research and analysis has provided sound evidence of an effective approach to validate the acceptability of the SESW Business Plan and to explore the most acceptable combinations of service commitments versus overall willingness to pay. • Good evidence of informing customers, such as the clear explanation of the potential bill impact (ref fig 2.3.1x). • The Business Plan consultation provided additional input to the affordability research beyond the Phase 3 qualitative and quantitative research • Research analysis validated that there was general customer acceptance of the plan (71%), and as with the Phase 2 research there was an effective approach of testing acceptance at a packaged service level rather than just individual components • The CSP was impressed with the methodology used to provide effective feedback on the trade-offs that customers would consider (ref fig 2.3.1xi). • The research analysis helped inform subsequent decisions on adjustments to leakage, PCC and Social Tariff commitments.
<p>Securing confidence/assurance To what extent has the company's full Board provided assurance that the Business Plan is high quality, resilient and deliverable, and accounts for customer engagement?</p>	<ul style="list-style-type: none"> • The CSP has had positive assurance from the Board non-Executive Directors that the Board has approved a business plan that is high quality and deliverable, takes account of customer engagement feedback; and that the Board has challenged management to ensure this is the case. • The CSP held two private meetings with Board NEDs to discuss the Boards assurance processes and conclusions, and a Board NED attended most of the CSP meetings.

3.2.4. CSP challenges and company Response

The Challenge Log (Appendix 2) provides the detail of challenges raised, the company response and the CSP conclusions. Appendix 3 section 4.3.1 also describes in detail when and how the CSP has raised challenges during the engagement process. The key challenges relating to quality of the customer engagement are items 2, 6, 8, 10, 11, 14, 16, 17, 19, 21, 27, 28, 30, 35, 37 plus item 18 in relation to “triangulation”. The scope of these challenges reflects the robustness of the CSP attention and priority in seeking to closely monitor the SESW customer engagement programme, and adhere to the Ofwat methodology guidance and expectations. The Challenge Log entries also confirm that SESW has co-operated well with the CSP, and consistently responded positively and constructively to its challenges and information requests.

As a consequence **the CSP is confident that it has adequately challenged SESW in these areas, and has positively impacted the SESW planning, such that the Business Plan content reflects appropriate impact of the customer engagement conclusions.**

A summary of the key areas of challenge from the CSP, regarding the quality of customer engagement, and impact on the Business Plan, plus the SESW responses to these is;

Key areas of challenge relating to Quality of Customer Engagement

- Timing and content of the (particularly Phase 2) customer engagement
 - SESW briefed the CCG on its approach to managing the production of its PR19 Business Plan; and provided a detailed Customer Engagement strategy (ref section 2.1, and SESW Business Plan, Chapter 1). The CSP met with research agencies and reviewed/commented on scope and materials.
- Concerns re some limited sample sizes (e.g. non-financially vulnerable, future customers) in Phase 2 research; plus limited community engagement.
 - the CSP clarified concerns to SESW (ref [Appendix 5 ref 6](#)), and discussed in detail.
 - SESW responded promptly, positively and collaboratively in terms of the challenges raised and provided pre-reading of SESW responses. These were then discussed between the CSP and SESW at a pre-meeting prior to the March 2018 CSP meeting (ref [Appendix 5 ref M6](#)).
 - SESW has responded and taken account of the challenges raised – augmenting via e.g. community based workshops, and adaptations to Phase 3 samples and approach.
- Lack of clarity regarding triangulation and flow of evidence
 - SESW produced the “Triangulation and trade-offs” document ([Appendix 5 ref 2](#)), which provided helpful explanation of evidence against each of 9 Business Plan areas to clarify the starting point conclusions on customer priorities, how the research refined that, and how it was accounted for in the Business Plan.
 - Following further challenge from the CSP re extent of SESW aligning with Ofwat/CCW guidance on triangulation, the CSP organised a follow up conference call including members of CCWater policy team involved in the “Defining and Applying Triangulation in the Water Sector” research (ref [Appendix 5 ref 16](#)) to discuss how SESW might improve alignment with the guidance.
 - SESW responded positively in reviewing and restructuring the triangulation approach and developing a proposed evidence template (ref [Appendix 3 fig 4.3.2i](#)), which was presented at the May CSP (ref [Appendix 5 ref 7](#)).
 - The CSP agreed that the proposed template was a significant improvement and, given the stage in the research process, would provide a reasonable basis for triangulation, although with greater planning and time it could have gone further.

Key areas of challenge relating to reviewing Impact on Business Plan

- Phase 3 timetable/outputs, and then the timetable for production and approval by the SESW Board of the detailed Business Plan meant that the CSP has been constrained in terms of having adequate time to fully consider the drafts or final version of the Plan.
 - SESW presented its detailed workplan for Phase 3 and Business Plan production, and the CSP integrated this into its own workplan (ref [Appendix 5](#))
 - At the May 2018 CSP meeting ([Appendix 5 ref M7](#)), there was further discussion regarding the CSP challenges (ref [Challenge Log items 36 & 37](#)) relating to potential lack of time for the CSP to adequately take account of the Phase 3 output plus SESW's Business Plan drafting. The CSP agreed the need for an additional private session at the end of July (for CSP members only), in order to review conclusions and drafting prior to the August finalisation of drafting.

- SESW agreed to ensuring that information and documentation would be 'drip fed' to the CSP, particularly detail related to the final draft planning stage, due to take place between 11 June and week commencing 13 August.
- The CSP discussed with SESW management the problems of compressing the customer engagement, analysis and Business Plan preparation into a relatively short timeframe, thus impacting on the quality of engagement and being able to take on board feedback. SESW has responded that in future it would see customer engagement as an ongoing activity to help inform and adapt plans each year. The CSP has welcomed this as a positive improvement for future planning.
- However the CSP did not see any full consolidated draft of the Plan prior to Aug 15th, and the Board were due to sign off the Plan on Aug 20th. The CSP did have earlier insight and engagement, e.g. on PCs/ODIs, which enabled some review of how the customer engagement was impacting the business plan; and ultimately were able to review other Plan components, but it was very late in the process.

Resulting from the above the following remain the key areas of outstanding challenges/ points of note:

- The CSP considers that SESW's engagement approach, while comprehensive and effective, could have benefited from stronger project planning with regard to engagement and the wider business plan process at the outset.
 - The CSP accepts that there was a clear Customer Research brief and plan but considers that there could have been a clearer overall engagement strategy including e.g. strategic aims, initial hypotheses, the role of research vs other engagement sources (e.g. BAU data) and how "triangulation" would be embedded in the approach. SESW's decision to appoint a range of different research providers to provide a variety of insights was admirable, but having a lead partner to bring this all together for SESW would have perhaps been more beneficial to help triangulate the emerging findings and made the process more efficient.
 - SESW's view is that they intended Phase 1 ("Listen/Learn") as a basis to inform a more detailed approach and plan; and the CSP agree that the engagement approach did evolve over the plan period and did ultimately deliver an effective output but the CSP maintains the view that the process would have been more efficient had it included clearer aims and project plan at the outset.
- The CSP remains of the view that the timetable for production and approval by the SESW Board of the detailed Business Plan meant that the CSP has been constrained in having adequate time to fully consider the drafts or final version of the Plan. This limited the CSP's ability to fully and effectively discuss and challenge all Business Plan content and updates, although the CSP did its best to provide rapid feedback to SESW, who equally sought to take account of the CSP suggestions in the final Business Plan such that the CSP considers the final Business Plan to be of a high quality.
- While the CSP agrees that the customer engagement has been comprehensive and effective, there are some limited areas where the CSP concludes that the sampling and assurance could have been improved, and thus provided stronger assurance e.g.
 - The CSP considers that there could still have been more assurance of evidence of sufficient engagement with customers relating to non-financial support for those in vulnerable circumstances.
 - While SESW has sought to engage with customers on co-creation/co-delivery, the depth and scope was somewhat limited (e.g. the Phase 2 workshops were rather traditional in style with limited output). The CSP notes, however, there were some better examples in Phase 3 (e.g. co-creation of social tariff/vulnerability pathway).
 - Limited assurance on Future Customers viewpoints and impact on longer term commitments (e.g. in resilience), where the CSP challenged re low sampling of specific future customer groups (although there was a larger sample of future

- customers in Phase 3, and there is detail and evidence for longer term resilience actions in the Business Plan Chapter 4 and 7).
- Non-Household Customers: concern re extent and depth of sampling on non-household customers; although late in Phase 3 SESW presented results of 105 business customer interviews on acceptability and willingness to pay.

3.3. Vulnerability/Affordability

The CSP has considered separately the SESW research and conclusions relating to;

1. Vulnerability: i.e. 'customers in circumstances that make them vulnerable' e.g. due to a customer's personal characteristics, changes in personal circumstances or a combination of both
2. Social tariff: i.e. the specific support provided by SESW for customers whose financial circumstances make it difficult for them to afford their bills.

3.3.1. Vulnerability

Appendix 3, section 4.3.3 provides a summary of the analysis, review and challenges made by the CSP, relating to customers in vulnerable circumstances, during the customer engagement process, and also identifies the responses from, and any actions agreed with SESW. Based on Ofwat's PR19 methodology question points, and in considering the above analysis of SESW's engagement on vulnerability, the CSP concludes that;

Vulnerability Conclusions relating to Quality of Engagement

- *The quality of the company's customer engagement on vulnerability; how well companies use good-quality available data to understand their customers and identify those who are in circumstances that make them vulnerable*
 - **SESW has progressed a structured and targeted approach to customer engagement of customers in vulnerable circumstances**, both via qualitative and quantitative research (ref SESW Business Plan Chapter 1). SESW has been responsive following challenge from the CSP, and adapted its plans to broaden the sample size of customers in vulnerable circumstances; although the CSP remains of the view that sample sizes specifically of customers in non-financially vulnerable circumstances was limited.
 - **SESW has engaged widely and effectively with customers in the 3 phases of research to gain improved understanding and willingness to pay data so that its Business Plan takes due account of the customer views.** (See further comments in the Social Tariff conclusions below).
 - *Figs 4.3.3i & 4.3.3ii* (ref Appendix 3) illustrate how the mix of qualitative and quantitative research, plus SESW's engagement with community groups and stakeholders, has enabled a good understanding of customers in vulnerable circumstances as input to SESW's service planning.
- *Evidence that the company's approach to vulnerability is targeted, efficient and effective.*
 - SESW's current social tariff is well respected, and has one of the largest % uptake in the country. The CSP consistently challenged SESW as to whether it had undertaken sufficient sampling and engagement with non-financial aspects of customers in vulnerable circumstances (ref Challenge Log items 19, 31 & 34). Despite some valid explanations from SESW at the May 2018 CSP (ref below), the CSP still concludes that the research on non-financial vulnerability has been less comprehensive and targeted.
 - The CSP has also expressed the view, based on comparison with best practice examples (e.g. such as in the Sustainability First's Project Inspire Report referenced earlier), that SESW could further improve its assistance for particularly non-financial aspects of customers in vulnerable circumstances.

Vulnerability Conclusions relating to Impact on the Plan

- *Evidence that there will be an improvement in accessibility and support to customers in circumstances that make them vulnerable*
 - **SESW has used the output from the research to enhance a range of capabilities for supporting customers in vulnerable circumstances**, as identified in the May 2018 CSP presentation on Vulnerability (from SESW's head of Retail Services, ref [Appendix 5 M7](#)), and also in Chapter 3 of SESW Business Plan; e.g. plans to increase the uptake of the social tariff, improving the Priority Services Register approach and scope, raising awareness of services via enhanced community engagement, retaining and enhancing the Helping Hands scheme, improved training for employees (particularly in customer service) to help them identify vulnerable customer needs.
- *Evidence of good approaches to using customer data and working with third parties, including other utilities, to better identify, and target support when addressing vulnerability.*
 - As above **SESW has provided good evidence of using customer data from Business as Usual and customer engagement research to better identify and support customers in vulnerable circumstances**, including ongoing plans for improved employee training and capability. There is less evidence however of working with other utilities and third parties, although SESW has identified, and progressed, engagement with e.g. carer organisations, as well as the ongoing community engagement related to the Helping Hands Scheme. SESW are also working, via Water UK, with other energy providers to share data on Priority Services customers. The CSP has also flagged that there are opportunities for SESW to further enhance the capability of support via reference to best practice examples in such as in Ofwat's Vulnerability Focus Report, and in Sustainability First's Project Inspire Report (ref comments and references under "Innovation with Vulnerability").
- *Companies must have at least one bespoke performance commitment for addressing vulnerability in its Business Plans following customer engagement and challenge from their CSP's.*
 - **SESW has met the requirement and have proposed 2 related bespoke PCs for addressing vulnerability.** These are;
 - Vulnerable support scheme awareness: measure customer awareness of the support SESW offer customers in vulnerable circumstances through a regular survey to a representative sample of our household customers; (*Are you aware of the additional support SESW Water offers customers in vulnerable situations through their Helping Hand Scheme?*).
 - Vulnerable support scheme helpfulness: measure customers' attitudes towards the support SESW offer customers in vulnerable circumstances through a regular survey to a representative sample of our household customers. (*Through its Helping Hand Scheme SESW Water offers a range of services to customers that may, for various reasons, need a little extra help. Do you feel that these services offered by SESW Water are helpful?*)
 - The CSP has challenged SESW as to whether there might be a more inventive bespoke PC that focuses more on the impact and quality of the services and support for customers in vulnerable circumstances (ref [Challenge Log item 32](#)). SESW responded that it had sought to identify improved PCs but hadn't been able to find anything it thought would be appropriate and which was measurable.

3.3.2. Affordability/Social Tariff

Appendix 3, section 4.3.4 provides a summary of the analysis, review and challenges made by the CSP, relating to the SESW Social Tariff, during the customer engagement process,

and also identifies the responses from, and any actions agreed with SESW. Based on Ofwat's PR19 methodology question points related to social tariff, the CSP concludes that;

Social Tariff Conclusions relating to Quality of Engagement

- *Evidence of good engagement with customers on affordability including social tariff element; customer support for the social tariff; the effectiveness of SESW's approach; the accessibility of the company's support for those struggling to pay.*
 - **The CSP is assured that there is clear evidence that SESW has undertaken good engagement with customers on the affordability and social tariff element.** All 3 phases of research included specific targeting of customers around the social tariff. SESW tested a range of potential social tariff options with a broad quantitative and qualitative sample (ref Phase 2 and 3 output [Appendix 5 ref R2-8](#)).
 - SESW has tested customer support for the social tariff both at the generic level ("do customers support the principle"), and at the detailed level i.e. testing a range of social tariff options from £2 subsidy (7k customers) to £6 subsidy (25k customers). The CSP agrees that the overall approach, and how SESW has taken account of the engagement in its Business Plan and communications, has been effective (ref Business Plan Consultation [Appendix 5 ref 5](#)).
 - In terms of the accessibility of the company's support for those struggling, or at risk of struggling, to pay there is strong customer support for SESW adopting the highest tested subsidy (£6/25k customers) but also (ref Appendix 3 [fig 4.3.1xii](#)) some customers would accept a lesser target in return for a greater SESW commitment on leakage and PCC. SESW has thus opted for a commitment of supporting 19k customers on the social tariff (recognising also that SESW are already one of the best % achievement for all water companies relating to social tariff uptake). The one area the CSP would continue to challenge on is whether SESW can still do more, and be more innovative, in terms of communicating the availability of the service.
 - The CSP has also challenged whether the SESW strategy for accessibility/scope of the social tariff could be further improved in advance of the next Business Plan (beyond PR19), due the potential impact of such as further Housing Association repatriations on SESW's capacity for delivering the scheme, and where SESW foresees any cap to numbers; because if the amount of subsidy on the bill rises further again then that could be met unfavourably by customers.
 - CSP members have also challenged that the link between metering policy and vulnerability requires further investigation by SESW, given that evidence from elsewhere (e.g. the Walker report) suggests that compulsory metering can have a significant detrimental effect on larger poor families in low rateable value properties.

Social Tariff Conclusions relating to Impact on the Plan

- *To what extent has the company demonstrated that it has appropriate assistance options in place for those struggling, or at risk of struggling, to pay?*
 - **SESW has one of the best % achievements for all water companies relating to social tariff uptake per 10k customers, and following targeted and detailed research (ref Phase 2/3 output [Appendix 5 ref R2-8](#)) SESW are proposing a significant increase in subsidy and uptake of the social tariff.** SESW has also reviewed the design and qualification criteria for the tariff to make it more appropriate to target groups, and identified the need for broader and better communications to customers. SESW Business Plan Chapter 3 provides further evidence and action plans.
 - The CSP has queried, however, whether SESW could further improve its targeted approach, to verify whether the 'right' customers are truly being targeted – i.e. the large number on the social tariff shouldn't detract from SESW understanding how to work more proactively with brokers (increasing its work with partners like CAB and others) to ensure the most vulnerable are being reached. SESW responded that it is

- working with other SE Water Companies to co-operate on improved targeting of customers in vulnerable circumstances.
- *Inclusion of a bespoke Performance Commitment on financial vulnerability*
 - **SESW has met the Ofwat requirement and defined a bespoke PC**, i.e. “We will count the number of customers on the Water Support Scheme on 31 March each year. The information required will come from our customer accounts and billing system. The Water Support Scheme offers a reduced bill for household customers that meet defined eligibility criteria”.
 - The CSP challenged SESW as to whether there might be a more inventive bespoke PC that focuses more on the impact and quality of the social tariff scheme (ref [Challenge Log item 32](#)). SESW responded that it had sought to identify an improved PC but hadn't been able to find anything it thought would be appropriate and which was measurable. However, it was discussed with SESW that the measure of “% of customers on the social tariff who actually pay their bills” is a reasonable “impact” measure, as this is an indication of potential savings in bad debt.

3.3.3. Challenges & Responses regarding Vulnerability

The Challenge Log (Appendix 2) provides the detail of challenges raised, the company response and the CSP conclusions. The key challenges relating to Vulnerability & Social Tariff are 19,22,28,31,32,34,39.

A summary of the key areas of challenge from the CSP, regarding the customers in vulnerable circumstances, and social tariff, is;

- The CSP consistently challenged SESW as to whether it had undertaken sufficient sampling and engagement with non-financial aspects of customers in vulnerable circumstances (ref [Challenge Log items 19, 31 & 34](#)).
 - SESW has been responsive following challenge from the CSP, and adapted its plans to broaden the sample size of customers in vulnerable circumstances, and followed up on suggestions of other ways to gain a view on hard to reach customers in vulnerable circumstances. The mix of qualitative and quantitative research, plus SESW's engagement with community groups and stakeholders, has enabled a good understanding of such customers as input to SESW's service planning.
- The CSP also expressed the view, based on comparison with best practice examples, that SESW could further improve its assistance for particularly non-financial aspects of customers in vulnerable circumstances.
 - The CSP acknowledges that SESW did respond positively to this challenge as evidenced by the comments under "Innovation with Vulnerability" in section 4.3.3.
- The CSP queried what currently exists or might be planned in terms of customer service scripts and/or training to help identify (non-financial) customers in vulnerable circumstances when they call in, so that proactive support can be provided.
 - SESW responded that its customer service improvement plans (ref Business Plan Chapter 3), and training schemes included actions to account for this.
- The CSP challenged SESW as to whether there might be a more inventive bespoke PC that focuses more on the impact and quality of the services and support for customers in vulnerable circumstances (ref [Challenge Log item 32](#)).
 - SESW responded that it had sought to identify improved PCs but hadn't been able to find anything it thought would be appropriate and which was measurable.
- The CSP challenged whether SESW could further improve its targeted approach, to verify whether the 'right' customers are truly being targeted – i.e. the large number on the social tariff should not detract from SESW understanding how to work more proactively with brokers (increasing the work with partners like Citizens Advice Bureau and others) to ensure the most vulnerable are being reached.

- SESW responded that it is working with other SE Water Companies to co-operate on improved targeting of customers in vulnerable circumstances
- The CSP flagged the point that Universal Credit was being rolled out in the area and needs to be accounted for in the Social Tariff implementation evolution.
 - SESW is discussing a co-ordinated approach on Social Tariff across the South East.

Further to the above the CSP would note the following outstanding challenges/points:

- Despite some valid explanations from SESW at the May 2018 CSP, the CSP still concludes that the research on non-financial vulnerability has been less comprehensive and targeted than that on the Social Tariff, although has still provided evidence of effective engagement.
- The CSP has also suggested that the link between metering policy and vulnerability may require further investigation by SESW, given that evidence from elsewhere (e.g. the Walker report) suggests that compulsory metering can have a significant detrimental effect on larger poor families in low rateable value properties.

3.4. Resilience/Consumption/Environment

3.4.1. Resilience planning, engagement & analysis

The overall approach to customer engagement is summarised in Appendix 3 section 4.3.1, and highlights that resilience related matters were key components of the research. Appendix 3 section 4.3.5 then provides a summary of the analysis, review and challenges made by the CSP, specifically relating to resilience and the environment, and also identifies the responses from, and any actions agreed with SESW. In addition the WRMP research and planning was an important associated activity to the PR19 customer engagement, as this significantly informed the resilience and environment planning within PR19. This is also covered in Appendix 3 section 4.3.5.

3.4.2. Environment & Biodiversity

Appendix 3 section 4.3.5 summarises the analysis, review and challenges made by the CSP specifically relating to customer engagement on the importance of environmental and biodiversity considerations. This highlighted that customers did recognise that education and actions (by SESW and customers) on environmental aspects were important considerations.

The EA representative on the CSP raised no specific concerns about the company's environmental obligations, while recognising that the EA is undertaking its own assurance process directly with the water companies and will be reporting to Ofwat/Defra in due course.

SESW has included a specific chapter on environment in its Business Plan. The CSP welcomes the inclusion of this chapter, and the performance commitments related to the environment and biodiversity, and note that, following CSP feedback on the draft Plan, the final version of the Business Plan is much improved in this area.

3.4.3. Resilience/Environment: Conclusions

Based on Ofwat's PR19 methodology question points related to resilience, the CSP concludes that;

Resilience/Environment conclusions relating to Quality of Engagement

- *Evidence of engagement with customers, to help companies understand their customers' expectations on levels of service regarding resilience*

- **The CSP concludes that (following Phase 2 and 3 engagement output) that there is sound evidence of SESW engaging effectively with customers on priorities and expectations on levels of service** (ref Appendix 3 section 4.3.1 and particularly *figs 4.3.1i -4.3.1viii* and accompanying text).
- However the CSP is less assured by the customer engagement on levels of service for longer term resilience; e.g. customer views on asset resilience (e.g. treatment works, pumping stations) to extreme weather and ecosystem resilience.
- The CSP (as well as Ofwat) concluded that insufficient customer engagement evidence was included in the draft WRMP and expect more in the final WRMP plan.
- *How well has the company used the best available evidence to objectively assess and prioritise the diverse range of risks and consequences of disruptions to its systems and services, and engaged effectively with customers on its assessment of these risks and consequences?*
 - **SESW engaged effectively with customers/stakeholders during the PR19 customer engagement, including educating/informing of disruption risks** (e.g. ref Appendix 3 section 4.3.1 and including [Appendix 5 ref 3](#)), and improved upon the more limited engagement during the draft WRMP process.
 - EA/Ofwat challenged SESW that it may not be as resilient to drought events as it is presenting in its plan (ref [Appendix 5 ref 8](#)). The CSP flagged to SESW to keep the CSP in the loop on its responses to EA/Ofwat on this (ref [Challenge Log item 40](#)).

Resilience/Environment conclusions relating to Impact on Plan

- *How well has the company objectively assessed the full range of mitigation options and selected the solutions that represent the best value for money over the long term, and have support from customers?*
 - **The CSP concludes that SESW has effectively researched a range of mitigation options and has undertaken acceptability testing on an appropriate range of packaged options to identify an optimal value for money to customers**, based on the WTP research (ref Appendix 3 section 4.3.1).
 - The CSP challenged SESW on the degree of stretch in its initial proposed PCs for leakage and PCC. These have been subsequently improved, but the CSP shares the concern of EA/Ofwat that, even after SESW has implemented its metering policy, its customers' per capita consumption is still forecast to be one of the highest in England (ref [Appendix 5 ref 8](#)). It would seem unwarranted, therefore, to allow an "ODI reward" for exceeding a PCC target which still leaves SESW outside the upper quartile and thus the CSP considers that it might be more appropriate to set a threshold of the upper quartile level to only allow a reward if that level is reached.
- *To what extent has the company set out a well evidenced long-term strategy for securing resilient and sustainable water resources, considering a twin track approach of supply-side and demand-side options and integrating third party options where appropriate, to meet the needs of customers and the environment in the 2020-25 period and over the longer term?*
 - **The SESW Business Plan** (Chapter 4 re "Wholesale") **includes a strategy and supporting actions and evidence for securing resilient and sustainable water resources.**
 - SESW worked with EA and the WRMP research agency to agree a broad list of types of options that could be implemented to resolve the demand/supply deficit which were reviewed at the August 2017 WRMP.
 - Whilst different futures have not been modelled, detailed modelling forecasts were undertaken for the WRMP using the most up-to-date information in the public domain. SESW was also part of the WRSE group of companies that produced a single supply optimisation model for the south east.
 - Concerning third party options SESW's plan includes a small transfer to South East Water later in the planning period. However, given that the company is in surplus

throughout the 25 year planning period and in a strategic position in South East England, the EA has challenged SESW to work with other companies to explore the further potential for water transfers. The CSP agrees with the EA viewpoint, and notes that SESW's Business Plan commits to working more proactively with WRSE to build new water resource infrastructure.

- **The CSP welcomes the various initiatives outlined in the Business Plan chapter regarding the environment**, and notes that this chapter is improved in the final Plan version, following feedback from the CSP. The CSP notes, however, that this could have gone further to include a natural capital approach and greater inclusion of catchment initiatives which would support resilience in the round (ref Appendix 3 section 4.3.5).
- *To what extent has the company Identified and mitigated risks to operational resilience through;*
 - *Day-to-day performance commitments, such as an expectation of achieving forward-looking upper quartile performance for supply interruptions; and challenge to companies of a 15% reduction in leakage over five years?*
 - **SESW is proposing to achieve upper quartile performance for supply interruptions; and to remain best performing for leakage per property/day.**
 - SESW has increased the level of ambition on leakage and PCC reductions, but these remain key priorities for customers, and particularly the PCC ambition remains modest. Also greater reductions in leakage and PCC would add to operational resilience.
 - *Asset health performance commitments: challenging companies on mains bursts, unplanned outage and treatment works compliance.*
 - **SESW has a performance commitment aimed at maintaining industry leading performance for the number of bursts.**
 - *Risk-based resilience metrics: introducing new forward-looking resilience common performance commitments for resilience to drought and flooding.*
 - **SESW has a performance commitment (PC) for zero customers facing emergency restrictions in a 1:200 year event.**
 - SESW states that following the 2013/14 floods it did add flood resilience measures (e.g. flood proof doors to critical sites) and is not proposing any more such works, hence there is no specific PC. In terms of drought resilience the CSP noted that the EA has questioned (ref [Appendix 5 ref 8](#)) why SESW planned for a 1:35 year event rather than a more extreme event.
 - The CSP notes that the Business Plan (Chapter 4) provides limited detail on resilience of key installations/assets to flooding events (although the PC of having 100% of customers on more than 1 source of supply is one component).
 - *Longer-term performance commitments and planning: we are requiring companies to provide projections for their performance commitments beyond the price control period out to at least 2035 to support a longer-term focus.*
 - **SESW has provided some longer term projections for key PCs** (e.g. Business Plan (Chapter 4 re "Wholesale" includes PCC reduction to 118 l/day and leakage/bursts by 50% by 2050)
 - The CSP considers, however, that the qualitative research was more short-term focused with not enough input on e.g. environmental and long term resilience, plus the WTP criteria could have covered the inclusion of environment and water use restrictions.

3.4.4. Resilience: Challenges & Responses

The Challenge Log (Appendix 2) provides the detail of challenges raised, the company response and the CSP conclusions. Regarding the WRMP and resilience in general the challenges raised were Challenge Log items 3, 7,15,23,38.

The key CSP challenges were;

- The CSP required greater clarity on how the research and analysis is linking back to the Performance Commitments (and stretch within them), to confirm that there are no major gaps in relation to proposed PCs for 2020 to 2025 that have not been addressed and/or that need to be addressed in Phase 3.
 - SESW provided the “Triangulation and trade-offs” document ([Appendix 5 ref 2](#)) which provided helpful explanation of evidence regarding the link from research and analysis with the performance commitments.
 - However, the CSP has an outstanding challenge regarding the justification for the limited level of stretch in the leakage and PCC commitments.
- The qualitative research was considered by the CSP to be more short-term focused, with not enough input on e.g. environmental and long term resilience, plus the WTP criteria could also have covered the inclusion of environment and water use restrictions.
 - SESW responded in terms of the challenges raised and provided pre-reading of SESW responses. These were then discussed between the CSP and SESW at a pre-meeting prior to the March 2018 CSP meeting (ref [Appendix 5 ref M6](#)).
 - The CSP noted the EA/Ofwat challenge that SESW may not be as resilient to drought events as it is presenting in its plan (ref [Appendix 5 ref 8](#)); and the CSP also agreed with the challenge (ref [Challenge Log item 40](#)) that, even after SESW has implemented its metering policy, its customers’ per capita consumption is still forecast to be one of the highest in England (ref [Appendix 5 ref 8](#)).
- The CSP challenged as to whether the WTP options discussed in the research are stretching enough (particularly re leakage and PCC), given Ofwat requirements, and sought some clarity on how SESW would test out the limits of WTP.
 - SESW provided evidence that sought to justify the level of stretch and discussed with the CSP at a meeting on May 29th. SESW’s key contention is that it has tested the level of stretch as part of the WTP research.
- The CSP queried how SESW aimed to integrate/align WRMP activity with the PR19 Plan, and test the options and conclusions with wider customers.
 - SESW provided a detailed briefing at the March CSP, which reassured the CSP on the integration of approach. The CSP also gave positive feedback on the consultation process, and customer friendly communications (e.g. the WRMP Consultation document).
 - The Environment Agency (EA) & Ofwat subsequently produced their responses to the SESW draft WRMP (ref [Appendix 5 ref 8](#)), which flagged a number of challenges and recommendations, which SESW was then expected to take account of in its final Business Plan and WRMP.

Further to the above the CSP would note the following outstanding challenges/points:

- SESW need to account for EA/Ofwat recommendations in the final WRMP (ref [Challenge Log item 40](#)) e.g.
 - Actions on bringing forward planned water efficiency measures to reduce household consumption further.
 - The concern that SESW may not be as resilient to drought events as it is presenting in its WRMP plan, and thus SESW needs to demonstrate its resilience to droughts and other events.
 - SESW to review potential further opportunities to work with other companies on water transfers to improve mitigation of long term resilience risks.
 - The CSP notes however that, following EA/Ofwat feedback and CSP challenge, SESW has improved the final Business Plan content to include plans for more proactive working through WRSE in contributing to the long-term resilience of water across the SE region.

- While SESW has enhanced its commitments on reducing leakage and PCC, excessive leakage will remain a key customer concern (despite SESW comparing very well with other water companies), and PCC will remain high compared to other companies.
 - SESW could therefore consider opportunities to reduce leakage and PCC further by 2025 and explore how it can use innovative approaches to achieve longer term leakage reductions in line with best practice in leading companies elsewhere.
 - Regarding PCC the Business Plan currently mentions home visits to accompany the metering programme; and there are various references to national Government driven approaches, but the CSP is not convinced that these are sufficient to deliver the objective.
- The CSP notes that the Business Plan chapter on environment is improved in the final Plan version, following feedback from the CSP, but concludes that this could have gone further to include a natural capital approach and greater inclusion of catchment initiatives which would support resilience in the round (ref Appendix 3 section 4.3.5).

3.5. Innovation

3.5.1. Innovation: customer engagement and analysis

The overall approach to customer engagement is summarised in Appendix 3 section 4.3.1, and Appendix 3 section 4.3.6 then provides a summary of the analysis, review and challenges made by the CSP, specifically relating to innovation.

3.5.2. Innovation: Conclusions

Overall the CSP has been impressed with SESW's commitment to innovation:

- The Chair has personally led and championed the cause of innovation;
- Real strides have been taken towards developing a bottom up innovation culture;
- These have led to concrete examples of innovation, which appear to be well towards the top of industry wide performance;
- The CSP has been given open access to the impressive SESW lead manager for innovation, as well to the Chair;
- Innovation appears to have been promoted and secured also as part of the approach to some components of the qualitative and quantitative customer research.

Conversely the CSP concludes that the main focus of innovation that is evidenced in the Business Plan relates to the operational areas of the business, and thus there is less evidence of:

- bottom up innovation in customer service from front line staff;
- top down innovation, notably across service areas and the environment, including in terms of local engagement (being a locally facing water company);
- longer term innovation in service and operational areas beyond 2025.

Following feedback from the CSP the final Business Plan does seek to provide some further content on some of the above.

Based on Ofwat's PR19 methodology question points related to innovation, the CSP would thus currently conclude that;

- *How does the company's Business Plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?*
 - **SESW has included a specific section on innovation in its Business Plan** (ref Chapter 8) that evidences its focus and approach to innovation.

- **SESW has a well embedded culture of innovation.** The Chair has personally led and championed the cause of innovation; and there is a sound strategy in place to empower staff to innovate which has led to incremental improvements in a variety of areas to strengthen the operation, with some good examples of innovation projects.
- The appetite for innovation is apparent at all levels but appears predicated on efficiency savings rather than customer benefits e.g. smart metering is only being rolled out to circa 10% of customers on a trial basis.
- The CSP has seen bottom up innovation in some aspects of the customer engagement, where innovation appears to have been promoted and secured as part of the approach to qualitative and quantitative customer research.
- However the Business Plan content on innovation 'to support a thriving environment' is not considered very innovative i.e. it predominantly focuses on reducing carbon emissions; and could have included more innovation around environmental education of communities (e.g. innovative initiatives to reduce PCC).
- *How well does the company use and engage with markets to deliver greater efficiency and innovation and to enhance resilience in the provision of water and wastewater services to secure value for customers, the environment and the wider economy; and to support ambitious performance for the 2020-25 period and over the longer term?*
 - **SESW is focusing on collaboration through external projects** (e.g. as described in [Appendix 5 Ref 21](#)) **and aiming to become an 'Innovation Honeypot'** so that SESW gets first refusal of flagship projects; although this aspiration needs to be tempered with what other companies are doing, e.g. Anglian Water. SESW believes it is well placed to do this not only due to its location (near to London and in between two major airports), but because of its track record.
- *Evidence of effective use of markets to harness innovation and reveal information about efficient cost of service.*
 - **The CSP has not been persuaded that SESW has compelling evidence that it is instrumental in changing markets, compared to some other water companies** (e.g. Wessex and Anglian), although the CSP accepts that some of the examples of market-based innovations (e.g. in Ofwat's Driving Innovation report) appear more suited to waste water issues.
 - SESW is working with Portsmouth through the initiative *Collaborate to Innovate*, to scope out better ways of leveraging better value for money deals through collaborating with a Water-only-Company like them.
 - SESW has been exploring the use of new innovative techniques of mains condition assessments and techniques used to lay new mains.

3.5.3. Innovation: Challenges & Responses

The Challenge Log (Appendix 2) provides the detail of challenges raised, the company response and the CSP conclusions. Regarding innovation specifically the challenges raised were Challenge Log items 24 and 33.

The key CSP challenges were;

- How the CSP could improve the assurance of the quality and effectiveness of the Board role in customer engagement, and the impact on the Business Plan; using Innovation as a test case to identify the CSP leads who would shadow the Board member leads, including on innovation.
 - The CSP leads on innovation met with Jeremy Heath, the SESW management lead (ref [Appendix 5 ref 21](#)), to gain a detailed view on the SESW approach to innovation both from an operational and company culture perspective. There was also a follow up meeting with the SESW Chair, who was the Board lead on innovation. These meetings, and the follow up information, gave the CSP an impressive view of SESW's commitment to innovation.

- The CSP seeking more evidence of “new ideas from customers”. SESW has some good ideas re innovation, but it was not clear how SESW intended testing this in the plan.
 - The final Business Plan has included some further detail and evidence, but the CSP maintains that the main focus of innovation in the Business Plan still relates more to the operational areas of the business, and there is less evidence of considering “new ideas from customers”.

As concluded above, overall the CSP has a positive view of SESW’s use of innovation in its activities and plans for operational areas. The key area of outstanding challenge therefore relates to the points above concerning the opportunity for more robust detail in the Business Plan of customer service (and customer focused) innovation, and of longer term innovation in service, the environment and operational areas beyond 2025. The CSP accepts, however, that SESW has included some further detail in its final Business Plan content.

3.6. Financeability, and Willingness to Pay (WTP)

3.6.1. Customer Engagement re Financeability & WTP

The overall approach to customer engagement, including challenges made by the CSP during the process, is summarised in Appendix 3 section 4.3.1, and WTP was a key component of particularly the Phase 2 and 3 research and engagement. Appendix 3 section 4.3.7 then provides a summary of the analysis, review and challenges made by the CSP, specifically relating to Financeability and WTP.

A specific topic related to the company’s financeability considerations was the review of its financial and corporate structure in the context of Ofwat’s consultation document. SESW has responded to the consultation ([Appendix 5 ref 25](#)), and particularly related to the debate around “gearing” the SESW Board NEDs have confirmed that the company intends complying with the Ofwat guidance for bringing gearing below 70%, with a target of 65%. SESW has advised that it is taking early action, via agreed shareholder authority, to fund equity investment to achieve debt reduction to underpin the compliance. SESW also intends creating a communication plan to provide appropriate customer messages on these issues.

3.6.2. Conclusions: Financeability & WTP

The CSP appointed an independent technical adviser, Atkins, selected through an open procurement process, particularly to advise the CSP on PCs and WTP conclusions. The CSP discussed its analysis and core conclusions with Atkins, who provided its professional opinion on aspects of the SESW customer engagement and draft Business Plan in terms of good practice, industry norms and interpretations of Ofwat guidance, coherence and clarity of purpose. Specifically regarding the WTP analysis and outputs, the CSP has reviewed these with Atkins and **concludes that the quality of the work was high, the sample sizes robust, and thus that the output is well founded.**

Although timing was tight, the CSP did have the chance to comment on the proposed survey questionnaires, and on the Phase 3 research approach and output, and in many cases the comments were taken on board. A particularly strong feature which the CSP strongly welcomed was the innovative approach of assessing WTP against alternative packages for the Business Plan. Therefore **the CSP considers that SESW has paid an appropriate degree of attention to the customer feedback from the WTP studies**, and there is a clear line of sight from the Phase 3 research to SESW’s decision to increase the level of ambition on PCC and leakage in the final draft Business Plan.”

It is also relevant to register that **the CSP notes the clear assurance from the Board NEDs that SESW has closely considered the Ofwat guidance on financial structures and has agreed plans to ensure the company gearing is within the required levels.**

Based on Ofwat's PR19 methodology question points related to Financeability & WTP, the CSP further concludes that;

- *Evidence that SESW has taken into account customers' views on the profile of bills over time.*
 - **The CSP agrees that there is evidence that SESW has taken customer views into account on the profile of bills over time.**
 - SESW ensured that it informed customers of the overall bill impact, and the CSP considers that the Phase 3 explanation of how the bill might change over time (as per Appendix 3 fig 4.3.1x and p12-14 of [Appendix 5 ref R7](#)) was very effective; including also the methodology used to provide effective feedback on the trade-offs that customers would consider (ref fig 4.3.1xi, 4.3.1xii).
 - The Phase 2 analysis of WTP and Phase 3 acceptability testing (ref Appendix 3 section 4.3.1), plus the broader Business Plan consultation provides good evidence of customer views on bill impact being taken into account; particularly regarding SESW reconsidering the leakage and PCC commitments.
- *Evidence of customers' views and support for actions re financeability and WTP; and the impact of their proposals on customers both now and in the longer term.*
 - **The CSP agrees that there was evidence to support WTP actions and impact.**
 - The explanation of the SESW customer engagement (as per Appendix 3 section 4.3.1), and particularly the acceptability testing and Business Plan consultation exercises provides good evidence of customer views and support for actions on financeability and WTP, e.g. 71% general customer acceptance of the plan.
 - The approach of using packaged options of services for testing with customers, particularly in the quantitative research ([Appendix 5 ref R7](#)), is recognised by the CSP as being both broad plus targeted on ensuring appropriate customer segments were addressed, and the CSP concludes that the research and analysis provides sound evidence of an effective approach to validate that customer views have been effectively considered regarding the impact and acceptability of the SESW Business Plan proposals; and to explore the most acceptable combinations of service commitments versus overall WTP.
- *Specific evidence to support the application of a Small Company bill impact:*
 - **The CSP agrees that there is robust evidence to support a small company bill impact** (although the CSP has not examined the funding or efficiency arguments, viewing those as outside its remit)
 - SESW undertook specific research and customer engagement on the willingness to pay a small premium for continuing to be served by a small local company ([Appendix 5 ref R4](#)). This concluded that 82% of respondents were willing to pay up to a £4 premium to be served by a small and local water company.
 - Additional evidence for the benefits of supply from a local provider has been seen in the context of the recent response to the big freeze and subsequent thaw. The CSP considers that SESW's response was extremely good, against a backdrop of widespread criticism of the response from larger companies. Similar anecdotal evidence exists of a genuinely local feel to the response to bursts.
 - However the CSP has flagged to SESW the need for a strong focus on improved customer service, customer communication, and customer engagement as the engagement feedback highlighted that customer service is a key attribute customers look for in a small/local company, and currently the SESW SIM score does not align with that.
 - Following CSP feedback SESW has improved the explanation of the rationale and benefits to customers of the bill impact, in Chapter 2 of the Business Plan.

- *Evidence that the Board has provided a clear & robust statement that its plan is financeable on both an actual and a notional basis.*
 - The CSP met with Board NEDs on 18 July and **received assurance from the Board that the Plan is financeable**. In particular the CSP discussed with the Board and SESW the SESW approach to reducing the gearing, partly in response to encouragement from Ofwat and government, but more importantly as a means of maintaining SESW's financial resilience in the long-term (see also comments in 3.6.1 above). SESW stated that it has consistently demonstrated financial resilience even with current levels of gearing; and that SESW has maintained its current rating with the credit rating agencies.
 - The impacts of the actions re gearing (ref 3.6.1 above) result in little difference between the "notional" balance sheet Ofwat assumes for price setting purposes and SESW's projected actual balance sheet. The Board focus has thus been on the level of new equity required to ensure SESW is able to withstand severe but plausible shocks with financial implications in the long-term; and the Board concludes that additional headroom might be needed beyond 2025 to accommodate the greater probability of a combination of multiple shock occurring. To address this, SESW's shareholders have agreed to provide a letter of support, explaining that they are committed to ensuring that the company will be able to continue fulfilling its obligations in such eventualities.
- *Evidence of customers' support, and the strength of that support, for its proposed adjustments to the 2020-25 price controls. (Accounting for past delivery)*
 - SESW has assured the CSP that the impact of adjustments for past delivery have all been incorporated in the draft Business Plan overall acceptability research; and the key point from SESW's perspective is that customers are not being asked to pay more than they would do if there were no adjustments.
- *Evidence of customer support where companies take steps to address financeability constraints.*
 - No specific steps are proposed in SESW Business Plan, as actions on gearing/equity injections (ref above) mean no need to add anything to customers' bills to ensure they remain financeable. Nevertheless, the evidence from WTP research validates the customer support for broader service enhancements; and the small company research concluded that customers would accept a small bill impact for continuing to be served by a small/local company.
 - SESW states in its Business Plan that it "considers that this small company adjustment should be allowed in price limits because the three criteria set out in the methodology statement have been satisfied – namely that its debt has been efficiently incurred, that it has customers' support for an allowance, and making an allowance is in the interests of customers in general". The Business Plan includes evidence of meeting these criteria.
- *Evidence (assured by the CSP) that customers support any cost efficiency/investment projects (in relation to cost adjustment claims and investment plans)*
 - The CSP is assured by SESW that the only cost adjustment claim is in relation to SESW's statutory obligation on softening. All other investment plans have been included in the willingness to pay and overall acceptability research.

3.6.3. Financeability & WTP: Challenges & Responses

The Challenge Log (Appendix 2) provides the detail of challenges raised, the company response and the CSP conclusions. The challenges raised Regarding Financeability & WTP were Challenge Log items 32, 38, 42. These challenges predominately relate to the CSP challenging the proposed level of stretch within Performance Commitments, particularly for leakage and PCC; which have been covered already in section 3.7.3.

The CSP did seek clarification, however, relating to;

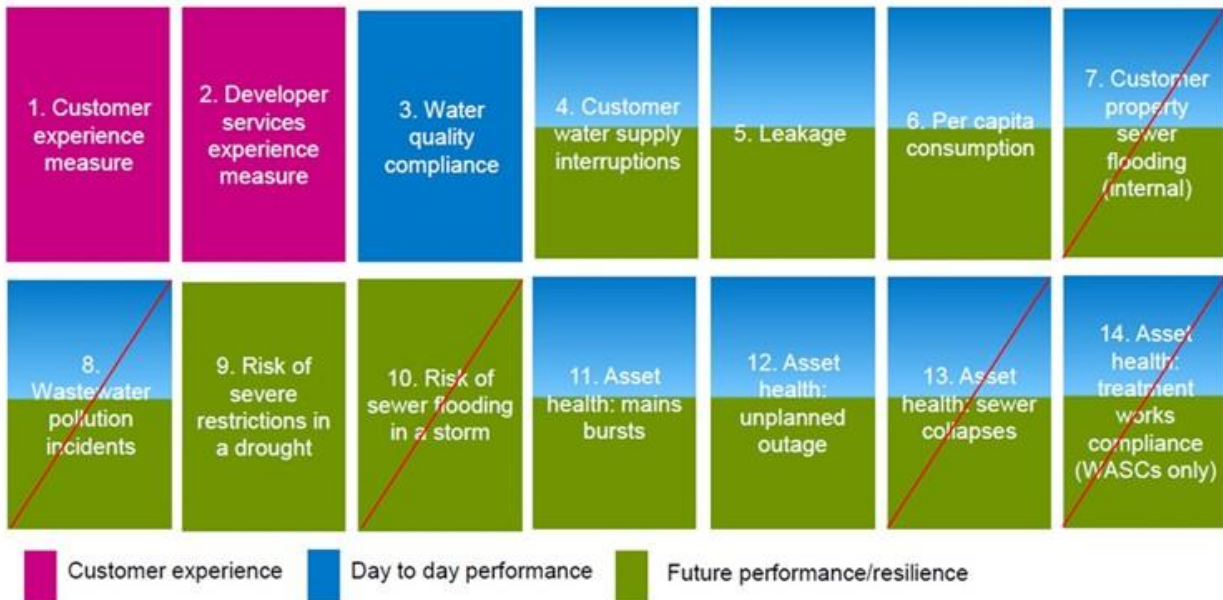
- The SESW calculations of bill impact, and an apparent discrepancy relating to actual inflation % assumption used (research materials stated 2% inflation used, which is the case for 2020-2025 but 2.5% has been used up to 2020).
 - SESW response was that using “2%” in the research materials was to keep things simple and not refer to multiple different values for inflation adjustments on the same screen. Hence SESW made a conscious decision to include a descriptor that kept the page as simple as possible.
- The small company research and how the £193 average bill quoted relates to the £235 in the main research and the basis for the industry average bill?
 - SESW response was that it was looking to make the research as meaningful for customers as possible so that they could give an informed view on the financing options of a smaller company. Hence the decision to provide a bill comparator – i.e. £193 is SESW’s current average bill and £189 is the average water bill (see www.discoverwater.co.uk/annual-bill).

Beyond the comments above, there are no additional areas of outstanding challenge that have not been covered under section 3.7.3 relating to PCs/ODIs.

3.7. Performance Commitments/Outcome Delivery Incentives (PCs/ODIs)

3.7.1. PCs/ODIs: engagement & analysis

The overall approach to customer engagement is summarised in Appendix 3 section 4.3.1, and Appendix 3 section 4.3.8 then provides a summary of the analysis, review and challenges made by the CSP, specifically relating to PCs/ODIs. Ofwat defined the required common set of PCs within the PR19 guidance as described below. Of the 14 overall common PCs only 9 relate to SESW as a water-only company.



3.7.2. PCs/ODIs: conclusions

As summarised in Appendix 3 section 4.3.8, the CSP concludes that the quality of both the qualitative and quantitative research and analysis on PCs, and the willingness-to-pay against these, has been good. SESW clarified relative priorities from Phase 1 research and tested a range of PC levels on an individual and packaged basis within Phase 2; then validated the proposals in Phase 3. The CSP has conducted a full assessment on the proposed

performance commitment levels, and ODIs, with support from its independent technical advisers.

As is evidenced in Appendix 3 section 4.3.8, as well as in sections 3.4 (resilience) and 3.7 (WTP), the CSP review of PCs/ODIs has had a strong focus on leakage and PCC as these are the identified key priorities with customers. It is appropriate, therefore, to note some specific points regarding the CSPs conclusions on these 2 PC/ODIs;

- Leakage: The Ofwat guidance requires that the leakage performance commitment be calculated on a three-year average basis. On this basis SESW are targeting a 12.4% reduction by 2025 (to 21.1 MI/d); i.e. below the Ofwat guidance on leakage PC's which challenges companies to commit to a "15% reduction by 2025 and forward-looking upper quartile performance on leakage per property per day". However, on a year-on-year basis SESW are targeting a leakage reduction of 15% by 2024/25 when compared to the expected outturn performance in 2019/20 – a reduction from 24 MI/d to 20.4 MI/d; with a longer term aim to halve leakage by 2045.
- In terms of leakage per property/day SESW are already one of the best performing water company (at 82.9 ltr/property/day), and the above figures translate to a 18% year-on-year reduction by 2025, and a 16% reduction based on a three-year average.
- The CSP thus concludes that SESW has accounted for customer, stakeholder and the CSP feedback on leakage commitments, and that the proposed Business Plan commitments do align with Ofwat challenges on % reduction and upper quartile performance on leakage per property per day.
- Per Capita Consumption PCC: SESW has applied, as required, the consistent reporting methodology which reduces the current reported usage by 8%, with a revised 2019/20 start point of 144.9 l/h/d. SESW is then targeting a usage reduction of 7.3% by 2024/25 (to 134.3 l/h/d). The long-term commitment is to aim to reduce PCC to 122 litre per head per day by 2045.
- Ofwat guidance requires the performance commitment to be based on the movement in the three-year average PCC, which equates to a 2024/25 target of 6.6% reduction. In addition the Ofwat guidance is challenging companies to commit to a "forward-looking upper quartile performance on PCC l/h/d". SESW has assessed the potential change to the upper quartile over time and consider that further year on year reductions from all companies are likely. Assuming that average industry reductions seen between 2014/15 and 2017/18 continue (circa 0.5% reduction per annum) the forecast upper quartile level at 2024/25 will be circa 131 l/h/d. Thus, although SESW has improved its ambition on PCC reduction following customer, stakeholder and CSP feedback, the 2024/25 commitment is still outside of the forecast upper quartile.
- SESW's stated rationale for its commitment level of 134.3 l/h/d by 2024/25 is based on customers' acceptance to pay for this level of reduction. Further reductions, and the additional cost, were not tested with customers as SESW states that the proposed reduction tested was the reasonable maximum reduction that is feasible in the period. It requires a significant increase in meter penetration to 90% and significantly more activity on other aspects of encouraging water efficiency. In addition SESW states in its Business Plan that its efficiency target is partly dependent on government actions which, in the CSP's opinion, are unlikely before 2025 (ref Appendix 3 section 4.3.5).
- The CSP thus concludes that SESW has accounted for customer, stakeholder and CSP feedback on PCC, and that the proposed Plan commitments are justifiable on that basis. However, since the 2024/25 PCC remains outside the forecast upper quartile it would seem unwarranted to allow an "ODI reward" for exceeding a PCC target which still leaves SESW outside the upper quartile and thus it might be more appropriate to set a threshold of the upper quartile level to only allow a reward if that level is reached.

On individual targets the CSP conclusions are summarised in the following table (Table 3.7.2i).

CSP Report on SES Water's 2020-2025 Business Plan

Table 3.7.2i Performance Commitments	Summary Definition	PC f/cast 17/18 19/20	PC Target by 2025	ODI definition (or Non Financial Incentive - NFI where NB: CSP noted SESW opted not to do customer engagement on acceptability of potential bill impact of ODI rewards/penalties.	CSP Conclusion RAG= acceptability of degree of stretch
Common PC's					
Cmex	Mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. Measured via weighting for combination of customer service ("contact") and customer experience ("noncontact") surveys.	NA	TBA	In-period out/underperformance payment/penalty will be payable	To be determined by Ofwat. Methodology due after April 2019. Recognising that C-Mex and D-Mex are new measures, SESW will report results from C-MeX pilot, and will report results for the SIM score until it ends in March 2019.
Dmex	Mechanism to incentivise water companies to provide an excellent customer experience for developer services customers. Six-monthly satisfaction survey to assess company performance on average of the two surveys combined.	NA	TBA	In-period out/underperformance payment/penalty will be payable	As above
Water Quality	Using DWI Compliance Risk Index; a measure designed to illustrate the risk arising from treated water compliance failures	0.2 0.5	zero	In-period penalty will be payable where fail to deliver performance below the penalty deadband of 2.6.	Zero target is as expected; Ofwat agreed ok to have a threshold > 0
Supply Interruptions	Average number of minutes lost per customer property for the whole customer base for interruptions that lasted 3 hours or more.	3.2 2.8	2.1 mins	In-period out/underperformance payment/penalty will be payable where beat or fail to meet the annual target.	CSP concur target is appropriate. Stretching, as supply interruptions generally come from localised network interruptions, where any one event can result in a penalty.
Leakage	% change in megalitres a day (Ml/d) based on a three-year average. Measured as the sum of distribution system leakage, including service reservoir losses and trunk main leakage plus customer supply pipe leakage.	24.2 24.0	20.4 Ml/d -12.4% vs 2019/20	In-period out/underperformance payment/penalty will be payable	After CSP and customer feedback, SESW improved their ambition from 12% to 15% yr-on-yr reduction by 2025. So although the reduction based on a 3 yr average is 12.4%, SESW are already one of the best performing companies for leakage/property /day, and the PC equates to a 18% reduction in leakage/property/day yr-on-yr and 16% reduction based a 3 year average.
PCC	% change in litres per person per day based on a three-year average amount of water used by each person that lives in a household property.	146.8 144.9	134.3 -6.6% vs 2019/20	In-period out/underperformance payment/penalty will be payable	After CSP and customer/stakeholder feedback, SESW improved their ambition from 5% to 7.3% yr-on-yr reduction by 2025 (equivalent to 6.6% reduction on 3-year avg basis). This would remain outside the forecast upper quartile at 2025, but is based on tested WTP with customers. PCC will thus remain a high profile area for SESW forward action.
Drought Risk	Percentage of the population the company serves that would experience severe supply restrictions (for example, standpipes or rota cuts) in a 1 in 200 year drought	0 0	Zero	NFI	A new common PC and is rather blunt, but sends the right message. The variable and uncertainties about such an "unlikely" event will make this hard to prove one way or another
Bursts	Number of mains bursts per thousand kilometres of total length of mains. Mains bursts include all physical repair work to mains from which water is lost.	61.5 62.5	57.8 per 1,000 km	In-period out/underperformance payment/penalty will be payable	CSP concur that the target is appropriate but queried if SESW may be overambitious, given that the more work done on leakage the greater the number of recorded bursts.
Unplanned Outage	The temporary loss of peak week production capacity in the reporting year weighted by the duration of the loss (in days).	4.6 2.3	2.3	NFI	PC seems reasonable, but although the definition definition is set buy Ofwat, there may be an issue of consistent application across the industry, as its a new measure.

Cust Concerns about their water	Number of customer contacts about taste, odour and discolouration per 1,000 population each year.	0.53 0.52	0.5 per 1k	In-period penalty will be payable where fail to meet the annual target.	CSP concur with the aim to achieve a reduction in contacts and to maintain industry leading performance.
Cust Confidence	Cust survey (scale of 1 to 5) ref "Taking everything into account, I am confident in SES Water's ability to provide me with a reliable supply of high quality water."	NA 90	90	NFI	CSP concur, although a reputational PC, so based on perception rather than any detailed evidence or knowledge. SESW felt it was valid, as based on customer feedback re priorities.
Supporting customers in financial hardship	Count the number of customers on the Water Support Scheme on 31 March each year.	8.1k 11.5k	19k	NFI	This is a reduction in ambition from the draft plan, despite customer support, although still keeping SESW one of best performing companies on social tariff uptake. SESW provided rationale for reduction based on balance of WTP feedback.
Vulnerable Support Scheme awareness	Cust survey re answering "yes" to "Are you aware of the additional support SES Water offers customers in vulnerable situations through their Helping Hand Scheme?"	44% 53%	58%	NFI	Awareness is likely to be low, and more relevant that people who are likely to need access to the services(or their family/carers) are aware of the services on offer. May motivate SESW to increase awareness if a financial incentive defined.
Vulnerable Support	Cust survey re Helping Hands Scheme; answering "yes" to "Do you feel that these services offered by SES Water are helpful?"	NA	80%	NFI	CSP concur, but some CSP members felt this question would be more relevant if addressed only to people who have received help
Managing bad debt	Measure of the cost each year of the money billed but not paid by customers for the year and express as a percentage of annual revenue.	0.64% 0.64%	0.80%	NFI	CSP concur it is a good PC as within the company's control and measure of the effectiveness of its practices
VfM perception	Cust survey (scale of 1 to 5) ref "how satisfied or dissatisfied are you with the value for money of the water services provided?". Measure is % dissatisfied.	9% 10%	10%	NFI	CSP thought more relevant to measure satisfaction (vs dissatisfaction) with VfM. SESW view and rationale is in Appendix 5 ref 34 .
Void properties	Measure of the % of properties (both households and businesses) that are connected to our network where our records show that they are vacant and therefore not using water.	3.5% 3.0%	2.2%	In-period out/underperformance payment/penalty will be payable	New PC and required by Ofwat (incl ODI); but CSP felt that if evidence SESW not being effective in identifying voids, then this would support a case for a penalty but do not see the case for a reward.
AIM	The Abstraction Incentive Mechanism (AIM) is a mechanism established by Ofwat that incentivises water companies to reduce their water abstractions from the more environmentally sensitive water sources when river flows are low. Measured in millions of ltrs reduced abstraction.	NA	19 MI	NFI	SESW agreed via EA that no locations meet the criteria specified by Ofwat's guidance regarding AIM. However, SESW still agreed (with EA) a bespoke AIM PC to limit abstraction from two chalk boreholes close to the headwaters of the River Wandle – at The Oaks & Woodcote.
Risk of supply failure	Measure the percentage of our properties that can be supplied by more than one water treatment works.	36% 56%	100%	In-period out/underperformance payment/penalty will be payable	CSP concur with PC as effective in measuring improvement in resilience.
First contact resolution	Measured by recording repeat contacts received within a period of 10 working days.	75% 78%	85%	In-period out/underperformance payment/penalty will be payable	CSP concur with PC, which is an improving target over time.
Greenhouse gas emissions	Measure of operational greenhouse gas emissions; presented as emissions (kgCO2eg) per million litre of water put into supply.	376 55	55	NFI	Reasonable PC as SESW moving to 100% renewable supply.
Pollution incidents	We will measure the number of the more severe pollution incidents that we cause. These are category 1 and 2 incidents as categorised and reported by the Environment Agency (EA) on an annual basis, for pollution to land, air or water.	0 0	zero	NFI	CSP concur as acceptable PC, although felt an ODI could have been considered so that there is a bill-related financial penalty for any incident. Also PC only on Cat1/2 incidents is deemed soft as water-only companies don't have many pollution incident, although SESW state they will account for Cat 3.
Land based improvement - biodiversity	We will measure the number of our water production and treatment sites where we achieve and maintain the Biodiversity Benchmark over the period 2020 to 2025.	0 0	3 sites	NFI	Doesn't appear over ambitious with just 3 sites. However no ODI is proposed so acceptable as an addition to the other bespoke environmental PC's.
River based improvement - delivery of WINEP	Water Industry National Environment Programme (WINEP) sets out the investigations, improvement measures and measures to prevent deterioration needed to meet the water framework directive (WFD) objectives and those of other drivers. Measured as number of projects	0 14	18	NFI	WINEP is a statutory requirement, so agree that SESW should not apply ODI reward. SESW view is that Ofwat/EA expect to see this covered in the PC framework.

Taking account of the above Table and in considering Ofwat's PR19 methodology question points related to PCs/ODIs, the CSP concludes that;

Conclusions on PCs/ODIs relating to Quality of Engagement

- *What evidence supports the overall acceptability of the package of performance commitments (PCs) and ODIs to customers? How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?*
 - **The CSP concludes that there is good evidence supporting the acceptability of PCs.**
 - Acceptability testing was developed progressively through Phases 1 to 3 of the engagement programme with targeted quantitative and qualitative evidence, triangulated with business as usual evidence from regular interactions with customers. Phase 2 WTP surveys of household and non-household customers asked specific questions on PCs and targets, and the innovative tool developed by the survey provider (BoxClever) provided a means in phases 2 and 3 of understanding trade-offs between these for customers in aggregate and for key sub-sets. The Phase 3 overall acceptability testing exercise tested customer opinions on different service levels on an individual and packaged basis, which informed the debate, with the CSP feedback, on SESW committing to more ambitious leakage and PCC proposals, as well as a revised level of social tariff uptake.
 - The CSP has examined the degree of stretch, with the assistance of Atkins. Although the CSP provided feedback and challenges where it was felt stretch was excessive, and others where it might be less so, **the CSP concludes that on balance the degree of stretch seems appropriate.**
- *How appropriate, well-evidenced and justified is the company's package of outcome delivery incentives. How well the proposed ODI outperformance and underperformance payment rates reflect a suitably wide range of evidence on their customers' preference; as well as how the company will share information about how it achieved the performance improvement that earned it an enhanced outperformance payment;*
 - **The CSP concludes that based on the customer engagement and acceptability testing that the proposed package of ODIs are appropriate and justified.**
 - **However the CSP has challenged that SESW has not specifically tested the potential impact of ODI rewards/penalties with customers.**
 - The WTP research (ref Appendix 3 section 4.3.1 plus Business Plan Chapter 1) provides clear evidence of customer preferences, and bill impact acceptability. However, SESW opted not to specifically test acceptability of ODI impact, as it considered that customer research on these figures would not add value, given the scale of incentives relative to the overall bill. SESW's justification is that it is setting very stretching PC/ODI targets "and intend to deliver the targets set with the aim of receiving no penalties or rewards", and thus have no impact on customer bills. The CSP can understand, and accept, this argument, but SESW then argues "if we do manage to deliver more we will be able to recover the costs of delivering this through a reward paid through customers' bills, in line with Ofwat's framework". The CSP does not concur with this rationale, as SESW does not have customer evidence that such further bill increases are acceptable. The CSP concludes that there is some rationale that there could be a balance of out/underperformance on ODIs which could offset each other, but this would not be justifiable beyond a net-zero bill impact.
- *Has SESW explained to customers/ CSP the size of its asset health underperformance penalties (and any outperformance payments), and how they relate to past performance and the asset health challenges.*

- SESW's customer engagement included informing customers on current performance, especially relating to leakage, PCC, bursts/outages.
- The CSP has reviewed asset health PC proposals in the context of past vs forward projections, noting SESW's view that its assets are generally in good condition – both below ground (the pipes) and above ground (the treatment works etc.), and its performance (across all water companies) is good in these areas.

Conclusions on PCs/ODIs relating to Impact on Plan

- *Are ODI outperformance and underperformance payments (for the common PCs) based on comparable data?*
 - Table 3.7.2i above (and Business Plan Chapter 2) identify the current performance (where there is comparable data available) and forecasts for the subsequent two years; so that comparable data is available. These also follow any Ofwat guidance for consistent measurement, to allow across company comparisons.
- *Has SESW provided convincing evidence that any reputational-only ODIs are appropriate? This includes evidence from its customer engagement or that a performance commitment is not well suited to a financial ODI.*
 - The CSP has reviewed all the proposed ODIs, and is assured that SESW has provided (ref Business Plan Chapter 2) appropriate justification as to why a financial reward/penalty is not sensible in each relevant case. However, in line with Ofwat guidance, **the CSP would prefer to see a greater % of reward/penalty based ODIs to improve accountability.**
 - SESW's rationale is based on two key considerations: to reflect customers' priorities in performance commitments; and then try to establish a sensible financial reward/penalty rate – and if this is not possible, then fall back on a non-financial incentive. This has resulted in 13/24 PCs having a non-financial incentive (ref Table 3.7.2i above). The CSP has challenged SESW on this, and the response is that reducing the number of commitments by removing some with non-financial incentives would set aside some customer priorities to meet the regulator's assumptions (that financial incentives should be the default), and thus is not appropriate.
- *Has SESW provided evidence why any in-period ODIs are not in customers' interests, including why future customers should pay for/benefit from incentives related to the service performance affecting current customers?*
 - SESW feedback is that this does not apply as the company are not challenging the Ofwat "default" position that financial rewards and penalties should apply in period.
- *Has SESW provided evidence of customer support for the overall return on regulatory equity (RoRE) range proposed in its Business Plan; and how SESW will protect customers in case its ODI payments turn out to be much higher than its expected RoRE ranges for ODIs?*
 - **The CSP is assured that SESW has appropriately considered and accounted for the potential impacts of ODI payments vs RoRE ranges.** SESW states that the overall return on regulatory equity being assumed in the Plan is that indicated by Ofwat in its methodology – and is reflected in the draft Business Plan bill impacts used for the acceptability testing. SESW's approach to testing the financial impact of unplanned events is set out in the Long term Viability Statement in SESW's Annual performance Report (Annual Report) and the level of "headroom" needed to enable the Board to provide assurance on long term financial resilience has been the subject of particular debate.
- *How appropriate is the company's focus on service performance in its risk/return package?*
 - **The CSP concludes that there is an appropriate focus on service performance in SESW's risk/return package.**

- The use of C-Mex and D-Mex will give a feeling for overall satisfaction with service. The CSP considers that the service interruptions commitment is appropriate - and indeed has commented that the underperformance penalty being open ended may be more stretching than intended. The CSP also concurs with SESW on the risk of supply failure commitment. In terms of customer service the CSP has pressed SESW to expand the first contact resolution to cover digital channels. The CSP also has agreed with SESW to continue to report on the issues which underpin the poor SIM scores in the past 18 months, until such time as the SESW remediation plan has achieved satisfactory performance.
- *Abstraction Incentive Mechanism (AIM): assurance and evidence that the company, following engagement with local stakeholders (particularly EA), has identified suitable AIM sites.*
 - SESW has liaised with EA and agreed there are no locations where its abstraction of water from the natural environment meet the criteria specified by Ofwat's guidance regarding AIM. However, SESW still aim to account for the fact that customer engagement feedback identified the protection of the natural environment as a priority. SESW has therefore worked with the EA and other stakeholders to develop a **proposal that will achieve the objectives of AIM despite no sites meeting the criteria specified**, i.e. to limit abstraction from two chalk boreholes close to the headwaters of the River Wandle – at The Oaks & Woodcote.
- *Evidence from SESW to explain in its Business Plans, how it will disseminate its performance information during the 2020-2025 period to customers, the CSP and other stakeholders.*
 - The CSP has worked with SESW on developing reporting of performance communications over the last few years – including ensuring a focus on the customer perspective in the annual report, developing on-line and customer friendly digests from the full report (including the materials displayed in poster form in our offices), community/stakeholder briefings – and the regular performance updates provided at CSP meetings, including posting the minutes of such meetings on the SESW website.
 - The CSP has commended SESW on the quality and excellent accessibility of the company's customer facing documents during the WRMP and Business Plan cycle.
 - SESW Business Plan (particularly Chapter 2, 4, 5) provides explanations on improved communications and customer service commitments.

In addition it was a requirement from the Ofwat methodology for the CSP to take account of the views and feedback of statutory bodies, notably EA and DWI. The feedback from EA is covered in section 3.4, including SESW's approach to the AIM commitment. In terms of DWI feedback there are two key components of DWI feedback that the CSP focused on;

1. The general advice from DWI to all of the water company customer scrutiny panels is that "DWI will not form or advise a judgement on the likelihood of draft Business Plans to meet statutory requirements, as they are not sighted to sufficient relevant detail of Business Plans to enable them to form a considered view. The long term planning guidance that DWI issued to companies sets out DWI's expectations of the issues that they would expect companies to take account of draft Business Plans".
2. The specific letter from DWI to the CSP (and SESW) dated 29 June [Appendix 5 ref 23](#)), providing a statement from DWI for use by the CSP in its PR19 report.

The letter from DWI reaffirms that, for PR19, water companies are expected to ensure that their Business Plans make provision to meet all their statutory obligations. **SESW has assured the CSP that it will meet all its statutory obligations.**

The one area of query from the CSP was a request for clarification from SESW regarding the DWI statement that "SESW had not submitted any new programmes". SESW responded to the CSP that;

- SESW only has two risks identified as requiring additional/on-going mitigation measures to ensure compliance with DWI Regulations – metaldehyde at Bough Beech Treatment Works and lead in the distribution network.
- Metaldehyde is covered by a current Undertaking and SESW will be looking for DWI support to maintain a programme through AMP7 to further secure compliance with this parameter. DWI agreed that no formal submission was needed, since there will be an extension to the existing Undertaking.
- SESW had a lead Undertaking in AMP5 and an on-going programme of work through AMP6, which will also continue through AMP7 with some planned enhancements to expedite the replacement of lead pipes when samples exceed lead concentrations that are above half the PCV of 10 µg/l (whereas SESW currently replace above the PCV only).
- Since SESW has no other confirmed risks (in Drinking Water Safety Plans) where the risks are considered unacceptable, there are no other schemes identified.

The CSP invited Milo Purcell (DWI, Deputy Chief Inspector) to the July 20th CSP meeting, at which DWI confirmed that they had no issues of note regarding SESW water quality compliance.

Summary conclusions

Overall, the CSP considers that SESW has completed an effective programme of engagement on PCs, and has listened to the CSP views and those of customers as expressed by the WTP research; and has taken on many of these views.

The CSP concludes that there is good evidence supporting the acceptability of PCs; and that on balance the degree of stretch seems appropriate.

- **However, the CSP has challenged that SESW has not specifically tested the acceptability of potential impact of ODI rewards/penalties with customers.**

In particular:

- The CSP notes that there are clear linkages of outputs and conclusions on relative priorities across the 3 phases of research; and good quality of acceptability testing in Phase 3.
- SESW has increased the level of ambition on per capita consumption and leakage, in part following customer and CSP views, as well as EA/Ofwat WRMP feedback.
- The CSP identified some areas where it thought the draft ODIs and commitments were excessively stretching, as well as some which could be pushed further; and thus concludes that the overall level of ambition seems appropriately balanced.
- The CSP also considers that the customer facing publication containing the draft commitments was clear and appropriately pitched.
- SESW has pledged to continue to monitor the issues which led to recent poor performance against SIM, even though formally these have been superseded by C-Mex and D-Mex.
- The CSP endorses the use of upper quartile industry performance as a reasonable benchmark.
- The CSP is not a strong supporter of some elements of the ODI regime, e.g. the concept of allowing “reward” based bill increases, but would stress that the CSP does not hold SESW responsible for this regime. The CSP also recognise that it is not its role to quality assure the underlying modelling and data, and that its assessment has had to take this on trust.

3.7.3. PCs/ODIs: challenges & responses

The Challenge Log (Appendix 2) provides the detail of challenges raised, the company response and the CSP conclusions. Regarding PCs/ODIs in general the challenges raised were Challenge Log items 32, 38,39,40,42. In addition the Environment Agency published its response to the SESW draft WRMP at the end of May 2018 (ref [Appendix 5 ref 8](#)), and Ofwat also published its conclusions on the draft WRMP plan in June 2018, both of which identified similar challenges to the CSP relating to leakage and PCC, as well as further challenges and recommendations.

The key CSP challenges were;

- The CSP required more clarity on how the research and analysis was linking back to the Performance Commitments (and stretch within them), to confirm that there were no major gaps in relation to proposed PCs for 2020 to 2025.
 - SESW provided initial views on PCs and evidence for how these were "stretch" for the April CSP. The CSP agreed this was helpful and appropriate.
 - The CSP followed up via more detailed review using support from Atkins, and provided feedback on challenges/comments to SESW (see item below).
- The CSP challenged SESW on the justification for some PCs (especially leakage and PCC) on the basis they did not appear "stretching" in comparison to Ofwat expectations. Also the CSP asked for sight of the supporting detail of the Business Plan content that underpins the PCs, as evidence of the customer engagement impact.
 - A meeting was held between the CSP and SESW management on May 29th which provided helpful clarification, and agreement of some follow up actions.
 - The CSP refined its conclusions and provided updated feedback to SESW, and agreed to then await the Phase 3 output.
- The CSP flagged the commonality of the CSP challenges on leakage/PCC with the EA/Ofwat responses to the draft WRMP, and asked for SESW's planned response and proposed improvements to the final WRMP/Business Plan.
 - The challenges were discussed at the June CSP and SESW agreed to keep the CSP in the loop on the responses to EA/Ofwat and how these get reflected in the Business Plan.
- Based on the BoxClever research conclusions, and CSP discussion at June CSP, SESW was asked to include clear justification in its Business Plan of any rebalance of leakage/PCC vs social tariff PCs vs WTP.
 - SESW stated that it had recognised the need to take account of the strong customer feedback regarding these areas, and had also discussed with the Board. SESW agreed to increase the commitments on leakage and PCC, and to reduce the commitment on social tariff (from an additional 25k customers to 19k) to maintain the customer bill impact within the WTP acceptable range. This was deemed to be in line with the WTP conclusions as per *fig 4.3.1xi* and [Appendix 5 ref R7](#) pages 28-30. SESW has covered this in its Business Plan.
- SESW to consider how it will justify customer evidence of WTP for ODI (rewards) potential impact on bills in its Business Plan.
 - As per comments in section 3.7.2 on ODI evidence, SESW has provided justification in its Business Plan as to why it opted not to do customer engagement on ODI rewards/penalties. This remains an outstanding challenge in that it is a non-conformance with Ofwat guidelines.

Further to the above the CSP would note the following outstanding challenges/points:

- SESW opting to not involve customers in testing the acceptability of potential bill impact of ODI rewards/penalties, remains a non-conformance with Ofwat guidelines, although SESW has provided its justification (ref section 3.7.2).

- While SESW has enhanced its commitments on reducing leakage and PCC, excessive leakage will remain a key customer concern (despite SESW comparing very well with other water companies), and PCC will remain high compared to other companies.
 - SESW to continue to consider how it might reduce leakage and PCC further by 2025 and explore how it can use innovative approaches to achieve longer term leakage reductions in line with best practice in leading companies elsewhere
 - Regarding PCC the Business Plan currently mentions home visits to accompany the metering programme; and there are various references to national Government driven approaches, but the CSP is not assured that these are sufficient to deliver the objective.
- SESW could have provided more comparative data re how its commitments lined up against the published forward ambition of other companies (e.g. as published in their draft WRMPs, or based on CCW feedback), e.g. regarding PCC and leakage ambition.
- The CSP maintains the view that the proposed environmental targets appeared to focus on adhering to existing standard (e.g. EA) compliances, rather than being 'aspirational'.
 - e.g. the PC for pollution could have been considered as an ODI (rather than just 'reputational') so that there would be a bill-related financial penalty for any incident.
- The CSP has queried if there might be appropriate PCs that could relate to the Local Company benefit of SESW e.g. "speed of operational response".

3.8. Securing Confidence & Assurance

3.8.1. Engagement re Securing Confidence & Assurance

Section 1.2 summarised the governance process involving the CSP, and noting that the CSP has been given adequate and appropriate access to company information and personnel in order to carry out its work in line with Ofwat's guidance and objectives. The CSP has also had contact, as appropriate, with individual members of the Board, as well as collectively with the Board (including private meetings with Board NED's).

The company MD and Finance Director attended almost all of the CSP meetings, and at most CSP meetings there was an appropriate Board NED attending.

Two key meetings with Board NEDs were in March 2018 ([Appendix 5 ref 26](#)) and July 2018 ([Appendix 5 27](#)). The March meeting aimed to seek assurance on the role and involvement of the NEDs and Board in general, in ensuring there has been appropriate quality of customer engagement, and how the Board review and assure the degree to which this is reflected in its Business Plan. The feedback from the NEDs was that overall they were assured that SESW was engaging customers effectively; and that SESW was working on the right priorities and range of options. The NEDs considered that SESW management have been diligent, and passionate in driving the PR19 planning and engagement. The CSP concludes that it **has a positive view of the NEDs feedback, and their explanation of their involvement and how they are engaged in the PR19 programme.**

The July meeting with the Board NEDs focused on the CSP seeking assurance that the Board were assured on the 4 key Ofwat questions related to "securing confidence and assurance" (ref 3.8.2 below). The key areas of discussion and assurance are included in the meeting brief and notes ([Appendix 5 ref 27](#)), and in section 3.8.2 below, but one notable area of discussion was related to the company's financial and corporate structure in the context of Ofwat's consultation document "Putting the Sector back in Balance". SESW had responded to the consultation ([Appendix 5 ref 25](#)), and particularly related to the debate around "gearing" the SESW Board NEDs have confirmed that the company intends complying with the Ofwat guidance for bringing gearing below 70%, with a target of 65%. SESW advises that it is taking early action, via agreed shareholder authority, to fund debt

reduction to underpin the compliance. SESW is also creating a communication plan to provide appropriate customer messages on these issues.

The CSP had a final meeting with SESW, including the SESW Chairman, on 20th August to review comments/conclusions from the CSP on the final draft of the Business Plan and to discuss SESW responses (*Appendix 5 ref M11*) to some challenges/points raised by the CSP in order to seek alignment between the Business Plan and CSP Report. The meeting was constructive in agreeing some mutual actions to improve content and alignment of the reports. SESW also agreed to share the independent assurance statements with the CSP, which has provided further positive assurance.

3.8.2. Conclusions: Securing Confidence & Assurance

In considering the CSP conclusions related to “securing confidence & assurance” it is important to clarify that it was not the CSP role to assure the overall SESW Business Plan, but rather to be assured that the Board (and particularly the NEDs on the Board) were assured of the robustness, quality and deliverability of the plan. The CSP’s engagement with the Board has thus focused on reviewing the key Ofwat PR19 methodology question points relating to “securing confidence & assurance” and challenging the NEDs to explain their basis and evidence for providing assurance against these, as summarised below.

Consequently the CSP confirms that the Board provided positive assurance that;

- **They have appropriately challenged management to ensure the Business Plan is high quality and deliverable**
- **The governance and assurance processes are appropriate to deliver operational, financial and corporate resilience over the next control period and the long term**
- **The Business Plan will enable customers’ trust and confidence, and is based on high levels of transparency and engagement with customers.**
- **The Board will effectively monitor the delivery of the Business Plan outcomes**

...based upon the following;

- *To what extent has the company’s full Board provided comprehensive assurance to demonstrate that all the elements add up to a Business Plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?*
 - The governance chapter in the Business Plan (Chapter 6) describes the ongoing governance around the plan itself and the on-going approach to governance (including performance monitoring); plus individual Board member personal summaries on the Business Plan).
 - The independent assurance statements provide a positive response on the process and data management.
 - Executive team led PR19 Steering Group with regular reporting to the Board of progress in developing the Business Plan.
 - PR19 discussed at every Board meeting, including two half-day dedicated sessions in September 2017 and February 2018.
 - PR19 themes each led by one of the non-exec directors/chairman, with positive impacts on the plan and assurance, e.g.;
 - NED overview of the capital investment programme, including customer feedback on leakage and PCC in context of “Is this deliverable?”
 - Board focus on service transformation programme to deliver a step change in service.
 - Board challenge around the scale of the Transformation Programme which gets SESW “match fit” for 2020.

- Board engagement on the financial strategy (including a dedicated Board Committee on PR19 Financing) and the intensive discussions with shareholders on the level of equity injection needed to meet the external challenges around gearing in the business.
- Two private meetings between the CSP and the Board NEDs to discuss Board assurance.
- *To what extent has the company's full Board been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term?*
 - SESW Business Plan Chapter 7 (Resilience) describes the approach to financial and corporate resilience, the risk management process related to these, and the role of the Board in providing assurance that the processes are effective.
 - The Business Plan outlines the comprehensive work-stream dedicated to assessing resilience “in the round”, involving employees drawn from across the business (and covering all aspects of resilience (people, systems, processes, assets, financial). Sponsored by the Board champion for resilience – who has attended workshops in person to demonstrate Board commitment and engagement in the process.
 - The scope of the reviews have been tested with practitioners from other industries to bring an outside expert view to bear to identify any emerging threats or themes that may have been missed. Whole exercise embedded in the company's risk registers and risk management, including “stress testing”.
 - Specific initiatives on long- term resilience included in plan e.g. the mains resilience programme to deliver enhanced ability to move water around the network, ensuring that all our customers can be supplied from more than one treatment works.
- *To what extent has the company's full Board provided assurance that the company's Business Plan will enable customers' trust and confidence through high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand both the company's corporate and financial structures and how they relate to its long-term resilience)?*
 - Board involved at all stages of engagement programme with ongoing review and assurance at each Board meeting.
 - Board review of key publications – long term vision statement, water resources management plan, and draft Business Plan – to assure they were designed to be accessible and build engagement and transparency.
 - Assurance that every employee has been briefed in the draft Business Plan in the Directors' Round Table sessions.
 - The “Talk on Water” on-line community has over 300 members and continues to debate water-related issues.
 - Involvement of community engagement, and the environmental education programme and planned capability through a second education centre in Leatherhead.
 - Consideration of SESW's corporate/financial structure had detailed involvement of the Board, particularly in agreeing the actions on gearing, and consideration of how best to communicate to customers. The board have agreed to consider further how best to communicate dividend levels to customers.
- *To what extent has the company's full Board provided comprehensive assurance to demonstrate that the Business Plan will deliver – and that the Board will monitor delivery of – its outcomes (which should meet relevant statutory and licence obligations and take account of the UK and Welsh Governments' strategic policy statements)?*
 - Data strategy and assurance chapter in the Business Plan (Chapter 12) details how the company will report performance going forward; and has received positive assurance from the independent advisers.
 - The company has maintained its position in the ‘targeted category’ of the company Monitoring Framework (CMF) since it was established.

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- No 'serious concerns' have been raised in the CMF assessments and in 2016/17 we 'met expectations' in all areas.
- Established process that fed into the CMF assessment over the last two years will be maintained.
- Significant amount of effort going into structuring a plan to meet Ofwat's expectations and ensuring clarity in all areas of the plan.
- The Board receives a report every month on company performance – and delivery of Performance Commitments that underpin the existing long-term Outcomes is a key focus – and helps focus Board discussions on areas for improvement.
- The CSP receives a full report from the MD personally on performance against targets on a quarterly basis.
- These well-established performance reporting processes will continue to form the bedrock for monitoring and reporting in the future.
- *Has the Board provided a clear statement that its plan is financeable on both an actual and a notional basis?*
 - The CSP met with Board NEDs on 18 July and has **received assurance from the Board that the Plan is financeable** (see further comments in 3.6.1).

4. Appendices

4.1. Appendix 1: CSP Terms of Reference, role and membership

The CSP was originally established (as the then named “Customer Challenge Group”) in April 2012 in order to support the PR 14 process, and was renamed the Customer Scrutiny Panel in April 2016. The CSP has a diverse membership including customer representative organisations, the statutory water and environmental regulators, local authorities, businesses, environment and countryside groups. However it is important to note that while the CSP has a function to represent customers, the CSP membership is not intended to be fully representative of customers.

Terms of Reference

1) Brief

The CSP is a customer focused group that has two key areas of activity;

1. To the company

To be an independent Group, with an independent Chairman, who will advise, scrutinise, and challenge the company in the development and implementation of their plans for meeting their customers’ priorities (including water resource and drought plans).

2. To the Regulator (Ofwat)

To provide independent assurance to Ofwat on the quality of the company's customer engagement; and the extent to which this is reflected in the company's Business Plans.

2) Objectives

- a. To provide constructive feedback on the company's customer engagement programme;
- b. To actively monitor progress, from a customer perspective, against “measures of success” in the company's Business Plan;
- c. To follow up with the company on any shortcomings;
- d. To provide constructive challenge on the development of the company's 2020 -25 Business Plan, and in particular the way that customer research and engagement is used to shape the plan;
- e. To engage with Ofwat as appropriate, particularly in respect of the PR19 review, including the commitment to submit an independent customer engagement focused report to Ofwat at the same time as the company submits its Business Plan.

3) Role

The CSP is not aiming to be representative of the entire community of customers but to be sufficiently connected to customers – domestic, commercial and industrial – and other stakeholders to be able to deliver the objectives.

4) Reporting Procedure

1. To the Company

The CSP will report on decisions and issues, and provide minutes of meetings, after each meeting to the Managing Director, who will then report to the SESW Board of Directors. Minutes of CSP meetings will be publically available via the company website.

Once a year, the CSP Chair will meet in person with the company Board of Directors. The CSP will also provide a report annually to the company Board of Directors, plus the CSP will provide a report on the activities of the CSP to be included in the company Annual Report.

2. To the Regulator (particularly re the PR19 Review)

The CSP will have an active involvement with Ofwat in relation to the 2020-25 Business Plan. As part of the obligations to the Regulator, the CSP will provide an independent report to Ofwat when the company submits its Business Plans in 2018. This report will provide Ofwat with assurance and valuable independent evidence to inform their assessment of the Business Plan as part of the risk-based review. If the company does not achieve enhanced status in the risk-based review, the CSP will be required to submit a second independent report that focuses on the changes the company has made to their plans when the company revises its Business Plans (or parts thereof).

5) Membership

Ofwat have advised that CSP membership should reflect local circumstances and challenges and include a representative from the Consumer Council for Water (CCWater). Chairs should not represent particular organisations or groups of customers. The environmental and drinking water quality regulators should play a significant role informing CSP discussions and CSP reports should highlight any concerns raised about the ability of the proposed plan to meet statutory obligations.

The Panel will normally have a maximum of 12 members in addition to the Chair, but will also have powers to co-opt additional members to ensure its effectiveness. The appointments will be for 3 years and individuals may re-apply.

Members could be drawn from:

- Environment Agency
- Consumer Council for Water
- Drinking Water Inspectorate
- Natural England
- Reigate & Banstead Borough Council
- London Borough of Sutton
- Other Local Authorities (e.g. Tandridge, Mole Valley)
- Major business consumers
- Chambers of Commerce
- Residents
- Parish Councils
- Citizens Advice Bureaux
- Age related organisations
- Environment related organisations e.g. Surrey Wildlife Trust, Kent Wildlife Trust, RSPB, Blue Print for Water (which itself represents a number of Environmental Charities).

NB: the current list and profiles of the members of the CSP are available via [CSP Members](#).

4.2. Appendix 2: Challenge Log

NB: the Challenge Log is also available in an accessible format via Appendix 5 ref 1.

<p><i>This challenge log aims to capture actions and other matters raised by CSP members either at CSP meetings or at other times outside of such meetings.</i></p> <p><i>While primarily aiming to support the PR19 process it will also include actions etc on other CSP related areas (e.g. customer service, performance).</i></p> <p><i>The log will be reviewed and updated monthly in participation with SESW</i></p> <p><i>Challenge log sent to SESW within 3 working days of receiving CSP minutes or within 5 working days of private CSP meetings.</i></p> <p><i>SESW to issue response to CSP chair within 5 working days of receiving log. SESW to complete "SESW Response" column</i></p> <p><i>CSP to review response and complete "CSP Response" column.</i></p>						
Last updated: 20/08/2018						
LOG ITEM NO.	DATE RAISED	SUBJECT	CHALLENGE(S) RAISED	SESW RESPONSE/ACTIONS TO DATE	STATUS RESPONSE	Open or Closed CSP
JANUARY CSP & other						
1	Jan-17	Customer Relations/ Customer service performance	Challenged re below target performance of SIM, including the related negative performance on complaints and asking for SESW plans for recovery/improvement.	CSP received detailed feedback and assurance from SESW that there was a clear operational focus and attention on improving the performance with robust action plans in progress both on SIM and complaints.	Closed	although below target SIM still an issue. CSP reassured on appropriate set of actions in progress.
2	Jan-17	Readiness for PR19 customer engagement programme	The CCG is concerned about an overly complex approach with risks of slippage and compression in the timetable. The CSP supported the approach but again highlighted the need for more clarity from SESW on how they intended planning for and providing the information that will enable the CSP to answer the specific set of questions that Ofwat has mandated as part of the PR19 process. The CSP recognised that some of the scope of the Ofwat questions will be covered by the research that SESW are progressing, and thus the CSP asked for greater clarity of plans/actions and milestones at the July CSP meeting, by which time the expected scope and likely outcomes of the stakeholder research should be much clearer.	SESW briefed the CCG on its approach to managing the production of its PR19 business plan including customer engagement at the March 2017 meeting. Engagement strategy presented to CSP at October 2016 meeting.	Closed	CSP remain concerned re timescales, and additional challenges in Log 6
3	Jan-17	Resilience planning/Leakage	Meeting the leakage target was a challenge. CSP asked that resilience planning be added to the agenda for a future meeting, incl the incremental gains that can be made and what would be needed, in terms of innovation, to drive a step-change.	The short-term management of leakage was focused on finding leaks and making sure there was minimal back-log in relation to fixing them. In the longer-term continual reductions in leakage would require asset replacement and the business planning process would identify where and when to invest.	Closed	
4	Jan-17	SESW rebrand	CSP asked for their involvement in review and feedback on customer letters explaining the change.	CSP were circulated drafts and provided feedback.	Closed	
APRIL CSP						
5	Apr-17	Customer Relations/ Customer service performance	Challenged re continued below target performance of SIM, although recognising management focus on improvement plans. CSP asked if there are separate measures (aside from the SIM ranking) that can show (to the CSP and others) how SESW are improving their customer service.	SESW explained several projects and initiatives in the pipeline to improve SESW's ranking in the industry league table e.g. clearing customer service backlogs, plans to introduce a new telephone system, weekly performance updates and increasing measured bill runs to two per week. SESW took an action to put together a list of separate measures	Closed	carried forward as Log 9
6	Apr-17	Readiness for PR19 customer engagement programme	CSP reiterated there is still a lot to be done, in a relatively short time frame, to ensure appropriate levels of engagement are being carried out within the PR19 process, and that the CSP have a core remit to ensure the engagement is appropriate and effective and thus will expect to see evidence of this from SESW along the way.	SESW summarised the mix of qualitative research methods being used to obtain the customer feedback. CSP members had been involved in witnessing some of the customer workshops. Conclusions from phase 1 would inform phase 2 planning. Engagement activity happening in line with process first presented to CSP at October 2016 meeting.	Closed	carried forward as Log 10
7	Apr-17	Resilience/WRMP	CSP queried how and when stakeholders'/customers views would be considered in the WRMP plan, and how CSP could be involved. Also there was concern about only having the preferred option shared and all CSP members agreed that there would be value in having sight of the other options.	Stakeholder event involving CSP scheduled for June, including review of various options.	Closed	Workshop held with stakeholders in August, although CSP raised concerns re limited attendees. CSP would review customer engagement impact following phase 2/3 output.

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		JULY CSP & other			
8	Jul-17	Communications with CSP	CSP felt there was a need for improved communications from SESW particularly regarding PR19 and the customer engagement progress.	Research partner for phase one research attended July meeting and presented results of the research. SESW presented an overview on how the research was feeding into plan development and next steps. CSP Chair met with SESW MD and others, and agreed SESW would provide more regular communications with the CSP via regular bulletins and a monthly update meeting with CSP Chair.	Closed CSP agreed SESW proposed actions were appropriate
9	Jul-17	Customer Relations/ Customer service performance	CSP seeking ongoing assurance on progress of initiatives to improve customer service and SIM	SESW gave feedback on performance vs the various targets, plus progress on customer service initiatives. SESW MD confident of seeing forward improvements in SIM.	Closed - carried forward as Log 13
10	Jul-17	Readiness for PR19 customer engagement programme	The Ofwat PR19 methodology has been published and highlights the significant work required both by the water company and by the CSP to meet the stated requirements, particularly regarding customer engagement. CSP still need to see the evidence of the necessary customer engagement that hopefully the phase two activity will start to deliver. CSP felt improvements could be made to phase 2 engagement brief and took action to give coordinated feedback.	CSP received a detailed feedback from Accent on phase 1 output and conclusions. CSP members provided detailed feedback to SESW on suggested improvements to phase 2 brief.	Closed CSP remain concerned re SIM, but accept SESW progressing relevant actions. Carried forward as Log 13
11	Jul-17	Community Engagement events	How is SESW considering wider community engagement activity to enhance its customer engagement (e.g. attending existing local clubs, societies, meetings etc)? Need to record, and show evidence of how acted on the feedback received from customers through this channel. Is there output CSP can see? o How is output analysis complementing/impacting on conclusions?	SESW has carried out some dedicated community engagement activities as part of PR19 with the PACE group for the elderly and also Caterham Food Bank. Although the researchers spoke to a small number of people, the exercise was intended to enhance the other research activity, rather than include representative samples. The sessions were helpful, with one of the benefits being a continued relationship with these two groups in terms of offering more information about our support for vulnerable customers and also our 'Wise about Water' community talks which are focused on where water comes from and the importance of using it efficiently. We plan to carry out more community activity in phase three, as well as talk to customers about our future plans at the summer events we are attending this year. We presented information on ongoing community engagement at the 1 May meeting	Closed SESW provided update and evidence to April CSP meeting, including circulating BoxClever stakeholder engagement initial conclusions. Updated document on Triangulation provided useful clarification of community involvement.
12	Jul-17	Resilience/WRMP	CSP querying how SESW will integrate/align WRMP activity with PR19 Plan. How will the options and conclusions be tested with wider customers.	Separate WRMP stakeholder session planned for 16 August at Bough Beech	Closed - carried forward as Log 15. The separate WRMP stakeholder session in September was beneficial despite the limited availability of CSP members
		OCT CSP & other			
13	Oct-17	Customer Relations/ Customer service performance	CSP seeking ongoing assurance on progress of initiatives to improve customer service and SIM	SESW confirmed that several initiatives already in place (e.g. new telephony system) and that SESW aims to implement additional initiatives that form part of a wider project. Despite the high complaints figure, there is an upwards trend that suggests SESW hopes to report performance closer to the target by the end of the year.	Closed Presentation in the meeting on the Retail Strategy was helpful assurance that significant improvements are planned, although these are unlikely to have a big impact during the PR19 timeframe. CSP will be looking for evidence of complaints and SIM improvement going forward. CSP suggested a briefing on the new C-MeX measure, and how this will differ to SIM. This was provided at March CSP.
14	Oct-17	Readiness for PR19 customer engagement programme	CSP expressed some concerns regarding the slippage in the commencement of phase 2 stakeholder engagement activity plan, and hence there are risks, given very limited timeframe available, to complete effectively the CSP assurance role, in relation to appropriate evidence of customer engagement and associated impact within the PR19 Business Plan.	SESW agreed with CSP proposal to arrange separate meeting of CSP and SESW management to review the most effective way forward.	Closed Meeting took place on 5 Dec. Actions carried forward in Dec CSP Logs
15	Oct-17	Resilience/WRMP	CSP queried, further to Log 12, the extent to which board discussions on WRMP were predating /prejudging consumer engagement, and thus how wider stakeholders'/customers views would be considered in the WRMP plan (given limited attendance at stakeholder session).	SESW advised that resilience, and therefore consideration for the WRMP, covered extensively in phase two research, e.g. discussions on metering, discussions on dry winters. Draft WRMP published for consultation on 5 March including a customer-friendly summary. Proposals in the WRMP, e.g. increased metering and increased leakage reduction tested extensively with customers so far and full package of services, including those addressed in the draft WRMP, will be tested in phase three as planned. In addition, there is specific engagement activity planned for the WRMP which will be discussed on 12 March.	Closed CSP were reassured by the helpful presentation at March CSP from Alison Murphy/Tom Kelly. CSP gave positive feedback on the consultation process, and cust friendly comms. Also CSP leads are meeting with Tom Kelly on 22 March.

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		DEC CSP & other			
16	Dec-17	PR19 evidence & timeframe	As follow up to Log 10 agreed that Dec CSP was a meeting to focus on (1) The need for SESW to provide clear evidence of the quality of the Company's customer engagement, against the Ofwat guidelines, and the extent to which the results of this engagement have been reflected in the company's plan; (2) Given the current planned milestones for the customer engagement activity and the draft and final business plans, there appeared to be limited time available for the CSP to carry out their role, in relation to appropriate evidence, effectively.	SESW provided a useful brief in advance of the meeting as an update on the plan and progress for customer engagement and evidence gathering.	Closed Dec CSP meeting discussed the issues, in the context of the brief provided by SESW. Meeting was a very helpful update and provided greater assurance on the next steps; although on ongoing basis CSP still need to review clear evidence of the quality of the Company's customer engagement, and the extent to which the results are reflected in the SESW plan.
17	Dec-17	PR19 Business caSESW	Agreed it would be helpful for CSP to have sight of appropriate business caSESW being prepared by SESW for PR19. Action for SESW to prepare and share a list of business caSESW that impact customers.	Agreed to provide list	Closed List provided
18	Dec-17	Triangulation	CSP emphasised the importance of triangulation and to evidence how it's been carried out. The detail of the process needs to be presented in an accessible format for the CSP.	SESW suggest that a discussion is needed to understand what additional evidence the CSP are seeking that has not been provided in the documents circulated in February so that it can take an action(s) to produce the additional evidence sought. Ofwat guidance on triangulation is very limited however SESW consider that current approach is meeting the guidance available. Example of describing triangulation in a diagramatic form with scope of influence shared with GH on 26 April.	Closed SESW have provided a doc on "triangulation & trade offs", which is helpful. CSP still had some queries on whether overall triangulation approach meets Ofwats guidance effectively, and discussed at March CSP, and via conf call including CCW "experts" on Triangulation to discuss how SESW might improve alignment with CCW/Ofwat guidance. SESW presented at April CSP a proposed template/approach to evidence triangulation which CSP felt was very appropriate. Challenge now progressed via Log 30.
19	Dec-17	PR19 customer engagement	CSP challenged if the Company feels that it has done enough engagement to inform the business plan; and is there confidence in the results e.g. the number of attendees at events. CSP raised the need for SESW to record the limitations of the customer research to date; e.g. minimal respondents attending the vulnerable customers group giving a very limited perspective, & therefore needs to be supplemented through careful triangulation. CSP asked that when the phase two engagement results are presented to the CSP, that the Company's interpretation of the findings are also included, such as any early decisions that have been made.	SESW expect triangulation will help with this and the start of phase three could be used to address any gaps. Also stakeholder and draft WRMP consultation in Jan - Mar, as well as ongoing use of the online engagement tool. Agreed action for SESW to provide the Company's interpretation of phase two customer research	Closed (ongoing actions via Log 27 & 28) SESW have provided responSESW to the actions raised by CSP, and these have helped resolve a number of queries. CSP still concerned though re limited sample sizes in Ph 2 qualitative research, and lack of output/evidence so far on wider BAU analysis and stakeholder and community engagement feedback. CSP have documented concerns to SESW and suggested an approach to follow up.
20	Dec-17	SESW NED engagement	CSP flagged need to ensure private engagement of CSP with Company non-executive directors about their views on the customer engagement, and how they feel it has impacted on the business plans.	Company agreed to add CSP attendance to the March Board meeting agenda	Closed CSP met in private with independent NEDs in March to discuss their views on customer engagement quality. CSP also had separate meetings with individual NEDs related to innovation, resilience and customer engagement.
21	Dec-17	Evidence template	CSP flagged the importance of appropriate evidence to support the customer engagement impact on the business plan and reviewed and agreed a standard example template to be used to assist in this.	Company agreed action to use the Metering evidence example template to be updated and circulated. In addition private sessions held with Jeremy Pelczer and two CSP members, Jon Woods and the CSP chair and a further meeting scheduled with two CSP members including attendance from Dave Shemmans.	Closed SESW have provided further evidence templates as agreed.
22	Dec-17	SESW PR19 starting assumptions	CSP flagged the need to better understand the Company starting assumptions (prior to PR19 phase 1 research). SESW were asked to create a document summarising the Company's initial starting point assumptions regarding customer issues, priorities and preferences (e.g. based on PR14 outcomes, updated conclusions in 2014-17, plus phase 1 conclusions), together with the source of evidence for these; plus its current view on SESWs progress/compliance regarding Ofwat's seven requirements of CSPs. This would then act as a living document that is updated over time and which the CSP can also comment on.	Company agreed to provide the document	Closed SESW have provided a doc on "triangulation & trade offs", which includes the starting assumptions in each area. The SESW Vision doc is also a helpful summary of assumptions and current plans.

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		JAN CSP & other			
23	Jan-18	Co-ordinated comms on water resilience	Water co's, including SESW, have recently put out comms on potential water shortages, and the need for customers to be conscious of water efficiency measures. The messages are not consistent or co-ordinated across companies and can be confusing to customers. It would be better to have a more co-ordinated approach to such comms across the companies (at least in South East).	There was a meeting of SE water co's on 31 Jan. The comms approach to potential water shortages has been regionally co-ordinated through Water UK and the Environment Agency (EA) for well over a year. The EA and Defra led a national media briefing on the situation on 5 January on the day that Southern Water submitted their drought permit application with all other companies using their agreed proactive messaging on that day too. The challenge is communicating to customers in a joined up way that also takes account of the very different geological and resources situations across the region so the two key messages have been that we need more rain and everyone should save water whatever the weather. Ofwat have been on the national teleconferences and praised the industry for the work done to date.	Closed Accept response from SESW, although still a concern from CSP perspective.
24	Jan-18	Innovation	CSP suggested using Innovation as a test case to shadow Board member leads on the 4 SESW workstreams of Innovation, resilience, customer engagement, affordability. Challenge to Board leads to be to understand how they are ensuring/assuring quality of customer engagement, and impact on business plan. CSP leads were agreed to interface with each workstream.	Brief/ToR prepared and agreed by CSP and SESW. Meeting held with Jeremy Heath to discuss key question areas. Minutes of the meeting provide useful update from SESW on their approach to Innovation, and current plans.	Closed. CSP followed up with Jeremy Heath & Jeremy Pelczer, and SESW provided a helpful doc outlining the approach to innovation. The CSP leads felt this was a very positive response and effective plan.
25	Jan-18	Driving cultural change to support customer engagement focus	What is SESW doing to create a customer facing culture, with staff and prime contractors. Also, given the feedback on importance of being a local company how are SESW ensuring improved community and local engagement.	A presentation on the overall customer service improvement programme, including the role of culture change, is scheduled from Dan Lamb (Head of Retail Services) for the March meeting. On the second point, local community engagement is important to the company and as such we are continually looking to extend our already substantial activities. Below are some examples of current activity:	Closed CSP received presentation from Dan Lamb at March CSP and were satisfied this summarised the plan on driving cultural change.
26	Jan-18	Customer Relations/ Customer service performance	SIM remains an issue, although CSP recognised that Ph 2 PR19 research suggests customers don't see customer service as priority issue, and tend to give positive feedback on SESW responsiveness. CSP thus suggested a briefing on the new C-MeX measure, and how this will differ to SIM.	Log 13 covers actions on existing SIM. SESW have agreed to arrange a session on CMeX looking at trends, initiatives and impacts.	Closed Presentation provided on SIM at March CSP. Ongoing review of SIM performance is covered by Log 13.
27	Jan-18	PR19 customer engagement	SESW presented Ph 2 research at Jan CSP meeting. CSP raised a number of queries and issues, and agreed to follow up with a more detailed review of the research during a private CSP meeting in Feb. The summary of queries and issues would then be documented and provided to SESW for ongoing follow up.	SESW confirmed they were progressing the outputs to the actions from the Dec CSP meeting and these should respond to a number of CSP queries.	Closed Private CSP meeting held in Feb to review Ph 2 research and document queries and challenges to SESW. Summary of challenges provided to SESW. Ongoing actions via Log 28.
		FEB CSP & other			
28	Feb-18	PR19 customer engagement	Private meeting of CSP to review Ph 2 research in detail and identify queries and challenges to SESW. CSP documented challenges and provided to SESW with a suggested follow up plan.	Subsequent to the Feb meeting SESW have provided response to the Dec meeting actions raised by CSP. Agreed that March meeting is used to define a list of outstanding challenges that SESW can take away as actions.	Closed SESW response have helped resolve a number of queries. In particular the revised Customer Engagement Strategy doc. CSP have reviewed these in context of challenges raised. CSP maintain the concerns re limited sample sizes in Ph 2 qualitative research, and lack of output/ evidence so far on wider BAU analysis and stakeholder and community engagement feedback; but recognise these are followed up in Log 29, 30,31
		MAR CSP & other			
29	Mar-18	Ph3 planning	CSP have a concern that the timing and phasing of the Ph3 briefs and work is not compatible with the timetable of CSP meetings agreed so CSP can input and scrutiny re e.g. scope.	There are a number of considerations that went into the stated timetable for engagement activity outlined in the brief of which the CSP schedule is only one. All material being shared with CSP when we receive it for their comments and attendance offered at activity to date. Final output will be available by end of May. A milestone timetable has been provided to the CSP and it was agreed at the 1 May meeting that sections of the plan will be shared with the CSP when they are in an appropriate stage for review.	Closed CSP discussed the timetable with SESW at March CSP, and followed up re input on Ph3 scope etc. Credibility of phase 3 research, and CSP involvement in reviewing outputs/impacts will be keenly watched by the CSP. (see also Log 36)

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30	Mar-18	Triangulation, BAU data & Customer portal/comms	Given CSP concerns limited qualitative research sample sizes in phase two, how will SESW augment this via business as usual data analysis, and phase three? CSP still to see more output/analysis of ongoing comms (portal etc) and evidence of any impact of the campaign and how this confirms or queries the Phase two research conclusions?	Online portal results shared with Graham and with CSP at 12 March meeting. An updated Triangulation and Trade-offs document shared in May and a simplified diagrammatical presentation of evidence also shared.	Closed In response to CSP at April meeting SESW presented an updated approach and examples to improve evidence of triangulation and how BAU etc link into this. CSP agreed this was an appropriate and useful approach, and SESW now developed the approach to cover all key business areas plus included with an update of the "triangulation and Business case" evidence reporting.
31	Mar-18	Vulnerability	CSP have flagged previously the need for more assurance on vulnerability, e.g. given limited sample sizes. What new or existing services re vulnerability/ affordability will we test and how to assure adequate depth of research. How can SESW get more specific input on vulnerable groups and any innovative technologies to engage with them.	Over both phase one and phase two the engagement exercised by SESW targeted solely at customers in vulnerable circumstances were designed as supplements to the main engagement activities, to add colour and depth to the picture we obtained from this group of customers. The main engagement activities, including both qualitative workshops and willingness to pay surveys, were designed by our expert advisers to capture a representative sample of customers in vulnerable circumstances – and did so. For example, 20% of customers surveyed in phase two self-identified themselves as financially vulnerable. We therefore have no concerns about the number of interviews conducted as supplements to the main engagement activities.	Closed CSP sought to be assured that SESW had sufficient evidence on vulnerability, and SESW reported to April CSP, covering all evidence sources and conclusions, including recent BoxClever and other stakeholder interviews. CSP responded that this was a very helpful update in addressing the challenges. CSP have now reviewed SESW Business Plan content on vulnerability and accounted for this in the CSP Report conclusions.
32	Mar-18	Performance commitments	CSP need more clarity on how the research and analysis is linking back to the Performance Commitments (and stretch within them), to confirm that there are no major gaps in relation to proposed PCs for 2020 to 2025. CSP have seen the areas proposed for PCs from SESW but still need to see the PC targets, and the context of the draft Business Plan, and then to what extent these reflect stretch PCs and how they are being tested in Ph3.	We consider that there are no major gaps in relation to proposed performance commitments. We will be using phase three as planned to test how these performance commitments come together into a package to further test stretch and cost of delivery. Welcome discussion on 12 March of any perceived gaps. The core aim for phase three is to "take our proposed plan to customers to ensure that their priorities and preferences have been understood". As such we will be describing what we think we have the mandate to deliver based on our understanding of customers' priorities. If customers disagree that we have that mandate we will change the plan in the necessary areas. We provided evidence at April meeting of how our current and proposed performance looks compared to others in the industry (where data is available) and therefore consider that the original challenge has been addressed. A list of points from the CSP was provided on 10 May and a meeting is being arranged to discuss these.	Closed SESW provided initial views on PC's and evidence for how these were "stretch" for the April CSP. CSP agreed this was very helpful and appropriate. CSP followed up via more detailed review using support from Atkins, and provided some challenges/comments to SESW. Carried forward as Log 38
33		Innovation	Innovation: Is there evidence of "new ideas from customers"? SESW have some good ideas re innovation, but it's not clear how SESW are testing this in the plan e.g via PCs.	In phase one we probed customers on this topic in the section "innovation and the future". We received limited feedback from the groups but the majority, if not all, noted smart meters and water recycling. The Conjoint Choice Based approach to quantitative research in phase two and the presentation of results through a simulator tool is a cutting edge approach to quantitative research. We are also not aware of other water companies reaching out to foodbanks and therefore this is innovative for the water industry. A point to note though is that all the enhancements we have made to the engagement programme since PR14 we see as evidence of our innovative approach. Further testing of performance commitments will be carried out through phase three as planned.	Closed CSP recognise there are examples of innovation both in the SESW operations and in their approach to customer engagement. CSP have now had sight of the Business Plan content on Innovation, and taken account of this in the CSP Report conclusions.
APR CSP & other					
34	Apr-18	Customer Relations/Vulnerability	CSP queried what currently exists or might be planned in terms of customer service scripts and/or training to help identify (non financial) vulnerable customers when they call in, so that proactive support can be provided.	Dan Lamb has responded to the query. (i) SESW have produced Helping Hands doc as a communication to customers; (2) SESW have recently been focusing on staff training across all subject areas, but Priority Services has been a key theme; e.g. Partnered training programme for all staff and management on Customer Service inclusive of PS; Skills Matrix which will regularly test and identify knowledge gaps inclusive of PS; Quality Assurance Call Monitoring Framework, which includes criteria as Affordability/Hardship, Priority Services triggers.	Closed Although CSP will be interested in future evidence of how effective the training is in identifying and supporting vulnerable customers.

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35	Apr-18	Business Plan	CSP gave very positive feedback on the consultation doc for the Business Plan (5 Pledges); but flagged the need to see the full business plan detail (e.g. supporting programmes/actions to deliver commitments) in order to gain assurance of the "cust engagement impact on the business plan".	BP timeframe and structure update timetabled for 1 May meeting. Latest position on structure shared with GH on 26 April.	Closed More detailed workplan presented by SESW at April CSP. SESW agreed to drip feed draft BP content to CSP so they can review evidence etc as early as possible. CSP have created a corresponding detailed workplan of CSP activity.
36	Apr-18	Ph3 & Business Plan timetable	CSP requested an update of the detailed timetable for Ph 3, the Bus Plan consultation plus the detailed Bus Plan; so that CSP are clear on what they will be able to review and when; plus including (beyond Board) when other stakeholders will review/input.	BP timeframe and structure update timetabled for 1 May meeting.	Closed More detailed workplan presented by SESW at April CSP. SESW agreed to drip feed draft BP content to CSP so they can review evidence etc as early as possible. CSP have created a corresponding detailed workplan of CSP activity.
MAY CSP & other					
37	May-18	Business Plan	CSP flagged need to get early sight of the more detailed business plan content, so that they can achieve the required aim of assuring the extent to which customer engagement actually impacts upon the business plan. CSP members requested information and documentation to be 'drip fed' to them	SESW agreed with CSP proposal to arrange separate meeting of CSP and SESW management to review the most effective way forward.	Closed SESW started providing "drip feed" of Business Plan content from mid July.
38	May-18	Performance commitments	Further to Log 32, CSP challenged SESW on the justification for some PC's (especially leakage and PCC) on the basis they could be argued as not "stretching" in comparison to Ofwat expectations. Also (linked to Log 37) CSP asked for sight of the supporting detail of the business plan content that underpins the PC's, as evidence of the cust engagement impact.	Meeting with SESW management on May 29th which provided helpful clarification, and agreement of some follow up actions. SESW now provided Business Plan section on PC/ODIs. CSP agreed to refine their conclusions and provide updated feedback to SESW.	Closed Meeting with SESW management on May 29th plus sight of Business Plan content on PC's provided helpful clarification. CSP taken account of these in updated conclusions.
39	May-18	Social Tariff	CSP challenged SESW regarding the capacity for delivering the Social Tariff scheme in the future i.e. what SESW's future strategy is, and where SESW foresees a cap to numbers; CSP believe a strategy needs to be considered for the future in advance of the next business plan. Also could SESW work more proactively with brokers (increasing their work with partners like CAB and others) to ensure the most vulnerable are being reached.	SESW explained their rationale of the Social Tariff PC target, and the basis for reducing the stretch from 25k to 19k.	Closed CSP have accounted for SESW feedback in their conclusions on Social Tariff; and recognise that the broader challenge re future caps etc is more directed towards the next Business Plan rather than PR19.
JUNE CSP & other					
40	Jun-18	Resilience/WRMP	EA have submitted their conclusions re the draft SESW WRMP, which include a number of challenges and recommendations. Ofwat have also published their conclusions/required actions on the SESW draft WRMP which align with the EA challenges plus flag concern at insufficient customer engagement (household and non-household) in the draft plan. CSP will be interested in the SESW response and proposed improvements to the final WRMP/Business Plan.	SESW (Alison Murphy) provided a status update on WRMP responses at the July CSP meeting, providing assurance that the various actions would be responded to.	Closed CSP assured that SESW are appropriately following up.
41	Jun-18	Business Plan/comms	SESW to ensure that the Business Plan included proposals and actions to address the comms areas identified in the Phase 3 output e.g. need to see improved comms plan on how to promote small co and service; promote awareness and availability more effectively of social tariff incl partnership working;	Details provided in the engagement, retail and community chapters of the business plan.	Closed CSP reviewed Business Plan content on comms
42	Jun-18	Performance commitments/ODIs	Based on the BoxClever reseach conclusions, and CSP discussion at June CSP, SESW to include clear justification in its business plan of any rebalance of leakage/PCC vs social tariff PC's vs WTP. Also SESW to consider how it will justify customer evidence of WTP for ODI (rewards)potential impact on bills.	SESW have provided Business Plan section on PC/ODIs to CSP for review, which includes the SES rationale for the rebalancing.	Closed CSP have had opportunity to review the Business Plan content on PC/ODIs, and revise their conclusions appropriately.

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JULY CSP & other					
43	Jul-18	Performance commitments/ODIs	CSP requested SESW to populate a simple table of PC/ODIs (now completed), to which CSP added ongoing conclusions. Additional request to add the "starting point" performance (e.g. performance at start of PR19 or target from PR14, whichever is more appropriate).	SESW have provided the required table and contents.	Closed Table populated as requested.
44	Jul-18	Small Company premium	SESW researched premium and gained cust support; but key factor for custs was "better cust service" from local company. CSP challenged SESW to ensure clear justification in the Bus Plan re actions to improve customer service.	SESW have provided Business Plan sections on Retail plus PCs which include the rationale for the Small Company premium, plus the plans for customer service improvements.	Closed CSP have had opportunity to review customer service improvement plans, and assured of ongoing focus and commitment to ongoing improvements.
AUG CSP & other					
45	Aug-18	Environment in Business Plan	CSP welcome inclusion of section of the Business Plan and a PC for biodiversity, but conclude that SESW could have more robust detail in its Business Plan actions. For example it is unclear whether the biodiversity enhancement is to be delivered only on SESW's sites or more widely in the environment/SESW's area of operation.	Details provided in the environment chapter of the business plan. Note - this PC forms part of our pledge to go further to enhance the local environment and not just reduce the impact of our operations on it - it is not linked to resilience and or a sustainable water supply.	Closed CSP have reviewed and discussed the Business Plan content on environment and biodiversity. There are some remaining points of note which have been picked up in the CSP report.

4.3. Appendix 3: CSP review and challenges during the PR19 process

4.3.1. CSP review and challenges relating to customer engagement

Throughout the process the CSP has had the opportunity to review, discuss and provide effective challenge (particularly via the Challenge log process) to SESW on various components of the customer engagement (e.g. scope, justification, willingness to pay and acceptability of its plans, and how the company intends to use the evidence from customer engagement).

SESW progressed a comprehensive customer engagement programme in 3 progressive phases (as described in section 2.1, and in more detail in the SESW Business Plan, Chapter 1). The CSP provided review and challenge on such as questionnaires, sampling and perceived gaps in approach. The following sub-sections outline the key conclusions and challenges made by the CSP.

Phase 1: Listen, Learn Inform (ref Business Plan Chapter 1, Section 2)

The CSP commenced engagement with SESW on the PR19 customer engagement plan at the January 2017 CSP meeting (ref [Appendix 5 ref M1](#)). Having been given an outline of the proposed engagement process, the CSP supported the approach but highlighted the need for more clarity from SESW on how it intended planning for and providing the information that will enable the CSP to answer the specific set of questions that Ofwat has mandated as part of the PR19 process. The detail of the challenge is logged as Challenge 2 in the Challenge Log (ref Appendix 2). SESW subsequently briefed the CSP on its approach to managing the production of its PR19 Business Plan including customer engagement at the March 2017 meeting. The CSP then asked for greater clarity of plans/actions and milestones at the July CSP meeting, by which time the expected scope and likely outcomes of the stakeholder research should be much clearer.

The CSP reviewed the Phase 1 research brief prior to the January 2017 CSP meeting. Overall the CSP agreed that the brief was appropriate for the first phase, but provided a number of areas of feedback on the brief to SESW (refer to CSP minutes as per link above).

The CSP received a further update on Phase 1 progress at the April CSP meeting ([Appendix 5 ref M2](#)). Accent were appointed as the research partner following a competitive pitching process. The CSP was further assured that there was a robust plan, and the initial phase was now in progress, but the CSP flagged again that much needs to be done in a relatively short time frame to ensure appropriate levels of engagement are being carried out within the PR19 process (ref also Challenge Log item 6). The CSP thus requested a detailed session in July to focus on an update regarding the progress and conclusions so far from the customer engagement.

The CSP members attended a number of the Phase 1 workshops, which gave a useful insight into the research approach. This gave some assurance to the CSP that the initial customer engagement approach was effective, and appropriate. The Phase 1 outputs and conclusions ([Appendix 5 ref R1](#)) were presented to the CSP at the July CSP ([Appendix 5 ref M3](#)). The full findings from Accent had been previously circulated to the CSP members for review. The customers who participated in Phase 1 were categorised, using lifestage and socio-economic grouping, into eight domestic customer workshops, two workshops for SME's and two workshops for students/future bill payers. There were also seven face-to-face in-home discussions with customers in vulnerable situations. SESW noted some areas that it felt were innovative research, e.g. using a pre-task approach and contacting the seldom heard and future customers (student group).

The interactive pre-task (through Crowdlab) incorporated a postcard to a friend in Scotland, water diaries, water deprivation exercise, VOX POP. These were designed to raise the customers' awareness and 'water consciousness', not to inform. Accent explained that the research showed, as you would expect, customers had different attitudes to water and that customer segments were starting to emerge depending on their attitudes: **cost conscious**, **water conscious** and **water blind**.



The research identified customer priorities, which were consistent across participants, and were split into 'brilliant basics' and 'blow me away'. Brilliant basics included: local customer service centre, fair tariffs, the environment, investment in infrastructure and leak/pipe maintenance, water supply resilience and water quality. 'Blow Me Away' initiatives included an app to help them manage their water use, smart meters, school education visits/materials, water softening advice/devices and free efficiency devices. Customers were advised that SESW is already doing some of these and customers are delighted to have heard about them.

SESW explained the next step would be a Board Strategy discussion in September 2017 including a series of 'White Papers' to be taken to the September Board meeting which address a series of topics including leakage and demand management. The CSP questioned how environmental resilience would be factored within the overall Business Plan as it was not clearly covered by the proposed white papers, and SESW confirmed environmental resilience would cut across all areas of the plan but it would consider in developing the white papers how that could be made clearer.

SESW also advised the CSP that it had appointed Board member leads for priority areas of the Business Plan i.e.

- Customer priorities (Jon Woods)
- Resilience (Dave Shemmans)
- Affordability (Murray Legg)
- Innovation (Jeremy Pelczer)

The intent was for themes to be injected into technical workstreams: e.g. "innovation" in network management, customer contact channels, environmental education; "resilience" in continuity of supply, financing structure, succession planning and staff development; "affordability" for different customer groups. The CSP agreed this was a positive way of ensuring Board level assurance during the process, and decided to allocate CSP members as "shadow leads" to assist in developing the CSP assurance in these areas.

Phase 2: Test and Inform (ref Business Plan Chapter 1, Section 2)

Having reviewed the Phase 1 output, the CSP also reviewed the Phase 2 brief at the July 2017 CSP Meeting ([Appendix 5 ref M3](#)). Subsequent to the meeting the CSP provided detailed feedback to SESW on a number of concerns we had with the brief (ref [Appendix 5 ref 10](#)), which SESW took account of in an updated brief (8th August). The CSP also challenged SESW regarding how it was ensuring wider community engagement activity to

enhance the customer engagement (e.g. attending existing local clubs, societies, meetings etc), and how the CSP would see evidence of this (ref [Challenge Log item 11](#)). SESW responded that it would be including some dedicated community engagement activities as part of PR19, and would be developing further ongoing plans for community engagement. This CSP challenge remained an open issue throughout Phase 2, pending further assurance during the Phase 3 period.

The CSP held a meeting in private in October 2017 ([Appendix 5 ref 11](#)) where the CSP agreed an allocation of lead members by subject area to shadow the SESW Board leads; and also where the CSP expressed some concerns regarding the slippage in the commencement of Phase 2 stakeholder engagement activity plan (ref [Challenge Log item 14](#)). As a result, given the current planned milestones for the customer engagement activity and the draft and final Business Plans, there appeared to be limited timeframe available to complete effectively the CSP assurance role, in relation to appropriate evidence of customer engagement and associated impact within the PR19 Business Plan.

These concerns were discussed at the [October 2017 CSP Meeting](#) ([Appendix 5 ref M4](#)), and it was agreed that a separate meeting of the CSP and SESW management would be arranged to review the most effective way forward, and to discuss in more detail;

- A checkpoint of where we are regarding the timeframes of customer engagement, Business Plan process and where/how the CSP gets to review evidence and impact of the engagement
- What were the starting assumptions based on PR14 and subsequent customer views
- What additional assumptions were taken from Phase 1, and what impact they had
- How and when do the CSP then review Phase 2 versus the draft Business Plan, and then Phase 3 etc.

The follow up meeting was held on 5th December 2017, and in response to the CSP challenges above (also referenced as [Challenge Log items 16 & 18](#)), SESW had prepared a briefing doc “SESW customer engagement review 5 December 2017” ([Appendix 5 ref 12](#)), which outlined SESW’s views on how it expected to meet the CSP requirements, particularly relating to a proposed approach for identifying evidence sources. The meeting was agreed by all as a positive step forward, with a number of actions agreed (refer to “CSP minutes – 5 Dec” [Appendix 5 ref 13](#)). The main areas of action were;

- Agreement of a more intensive, and focused set of CSP meetings, at least monthly, during 2018
- SESW to develop the proposals presented regarding documenting the SESW starting assumptions, Phase 1 impacts and gaps to be filled (via Phase 2/3 etc) against the agreed Business Plan areas.

As a follow up action the CSP prepared a brief (for the CSP and SESW) to outline the expectations for a (CSP in private) Phase 2 research review in Feb 2018 (ref [Appendix 5 ref 14](#)). A key input to this meeting was subsequently met by SESW producing the “Triangulation and trade-offs” document ([Appendix 5 ref 2](#)) which provided helpful explanation of evidence against each of 9 Business Plan areas, i.e.;

- | | | |
|-------------------------|----------------------|--|
| 1. Metering | 4. Resilient network | 7. Education and water efficiency |
| 2. Leakage | 5. Mains replacement | 8. Customer services/local call centre |
| 3. Supply interruptions | 6. Water quality | 9. Affordability and vulnerability |

This document aimed to also address [Challenge Log items 18, 21, 22](#), and has subsequently become a key reference document for the CSP in understanding the “thread” of assumptions and evidence sources for these areas; and is a [good example](#) of where the CSP has positively influenced SESW’s approach and evidence assurance. The document was further updated

after Phase 3 to provide a consistent “golden thread” of evidence sources and conclusions justification.

Also during December 2017, following various CSP members attendance at Phase 2 workshops, a number of further challenges were raised regarding the Phase 2 research (ref [Challenge Log item 19](#)). These were discussed at the [January CSP meeting \(Appendix 5 ref M5\)](#), when the initial output and conclusions from Phase 2 were presented to the CSP.

The January meeting included a useful discussion with SESW on the final Ofwat PR19 methodology, providing the CSP with good insight on SESW's own expectations. The CSP asked if SESW is aiming for an ‘exceptional’ rated Business Plan. SESW confirmed that the company expected to submit a high-quality plan and ultimately is aiming to achieve exceptional status.

The CSP had been provided full detail on the Phase 2 results from both Explain (qualitative) and Box Clever (quantitative) in advance of the January CSP), and were grateful to get immediate access to output at the same time as the company (and before any Board presentation). Despite some areas of challenge (refer below ref comments relating to [Challenge Log item 27](#)), the CSP was impressed with the scope and depth of the research, and particularly noted some of the inventive approaches used in the Box Clever research (as evidenced under “Quantitative” below).

A summary of the SESW scope for Phase 2 is covered in section 2.1 (and in the SESW Business Plan, Chapter 1), but specific points of key evidence noted by the CSP were;

1. [Qualitative \(Explain\) \(Appendix 5 ref R2\)](#)

The co-creative workshop provided an effective means of discussing customer priorities. The workshop included 22 customers in total, split across three tables (reflecting the 3 segments of cost conscious, water conscious, water blind), and SESW representatives presented information about the topics at hand – enabling uninformed and informed opinions to be gathered (i.e. the first session had no additional information or explanation provided, and then for the informed session SESW gave more explanation of the potential priority areas).

It was noted that on the whole priorities rankings did not change from the beginning to the end of the sessions – with water quality, reliability of supply and acceptable taste/odour/colour remaining as the 3 top priorities throughout. There was also not any significant variance of priorities across the 3 customer segments as evidenced by the results table ([fig 4.3.1i](#)). Coupled with the broader quantitative research this gave good evidence of SESW identifying appropriate priorities, needs and requirements as per Ofwat expectations.

The qualitative workshops also collected additional views and ideas from customers on what they would expect from a water company (e.g. ref [Appendix 3 fig 4.3.1ii](#))

Regarding “future customers”, the research did include a specific workshop with a group of students but the research agency concluded that “future customers found it difficult to relate to the services provided by SESW”. This was a challenge picked up by the CSP as part of [Challenge Log item 28](#). There was, however, some useful discussion across the future customer and other workshops (ref [Appendix 5 ref R2](#)) on Dry Winters, and Education, which collected customer views on future expectations and ideas for water efficiency. In particular there was discussion on customer views re water metering, and the balanced opinions re compulsory metering and smart meters.

Fig 4.3.1i

Service outcome	End of session			Overall
	Cost conscious	Water conscious	Water blind	
Keeping bills down	4th	5th	5th	4th
Keeping environmental impact to a minimum	7th	6th	6th	6th
Supplying with an acceptable taste, smell and look	2nd	3rd	4th	3rd
Supplying water that meets quality standards	1st	3rd	1st	1st
Reliability of supply	3rd	3rd	2nd	2nd
Customer service	6th	7th	7th	7th
Reducing leakage	5th	5th	4th	5th

Fig 4.3.1ii

Additional improvement ideas from customers	
Water blind	Receiving insurance quotes from SES Water
	Create an emergency service for engineer call outs
Cost conscious	Published customer charter for prioritising faults and repairs
	Smart meters to reduce consumption and highlight leaks
	Information on how to reduce use
Water conscious	Good communication and updates
	Smart meters

Further insightful analysis and thus evidence (in support of SESW seeking a genuine understanding of customer priorities, testing a genuine set of customer options and working with customers in a co-creative way) were the workshop discussions on various aspects of water resilience. Again the research used a prioritisation exercise, where each respondent ranked the service issues individually, and then moderators on each table probed to understand which scenarios they were most willing and least willing to accept and why (ref Fig 4.3.1iii). Overall respondents were least willing to accept scenarios relating to the water quality, although looking at the individual scenarios ‘a sudden interruption to the water supply to your home for more than 4 days – no prior notification’ was the scenario respondents were least willing to accept.

The CSP challenged the company on some aspects of the qualitative research in Phase 2 (e.g. some limited sample sizes), but recognised that it provided useful insight and evidence in support of SESW seeking a genuine understanding of customer priorities, testing a genuine set of customer options and working with customers in a co-creative way. These conclusions then provided a good basis for developing the Business Plan and acceptability testing in Phase 3.

Fig 4.3.1iii

Area of risk	Cost conscious	Water conscious	Water blind	Overall
customer services				
SES Water taking more than 1 minute to answer your call	1st	1st	1st	1st
Having to call SES Water back three times before getting through to the correct person	4th	4th	5th	4th
water quality				
Water coming out of your tap that has a brown colour – although it's safe to drink (lasting two hours)	7th	9th	6th	7th
Water coming out of your tap that has a bad taste or smell – although it's safe to drink (lasting up to one day)	8th	10th	8th	8th
A boil water notice - you can only use your water if it has been boiled or it would risk your health (lasting one day)	7th	9th	5th	6th
A 'do not use' water notice – there is a risk to your health if you use the water (lasting up to two days)	9th	6th	9th	9th
water supply				
A sudden interruption to the water supply to your home for up to 3 hours – no prior notification	5th	5th	7th	5th
A planned interruption to the water supply to your home for up to 3 hours – you have received a notification prior to this	2nd	2nd	3rd	2nd
A sudden interruption to the water supply to your home for more than four days – no prior notification	10th	7th	10th	10th
A hosepipe ban for up to three months	3rd	3rd	3rd	3rd

2. Quantitative (Box Clever) – (Appendix 5 ref R3)

Box Clever explained that they “use advanced analytical techniques to quantify the extent to which consumers are willing to pay / be compensated for changes in the level of service they receive; and also are able to explore how this willingness to pay varies and the extent to which framing and contextualising the topic can drive willingness to pay up or down”. The CSP was very impressed with the approach taken by Box Clever and the analytical techniques used (conjoint analysis, Hierarchical Bayes, Gabor Granger etc)

The key conclusions from the Box clever research/analysis were;

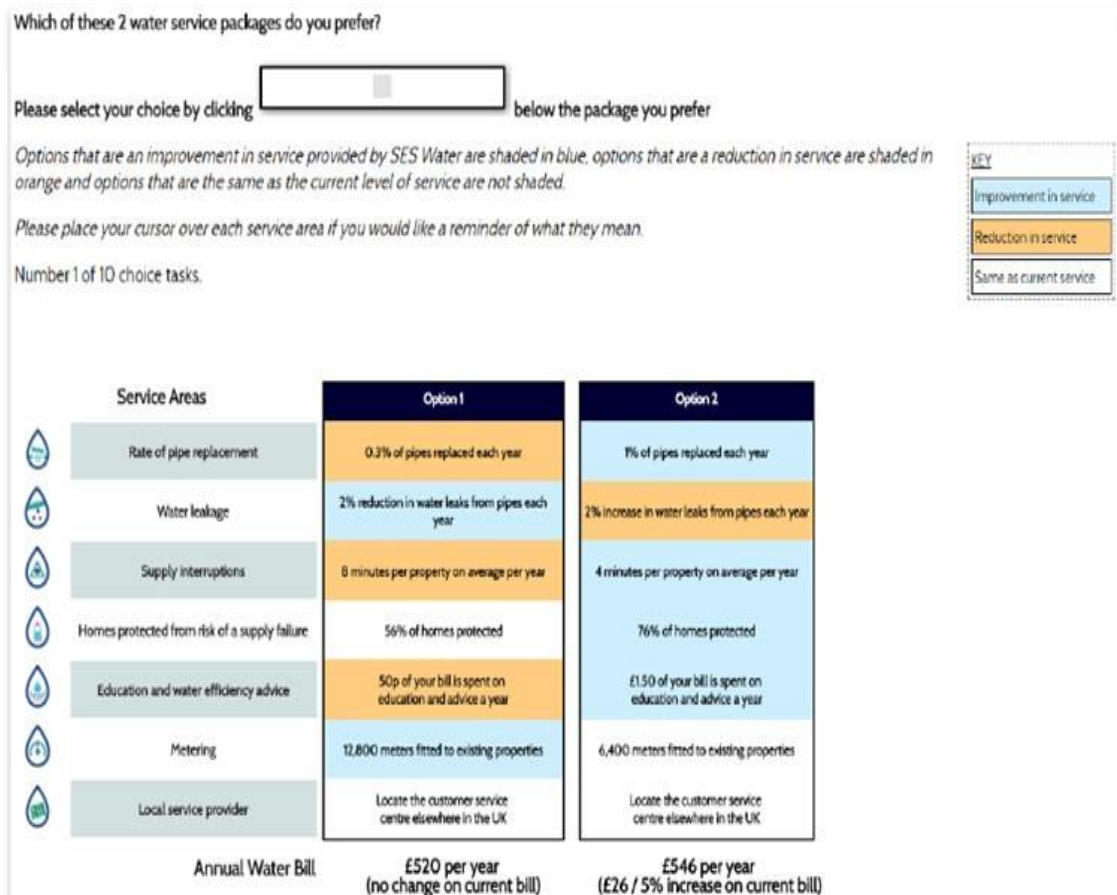
- Whilst change in bill is the single most important element in driving decision making, other elements accounted for 63% of the choices made.
 - The most influential being metering, a local service provider and education & advice
 - Protection against a risk of failure / interruption are the areas that command the most willingness to pay more
- Nearly 1 in 5 respondents would be classified as financially vulnerable, and this has a significant impact on their reaction to proposed price increases
- The more people engage with their use of water / water services, the more importance they place on where the customer service centre is located, with a significant majority wanting a locally based contact centre

CSP members expressed the view that the conjoint analysis approach (“to develop a clear picture of what consumers find important and how much value they attach to the various aspects of their water service”) of testing various packages of services (rather than individual components) was an effective approach in analysing customers willingness to pay, and providing sound evidence of an approach that ensured testing a realistic range of customer options and priorities. The extracts below (Figs 4.3.1iv - vi) clarify the approach used.

Fig 4.3.1 iv



Fig 4.3.1v



The initial analysis concluded that whilst change in bill was most important, other elements accounted for 63% of the choices made (ref Fig 4.3.1vi). The most influential being metering, a local service provider and education & advice.

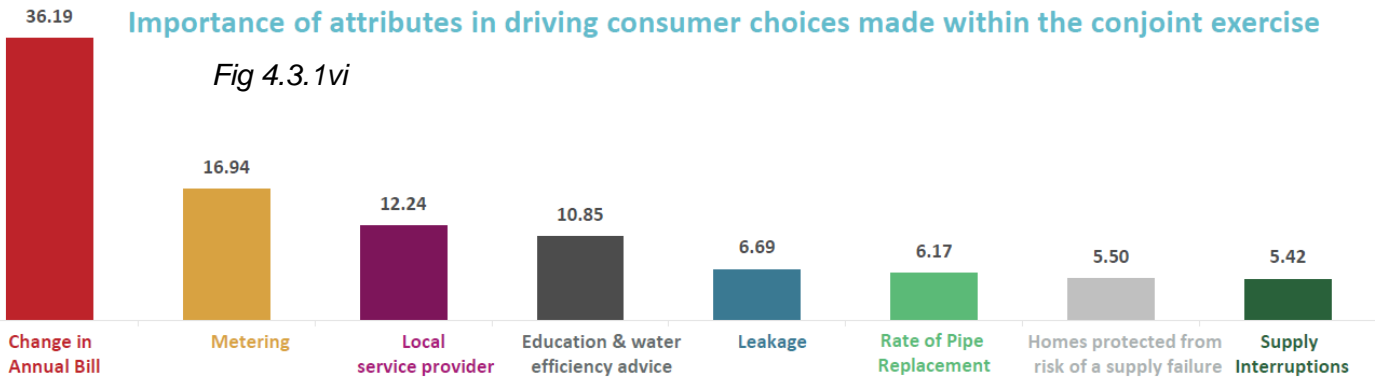
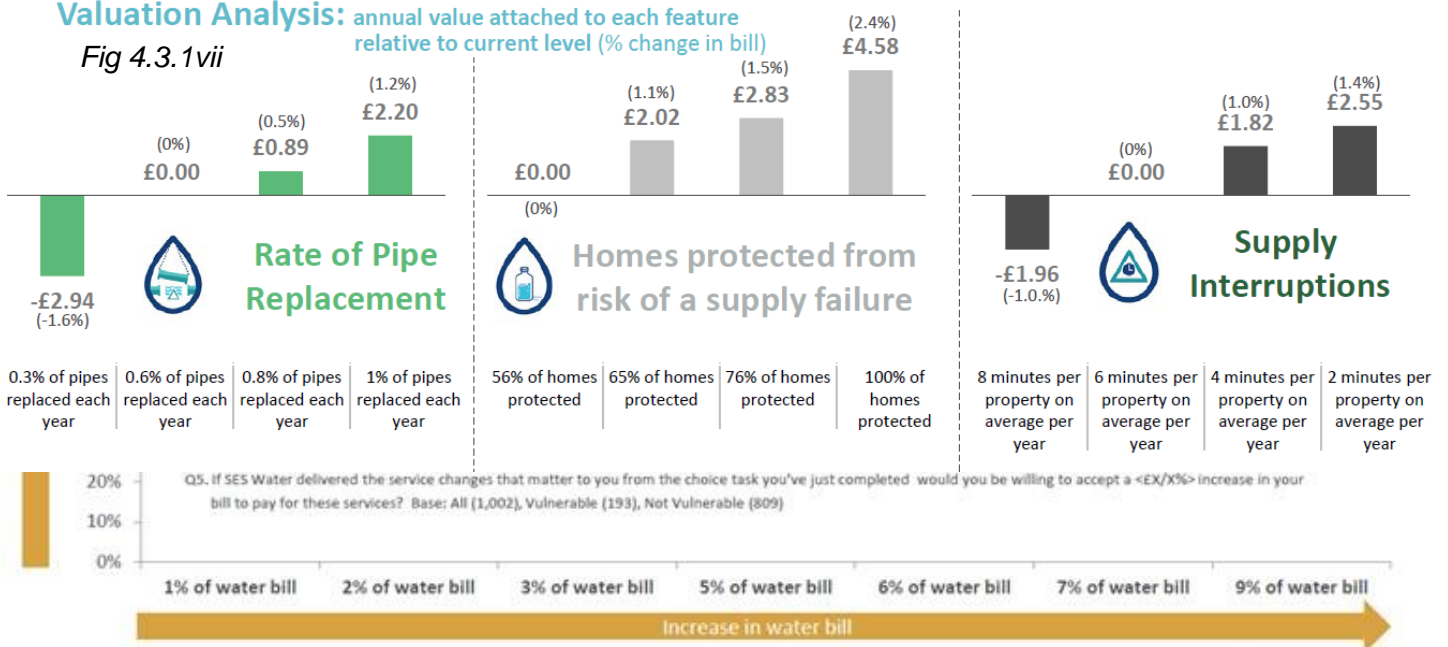


Fig 4.3.1vi

The research approach then sought to identify the perceived value that consumers attach to each level of service SESW could offer. Within the conjoint exercise respondents were constantly trading different levels of service and cost off against one another; so through the further analysis Box Clever were able to calculate the monetary value they attribute to each level of service, where these values are calculated relative to the current level of service within each attribute. An example of the output is as below (ref Fig 4.3.1vii);

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)

Fig 4.3.1vii



The analysis was then used to also test the sensitivity of customer acceptance against various price points (ref Fig 4.3.1viii) to give a detailed view of the likely willingness to pay (WTP) against various options, and Box Clever also provided a stand-alone model for SESW to keep which then allowed ongoing testing of WTP options and sensitivities.

The CSP recognised this approach as an innovative aspect of the research, which together with the qualitative research gave positive evidence of SESW engaging effectively with customers on a genuine set of priorities and options plus testing the affordability of options and willingness to pay, and also that SESW has used the most effective methods for engaging with different customer groups.

The January CSP also included SESW sharing with the CSP its customer orientated long term vision document, (Appendix 5 ref 15). The CSP feedback was that this was a well-structured document that would help inform customers on SESW's plans, in support of the customer engagement programme. This document was used as part of the education process during Phase 3.

Although the CSP was impressed with the quality and insightfulness of the Phase 2 research, following the January CSP meeting there was feedback from CSP members which identified some remaining challenges that the CSP felt were important to address (ref [Challenge Log item 27](#)). The CSP therefore convened a further private CSP meeting on 9th February 2018 to agree a list of challenges/queries and proposed forward actions (ref [Appendix 5 ref 6](#)). These were registered as [Challenge Log item 28](#), and discussed with SESW management at a meeting on 20th February. The key areas of challenge were;

- The CSP required greater clarity on the overall customer engagement programme, and how the research and analysis is linking back to the Performance Commitments (and stretch within them), to confirm that there are no major gaps in relation to proposed PCs for 2020 to 2025 that have not been addressed and/or that need to be addressed in Phase 3.
- Insufficient depth and breadth of some of the qualitative research (small sample sizes, some key lines of enquiry not covered adequately)
 - The CSP concerned re sampling of non-financial aspects of customers in vulnerable circumstances, and ideas re new or existing services re vulnerability/ affordability which would be tested.
 - Also concerns re limited sampling of future customers; and could there be a more innovative approach to engaging with "future customers"?
- The CSP challenge as to whether the WTP options discussed in the research are stretching enough, given Ofwat requirements, or at least seek some clarity on how SESW would test out the limits of WTP against reasonable options.
- Limited stakeholder involvement so far, in terms of clear priorities/views of stakeholders.
- Qualitative research seemed to be short-term focused; not enough input on e.g. environmental and long term resilience.
 - WTP criteria could also have covered the inclusion of environment and water use restrictions
- Triangulation is seen as a key component of the engagement analysis but the CSP is not convinced SESW has sufficiently applied the suggested guidance from Ofwat/CCW ([Appendix 5 ref 16](#))

SESW responded promptly, positively and collaboratively in terms of the challenges raised and provided pre-reading of SESW responses. These were then discussed between the CSP and SESW at a pre-meeting prior to the [March 2018 CSP meeting \(Appendix 5 ref M6\)](#). The SESW responses helped resolve a number of the CSP queries, with agreed actions to move forward. The CSP re-iterated its positive view that SESW management were being responsive and transparent in seeking to address the CSP queries and challenges. The introduction of the Challenge Log is seen as a good reference document of queries, challenges and actions/outcomes. However, the CSP maintained its concern re limited sample sizes in Phase 2 qualitative research and lack of output/ evidence so far on wider BAU analysis and stakeholder and community engagement feedback; but recognise these are followed up in [Challenge Log items 29, 30, 31](#) plus SESW would seek to take the concerns into account as part of Phase 3. In addition, both in advance of the meeting and during the discussion on the Phase 3 research, the CSP flagged some queries and challenges relating to outstanding potential gaps of evidence gathered so far and how Phase 3 might address these. SESW shared the Phase 3 proposals with the CSP, who took an action to summarise its views on possible areas of challenge re scope/content.

At the March CSP meeting SESW also summarised the remaining Phase 2 engagement findings including business customers' willingness to pay results, expert stakeholder interviews and activity on the Talk on Water online community; plus a summary of the company's observations on the results and the next steps of the programme.

The March CSP meeting also included a helpful update from SESW on the difference between the proposed C-MeX measure of customer service and the current SIM score and methodology.

WRMP engagement

The Water Resources Management Plan (WRMP) research and planning was an important associated activity to the PR19 customer engagement, as this significantly informed the resilience and environment planning within PR19. Most of the activity related to SESW's WRMP planning took place during the Phase 2 customer engagement process timeframe, followed by acceptability testing (particularly regarding network resilience, leakage and PCC) during Phase 3 customer engagement.

A key input to the WRMP process was the stakeholder event (run by AECOM Infrastructure & Environment UK Limited) on 16 August 2017 (ref [Appendix 5 ref 3](#)), with the aim to review SESW proposed options for meeting its supply deficit identified in the WRMP process. SESW, working with the Environment Agency and AECOM had done significant pre-analysis in screening a broad set of potential resilience/supply options and agreed a long-list priority set to consider at the workshop. Although not particularly well attended by stakeholders (mainly involving the CSP and EA representatives), the event was seen by those CSP members present as an innovative, and well thought out process to consider various packages of resilience/supply options, i.e.;

- The agency agreed with SESW a broad list of types of options that could be implemented to resolve the deficit (refer to table 1 in "WRMP Options Report").
- Participants were then presented with 'playing cards' giving the option name/type and the yield it could offer (Appendix A in [Appendix 5 ref 3](#)). Attendees were asked to identify a series of options that would add up to the volume of water required to close to deficit (in order to generate 35 MI/d).
- Participants were then given a new set of 'playing cards' containing more information in addition to the yield; the cost, environmental impact, carbon emissions, and potential for disruption.
- The groups were then asked to reconsider their choices of options to meet the deficit volume in light of the new information.

Examples of the "playing card" approach are shown in *fig 4.3.1ix*

Fig 4.3.1ix



The exercise was further evidence of innovative thinking in the approach to customer/stakeholder engagement, and provided customer based input to the WRMP planning. Stakeholders appreciated the difficult balance between ensuring there is enough water for supply while minimising environmental impacts, carbon emissions and the disruptive effects of construction work in roads and in front of customer's homes on a large and ongoing basis. However, the CSP concluded that, in its opinion, the company placed too much reliance on this one event before the SESW board signed off the first draft WRMP. Although further customer engagement on resilience was then included within the Phase 2 and 3 main activity of the PR19 engagement, this was subsequent to the draft WRMP and a more short-term viewpoint than WRMP considered. This is covered more in section 3.4.

Further to the WRMP planning at the end of 2017, SESW published its draft WRMP plan document ([Appendix 5 ref 17](#)) in January and then prepared the WRMP consultation process and presented the WRMP Consultation Plan at the March 2018 CSP ([Appendix 5 ref 4](#)). The CSP was grateful for the update on the WRMP consultation process, and how this linked into the PR19 planning process. In particular, the CSP gave positive feedback on the planned consultation process and the quality of the customer friendly briefing document. Similar to the SESW Long-Term Vision document referred to earlier, the CSP recognised the WRMP document as good evidence of SESW positively informing customers; plus provided the CSP with reassurance around the consultation approach to water resources and the company's long-term plans.

The CSP did identify some challenges to SESW regarding the WRMP and resilience in general (ref [Challenge Log items 3, 7, 15, 23, 38](#)), particularly relating to challenging the levels of proposed stretch on performance commitment for leakage and per-capita consumption (PCC). The Environment Agency published its response to the SESW draft WRMP at the end of May 2018 (ref [Appendix 5 ref 8](#)), which also identified similar challenges relating to leakage and PCC, as well as further challenges and recommendations, e.g. further clarification of how resilient SESW is to drought and non-drought events; greater ambition on leakage reduction; new and innovative ways to reduce per capita consumption; collaboration with neighbouring water companies to share water. The CSP reviewed the EA recommendations and agreed the challenges were appropriate (ref [Challenge Log item 40](#)) to be taken account of by SESW as proposed improvements to the final WRMP/Business Plan. These are covered further in section 3.4.

Owat also published its conclusions on the draft WRMP plan in June 2018. A key conclusion from Owat was that the draft WRMP plan did not have sufficient evidence of customer engagement (both household and non-household), and also aligned closely with the EA stated concerns regarding resilience to drought and non-drought events, plus the need for greater ambition on leakage and PCC. Again section 3.4 refers further to this.

Phase 3: Acceptability testing (ref Business Plan Chapter 1, Section 2)

SESW's approach and objectives for Phase 3 were outlined in section 2.1 (and in more detail in the SESW Business Plan, Chapter 1). The CSP provided feedback on some of the Phase 3 material, e.g. the need for the questionnaire to explain to customers that SESW's PCC was higher than that of other companies. The approach and plan were discussed with the CSP at the March CSP meeting. The CSP challenged SESW re the timings of the research programme for Phase 3 and in particular the lack of time available for the CSP members to meet in person to review the scope and focus of the research proposals, plus that the timing and phasing of the Phase 3 work is not compatible with the timetable of CSP meetings currently agreed (ref [Challenge Log item 29](#)). Consequently the CSP members had a detailed discussion with SESW management and scoped out a detailed weekly plan of SESW plus the CSP activity up until September 2018 (ref Appendix 4). This was found acceptable to the CSP, other than

the CSP emphasised the need to see as early as possible the relevant detail from the Business Plan that would support the evidence of the impact of the customer engagement.

Following the March CSP meeting, the CSP began consolidating its initial views on the quality of the customer engagement (up to that time) and convened a private CSP meeting on 17th April (ref [Appendix 5 ref 18](#)) with the aims;

- To discuss/agree initial conclusions on quality of customer engagement plus 7 Ofwat questions
- To review and comment on initial SESW Business Plan consultation document
- To review and comment on initial PCs/ODIs.

SESW management attended the first hour of the meeting to answer some queries and provide some input on their view re progress against the Ofwat questions. SESW had (in February) provided to the CSP initial views on this progress, and the CSP had added its own views. This has subsequently evolved to the summary of conclusions in section 1.3.

SESW presented the Business Plan consultation document ([Appendix 5 ref 5](#)) which included the additional questions SESW felt needed some clarification via this process. The CSP again commended SESW on the quality of the customer focused document, which the CSP felt gave a good, easy to understand view of the draft plan. However the CSP advised SESW (ref [Challenge Log items 35 & 37](#)) that it was important for the CSP to see the full Business Plan detail (e.g. supporting programmes/actions to deliver commitments) in order to gain assurance of the "customer engagement impact on the Business Plan". The CSP recognised that this would not apply to the whole Business Plan, but just to those components that relate to the areas of customer engagement, and/or the Ofwat aide-memoire scope. SESW agreed to comply with the request, and aim to provide the (draft) content of these sections at the earliest opportunity.

The CSP also challenged SESW regarding the Phase 3 acceptability testing on Performance Commitments, and whether all of these were really stretching enough (especially re Leakage and Per Capita Performance). These issues are covered further in section 3.7.

At the May 2018 CSP meeting ([Appendix 5 ref M7](#)), there was further discussion regarding the CSP challenges (ref [Challenge Log items 36 & 37](#)) relating to potential lack of time for the CSP to adequately take account of the Phase 3 output plus SESW's Business Plan drafting. The CSP agreed the need for an additional private session at the end of July (for CSP members only), in order to review conclusions and drafting prior to the August finalisation of the report. CSP members again highlighted the need for information and documentation to be 'drip fed' to them, particularly those related to the final draft planning stage, due to take place between 11 June and week commencing 13 August.

The CSP Chair circulated a first draft of the CSP PR19 report to the CSP members in early June, as a basis to collect feedback and consensus views on the key overall conclusions on quality of engagement and impact on the Business Plan.

The Phase 3 output and conclusions was presented to and discussed with the CSP at the June CSP meeting ([Appendix 5 ref M8](#)). The CSP concluded that the quality of both the qualitative and quantitative research and analysis was very good, and noted the comments of Jon Woods (as both a Board NED and General Manager of Coca Cola UK) that from his experience the depth and quality of research/analysis was high class. The output focused on four key areas;

- Acceptability of the social tariff proposals

CSP Report on SES Water's 2020-2025 Business Plan

- Review and enhancement of the proposals for customers in vulnerable circumstances, via a Design Sprint with agencies involved with customers in vulnerable circumstances.
- Acceptability/willingness-to-pay testing of the overall Business Plan commitments.
- Validating the acceptability of a bill impact for being a small/local company

The CSP was particularly impressed by the concept of the Design Sprint ([Appendix 5 ref R5](#)) which was seen as an effective method to review and enhance, with knowledgeable participants, the optimal process and support for customers in vulnerable circumstances. Although noting that the Design Sprint workshop had limited attendance, the output and proposals were explored in more detail and refined via further in-depth interviews with key stakeholders and vulnerable customer contacts at relevant community locations.

Key general conclusions from the qualitative research ([Appendix 5 ref R4, 5, 6](#)) were that SESW needed to focus strongly on improved communications on such as promoting the benefits of being served by a small company; improving the awareness and promoting the availability more effectively of the social tariff and vulnerability support, including improved partnership working. The CSP challenged SESW (ref [Challenge Log item 41](#)) to ensure that the Business Plan included proposals and actions to address these areas.

The quantitative research ([Appendix 5 ref R7](#)) was recognised by the CSP as being both broad plus targeted on ensuring appropriate customer segments were addressed (e.g. including future customers, customers with recent SESW contact, varied social grades, household/non-household). **The CSP concludes that the research and analysis provided sound evidence of an effective approach to validate the acceptability of the SESW Business Plan** and to explore the most acceptable combinations of service commitments versus overall willingness to pay. There was good evidence of informing customers, such as the clear explanation of the potential bill impact (ref [fig 4.3.1x](#) and p12-14 of [Appendix 5 ref R7](#)).

Fig 4.3.1x



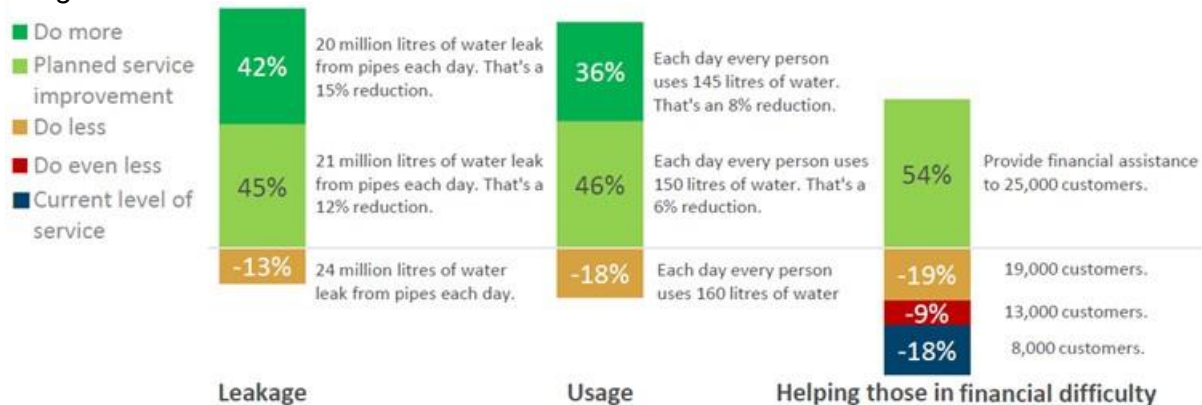
The research analysis validated that there was general customer acceptance of the plan (71%), and, as with the Phase 2 research, there was an effective approach of testing acceptance at a packaged service level rather than just individual components, as well as segmenting the analysis between separate acceptability of the service improvements, the bill impact and the overall plan. The quantitative analysis then also explored specific attitudes to various options for leakage, usage (consumption in litres/day) and scope of the social tariff

(numbers of people on the scheme). The CSP was impressed with the methodology used to provide effective feedback on the trade-offs that customers would consider (ref fig 4.3.1xi).



The conclusions from this stage of the analysis identified that customers would to some degree prefer that SESW did more to both further reduce leakage plus further reduce household usage, whilst the exercise also caused a proportion of customers to reduce their view on the scope of customers covered by the social tariff (ref fig 4.3.1 xii)

Fig 4.3.1xii



Also during the June CSP Meeting the CSP presented its initial overall conclusions to SESW on the customer engagement programme, having reviewed and agreed these in the private pre-meeting. During the discussion the CSP re-emphasised its agreement with the research conclusions regarding the preference for further improvements in leakage and PCC; and that these conclusions aligned with the challenges (ref [Challenge Log item 38](#)) raised by the CSP, as well as EA, and SESW accepted that there was now sufficient validation and evidence for it to would review the performance commitments. This exercise represented a good example of SESW taking account of customer viewpoints as well as the views of the CSP, and reflecting that in its Business Plan (ref [challenge log item 42](#)).

Following the June 12th meeting the CSP produced, with input from SESW, a simple table of PCs/ODIs against which the CSP could add its evolving conclusions (see table in 3.7.2). These were discussed at [the July 3rd CSP Meeting](#), both in plenary with SESW and then in

private with the CSP ([Appendix 5 ref M9, 19](#)). In the private CSP July meeting the CSP also reviewed an updated set on summary conclusions on the quality and impact of the customer engagement, as input to an updated draft CSP PR19 Report being provided in advance of the following July 20th CSP meeting. The CSP again met in private after the full CSP meeting on the 20th July, at which SESW provided an update on their responses to EA/Ofwat regarding WRMP, plus an update on the SESW conclusions regarding bill impact. The CSP advised SESW that they preferred the option to spread the bill impact over the plan period, rather than a one-off adjustment. Milo Purcell, DWI Deputy Chief Inspector, also attended the meeting and confirmed that DWI had no specific issues to flag regarding the SESW compliance to DWI statutory obligations.

The CSP had a final meeting with SESW, including the SESW Chairman, on 20th August to review comments/conclusions from the CSP on the final draft of the Business Plan and to discuss SESW responses to some challenges/points raised by the CSP in order to seek alignment between the Business Plan and CSP Report. The meeting was constructive in agreeing some mutual actions to improve content and alignment of the reports.

4.3.2. CSP review and challenges relating to Triangulation

Ofwat's guidance identified Triangulation (ref [Appendix 5 ref 16](#)) as a useful tool to help ensure the review of engagement evidence was more robust. The CSP had asked SESW to explain how it intended using Triangulation to assimilate and validate key insights from all relevant and available data and information sources. This resulted in the CSP challenging SESW's initial approach to Triangulation (ref [Challenge Log item 18](#)) in December 2017, as it could not understand the linkages between business-as-usual data, the customer engagement research and how this will then flow through to impact the Business Plan (i.e. the Ofwat methodology requirement of showing a "golden thread"). SESW responded positively to the challenge, and discussed the concerns with the CSP at the 5th December meeting (ref [Appendix 5 ref 13](#)). In response SESW produced the "Triangulation and trade-offs" document ([Appendix 5 ref 2](#)) which provided helpful explanation of evidence of the use of various data sources to inform towards each of 9 Business Plan areas, i.e.;

- | | | |
|-------------------------|----------------------|--|
| 1. Metering | 4. Resilient network | 7. Education and water efficiency |
| 2. Leakage | 5. Mains replacement | 8. Customer services/local call centre |
| 3. Supply interruptions | 6. Water quality | 9. Affordability and vulnerability |

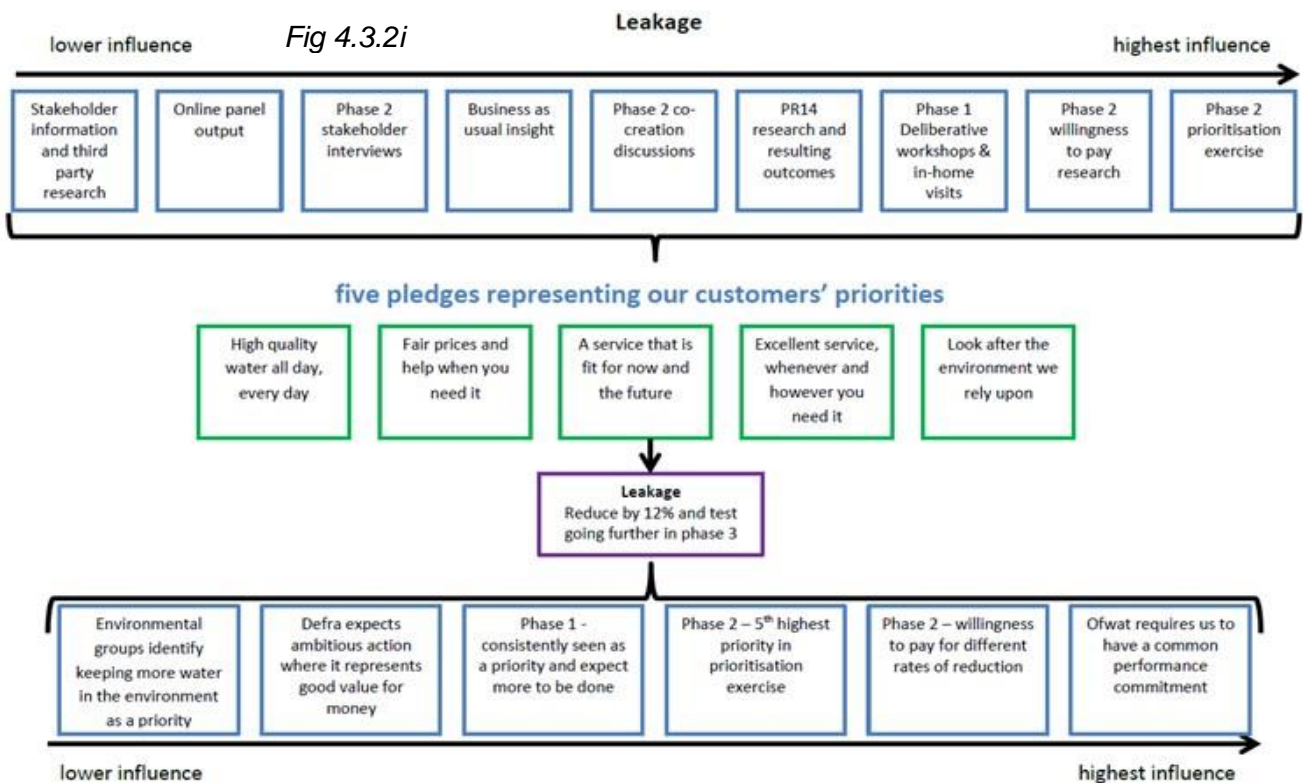
This document aimed to also address [Challenge Log items 18, 21, 22](#), and has subsequently become a key reference document for the CSP in understanding the "thread" of assumptions and evidence sources for these areas; and is a [good example](#) of where the CSP has positively influenced SESW's approach and evidence assurance. The document was further updated after Phase 3 to provide a consistent "golden thread" of evidence sources and conclusions justification.

During the review of the Phase 2 activity, the CSP challenged SESW further on triangulation following the private CSP meeting on 9th February 2018 (ref [Appendix 5 ref 6](#)). The specific challenge was that *"Triangulation is seen as a key component of the engagement analysis but the CSP is not convinced SESW has sufficiently applied the suggested guidance from Ofwat/CCW"* ([Appendix 5 ref 16](#)), e.g. not providing assurance on relative weightings of various sources of evidence and how these would be used.

These were registered as [Challenge Log item 28](#), and discussed with SESW management at a meeting on 20th February. SESW responded promptly, positively and collaboratively in terms of the challenges raised and provided pre-reading of SESW response. These were then discussed between the CSP and SESW at a pre-meeting prior to the [March 2018 CSP meeting](#) (ref [Appendix 5 ref M6](#)). SESW asked the CSP for some further clarification on what

the CSP was expecting, and the CSP organised a follow up conference call including CCW "experts" on Triangulation to discuss how SESW might improve alignment with CCW/Ofwat guidance. SESW responded positively in reviewing and restructuring the triangulation approach and developing a proposed evidence template, which was presented at the May CSP (ref [Appendix 5 ref 7](#)). The CSP all agreed that the proposed template was a significant improvement, and would provide the necessary assurance on triangulation once it is completed (followed up as Challenge Log item 30). This was further positive feedback from SESW in answering the CSP queries ref how SESW could evidence vs of how the customer engagement links to the challenges made by the CSP and then how this was (or was not) reflected into the Business Plan.

The SESW template (ref [fig 4.3.2i](#)) aligns with the "Triangulation and trade-offs" document ([Appendix 5 ref 2](#)) referred to above, which acts as the evidence sources for the areas identified in the template for each of the same 9 business areas. SESW has made a business judgement on the influence level that takes into account – who the information represents (customers, regulator, stakeholder) and how the information was derived (reports, qualitative research, quantitative research). Triangulation has then been adopted on two levels – a top line approach to decide the priority areas (our pledges) and a bottom up approach to identify what is of specific importance to the customers in each pledge (our performance commitments). The top line is therefore consistent in all diagrams. The bottom line references more specific evidence for the area in question, e.g. for water quality it highlights the information that is specific to this topic that comes from the top line data sources.



4.3.3. CSP review and challenges relating to Vulnerability

Vulnerability Research

Fig 4.3.3i illustrates how the mix of qualitative and quantitative research, plus SESW's engagement with community groups and stakeholders, has enabled a good understanding of customers in vulnerable circumstances as input to SESW's service planning.

fig 4.3.3i (Vulnerability customer engagement)

Format	Activity	Details
Phase one	In-home interviews with customers in vulnerable circumstances	2 x physical disability 1 x high water need 2 x over 75 years old
Phase two	Customer co-creative workshop	Explore changes to customer journeys for vulnerable customers e.g. during an incident
Phase two	Purley and Coulsdon Club for the Elderly visit	Focus group with five club members, <i>inc</i> Helping Hand Scheme handout
Phase two	Caterham Food Bank visit	Conversations with users and support workers, <i>inc</i> Helping Hand Scheme handout
Phase two	Stakeholder interviews	<ul style="list-style-type: none"> • East Surrey Carers Support Association • Age UK Surrey • Sutton Housing Partnership
Phase three	Customer workshop on financial and non-financial vulnerability	Identifying groups, their needs and reviewing against what we already provide
Phase three	Expert design sprint on social tariff and other non-financial support	Invited (in addition to financial experts): <ul style="list-style-type: none"> • Transform Housing & Support • Sight for Surrey • Surrey Independent Living Council • Action for Carers Surrey

SESW's research indicates that overall customers in vulnerable circumstances' priorities mirror other customers' priorities (ref [Appendix 5 ref 7](#)), and that overall customers welcome support being given to customers in vulnerable circumstances. However, there are mixed opinions amongst customers on whether there should be additional services for customers in vulnerable circumstances (ref Phase 2 Qualitative Research [Appendix 5 ref R2](#))

In Phases 1 & 2 customers in vulnerable circumstances were not researched on a quantitative basis as a discrete group, SESW rather taking the view that it was sufficient to include some customers in vulnerable circumstances in the generic research sample. On being challenged on this SESW responded that 20% of customers surveyed in Phase 2 self-identified as financially vulnerable. This was accepted by the CSP, although the CSP still challenged (ref [Challenge Log item 31](#)) how effectively SESW had researched non-financial aspects of customers in vulnerable circumstances (and indeed what the definition of that group might be, based on Ofwat's guidance in the Vulnerability Focus Report).

SESW did do some qualitative engagement with customers in vulnerable circumstances in Phases 1 & 2; i.e. some in-home interviews, a customer co-creative workshop, 2 small focus groups and stakeholder interviews (e.g. with carer groups). The CSP raised challenges (ref [Challenge Log items 18 and 31](#)) about the small sample size and limited breadth of customers in vulnerable circumstances either researched directly, or through intermediaries who represent them, especially in the early stages of the research (Phases 1 & 2). The CSP asked SESW to look at this, and to investigate innovative technologies to engage with them.

SESW did make efforts to broaden the sample size of customers in vulnerable circumstances, and followed up on suggestions of other ways to gain a view on hard to reach customers in vulnerable circumstances and those unable to articulate for themselves, e.g. through East Surrey Carers Support Association and Age UK Surrey (Phase 2) and Action for Carers (Phase 3). SESW also followed up on contacts given to them. As a result SESW now have third party stakeholders who say that they are keen to do more partnership working, acting as intermediaries. The CSP welcomed this and going forward will continue to look for assurance on follow through.

Phase 3 research (ref section 2.1 and [Appendix 5 ref R5](#)) included a six hour session as an expert design sprint on social tariff and other non-financial support. The CSP acknowledged

that this was an innovative approach to research, and determined the selection of this particular research agency. In addition the Talk About Water programme includes an online community (currently 300) which had as its first topic a forum on what else SESW could do to help people during a supply interruption.

The CSP challenged though (ref [Challenge Log 31](#)) whether the vulnerability element was sufficiently overt and targeted at specific vulnerable groups, and could have benefited from some broader segmentation. The CSP also pointed out that relying on an online discussion may rule out many customers in vulnerable circumstances who are less likely to be online, which could skew results.

Business As Usual insight

Fig 4.3.3ii summarises SESW business-as-usual activity. SESW has existing community talks via “Wise About Water” which includes metering and the Helping Hand Scheme, and over the last year 248 people have been spoken with. While the community talks are a positive, the CSP queried whether the vulnerable customer element of these talks is sufficiently targeted to reach the vulnerable audience.

fig 4.3.3ii
(Business as Usual activity)

Format	Activity	Details
Ongoing community talks	'Wise About Water' talks which cover water in general as well as metering and Helping Hand Scheme	Examples include: <ul style="list-style-type: none"> • Horley Active Retirement Group • Macular Society Sutton Support Group • Age UK Lingfield • Horley Live at Home • Bluehouse Social Centre • Douglas Brunton Community Centre • Age Concern Merstham • Sutton Centre for Independent Living & Learning Over the last year we have spoken to 248 people
Online community	Talk on Water discussion about additional assistance	First topic was what else we could do to help people during a supply interruption
Housing Associations (HA)	Repatriation activity (billing HA customers directly)	Writing to customers identified as potentially needing extra support by their Housing Association (c. 4,000). Attending residents association meetings.
Priority Services Register	Writing to all customers currently registered, for GDPR compliance	Will provide valuable information that will help us target our services. The customer is requested to fill in a form, call us or request a visit to discuss. We will be arranging visits to customers who do not respond.

In addition, though, SESW has the Helping Hand Scheme and Priority Services Register⁶. The scheme is aimed at mainly elderly, frail or customers in vulnerable circumstances and enables them to register with SESW, who will notify them directly if there is an emergency. SESW acknowledged that currently awareness of this scheme is low, and that actions were in place during PR19 to improve this, e.g. SESW providing training to those who have contact with customers to help them identify priority services customers and those that may be facing financial hardship. SESW also has a WaterSure scheme which provides financial help for metered customers who need a lot of water for medical reasons, e.g. SESW ask home dialysis users to notify it so that it can give them warning of any known water supply interruptions.

SESW also stated that it is working hard on raising awareness of services offered through “enhanced community engagement and working with others”. The CSP welcomed these initiatives and stated it would look for ongoing evidence and assurance in the Business Plan

⁶ [Helping Hand Scheme](#)

and ongoing operations. In that context, the CSP note that the Business Plan includes a section on “community” (Chapter 11) which outlines SESW’s plan to go through an independent, rigorous assessment process to attain the CommunityMark – the UK’s only national standard from Business in the Community that publicly recognises leadership and excellence in community investment.

In line with the Ofwat methodology SESW has proposed 2 related bespoke Performance Commitment’s for addressing vulnerability (see below under “Vulnerability Conclusions and also Section 3.7).

Innovation with Vulnerability

SESW has targeted and engaged with customers in vulnerable circumstances (ref [Appendix 5 ref 7](#) section on “Vulnerability”), and used the research to help develop its plans for social tariff, the Priority Services Register, plus customer services enhancements and training.

However, the CSP continued to challenge SESW (ref [Challenge Log item 31](#)) that it could seek additional innovative ways to better support customers in vulnerable circumstances. SESW responded to the CSP challenge with a detailed presentation to the May CSP (ref [Appendix 5 ref M7](#)), and the CSP did acknowledge that the Phase 3 research activity incorporated some innovative research methodology; but in comparison to e.g. best practice case studies in Ofwat’s Vulnerability Focus Report, and in Sustainability First’s Project Inspire Report⁷ the CSP believed that there remained opportunities for SESW to further improve its capability to support customers in vulnerable circumstances via innovative approaches.

As an example, the CSP highlighted to SESW management the opportunity to learn from the Project Inspire report, and SESW subsequently confirmed that it is aiming to progress a number of components i.e.;

- An approach similar to SSE’s Smart Community Liaison Officers (CLOs) work in local communities to raise awareness. SESW are currently recruiting four more Customer Liaison Officer’s (increasing to 6 in total) so that it can begin to offer a more community based service like this.
 - SESW has completed over 10 community group sessions as part of a pilot within its Housing Association transition project, and have another nine more planned. SESW are also working with the local authorities to have posters, leaflets etc. created and shared within all its sites for customers to see/engage with.
- Developing the idea around innovation step cycles, whereby SESW will incorporate this within its ‘change process’ when implemented over the coming months in order to ensure all changes are impact assessed for vulnerable customer needs and opportunities.
- From a digital and online perspective, SESW plan to explore something similar to Barclay’s digital eagles and internal accreditations. This will be considered as part of the wider scoping and implementation of a new digital platform which is underway.

The CSP also suggested SESW might consider, from the Project Inspire Report, such as Southern Water’s Universal Metering case study, and SSEN’s interactive vulnerability mapping web app.

4.3.4. CSP review and challenges relating to Social Tariff

Regarding financial vulnerability Ofwat guidance stipulates that water bills must be affordable for all customers, including those struggling or at risk of struggling to pay; and an expectation that companies will ensure that customers struggling to pay have easy access to assistance. CCW also believe companies should contribute more to social tariff schemes

⁷ [Sustainability First Project Inspire](#)

and that performance commitments should be set for affordability and vulnerability. Thus, following challenge from the CSP ([Challenge Log item 18](#)) SESW provided a detailed document (ref [Appendix 5 ref 7](#) section on "Vulnerability/Social Tariff"), which identified the evidence SESW were using to inform the customer engagement. Existing data concluded that the majority of SESW customers (65%) supported the introduction of a social tariff, 71% of customers accepted the cost to non-eligible customers of £2.

By the end of 2016/17 SESW had 5,809 people on the social tariff and this figure has continued to grow. SESW consequently have one of the best % achievement for all water companies relating to social tariff uptake per 10k customers. In addition, largely as the direct result of the Housing Association repatriation exercise, there has been a significant increase over the last 12 months of the total number of customers on "Water Support" Social Tariff, such that the current number on the Water Support tariff is 8906.

Acorn demographic (purchased data on socio-economic groupings) suggest that 16% of SESW customers are in some form of financial hardship or deprivation, equating to c.49,000 customers. SESW thus identified the need to focus research on understanding how much customers are prepared to pay towards subsidising a social tariff; what additional services and support would most benefit customers in vulnerable circumstances; whether attitudes to willingness to pay for support to those that are financially vulnerable changed since the prior research.

The CSP concludes that the SESW research has been well targeted and comprehensive across the 3 phases (ref section 2.1), covering household customer workshops, in home in-depth interviews, co-creative customer workshop, community events and interviews, engagement with carer groups. SESW tested a range of social tariff options (ref Phase 3 research), from £2 subsidy (7k customers) to £6 subsidy (25k customers). Key conclusions from the initial research were that up to 55% of participants would support a £6 increase, allowing 25k customers to benefit from the social tariff. SESW thus decided to propose this in the consultation (ref Business Plan Consultation [Appendix 5 ref 5](#)). The research has been a further mix of qualitative and quantitative research (workshops, face-to-face interviews, online surveys re section 2.1).

Although the Phase 3 research tested acceptability of supporting up to 25k customers on the social tariff scheme, when pressed to make choices between SESW doing more on leakage and PCC versus social tariff, a number of customers prioritised leakage and PCC and accepted SESW supporting less than 25k on the social tariff. SESW therefore have opted for a commitment of supporting 19k customers on the social tariff, as a balance against increasing the commitment on leakage and PCC (ref [Appendix 3 fig 4.3.1xii](#)), while maintaining the overall bill impact within an acceptable level based on customer feedback.

4.3.5. CSP review and challenges relating to Resilience

An important consideration in the WRMP and resilience planning is the fact that SESW has the highest average per capita household consumption in England at 157 l/h/d; and also operates in an area of serious water stress where identified population growth is a key uncertainty. In addition SESW draws ground water from sources which affect chalk streams which are a sensitive and globally rare habitats supporting scarce and protected plants and animals.

The SESW WRMP Consultation document (ref [Appendix 5 ref 4](#)) shows that demand for water does not exceed the supplies available until around 2050. It is relevant to note that while the company isn't predicted to be in deficit then reducing leakage and water consumption does positively improve resilience. Thus, SESW recognises the need to act in the early years of the plan to reduce demand further to create a stronger resilience position for the future, and that reducing water wastage through managing leakage and water use is

vital for delivering a resilient network in the long-term. The WRMP plan thus includes a focus on;

- Reducing leakage by at least a further 15% by 2030
- Reducing PCC from 147 l/h/d to 135 in 2025 and 118 in 2050 (based on the revised calculation methodology)
- Increased access to alternative source of supply (to 100% by end of plan)
- Metering 90% of customers by 2030
- Household water efficiency activity
- Non-household water efficiency activity
- Introducing smart meters

And potential longer term actions to:

- Share water with neighbouring companies
- Take more water from existing sources

The issue of supply/demand options was one of the key components discussed at the WRMP stakeholder event on 21 August 2017 (ref [Appendix 5 ref 3](#)), with the aim to review SESW proposed options for meeting its demand/supply deficit identified in the water resource management planning process. As covered in Appendix 3 section 4.3.1 the CSP noted that the exercise was evidence of good customer/stakeholder engagement, although the workshop had limited attendance (mainly being EA and CSP representatives).

The CSP did flag concerns to SESW (ref [Challenge Log items 2, 7, 15, 16](#)) early in the WRMP process that there was insufficient evidence of customer engagement prior to the draft plan being developed, so that SESW were relying on the Phases 2 & 3 PR19 research to augment the WRMP customer engagement following publishing of the draft WRMP.

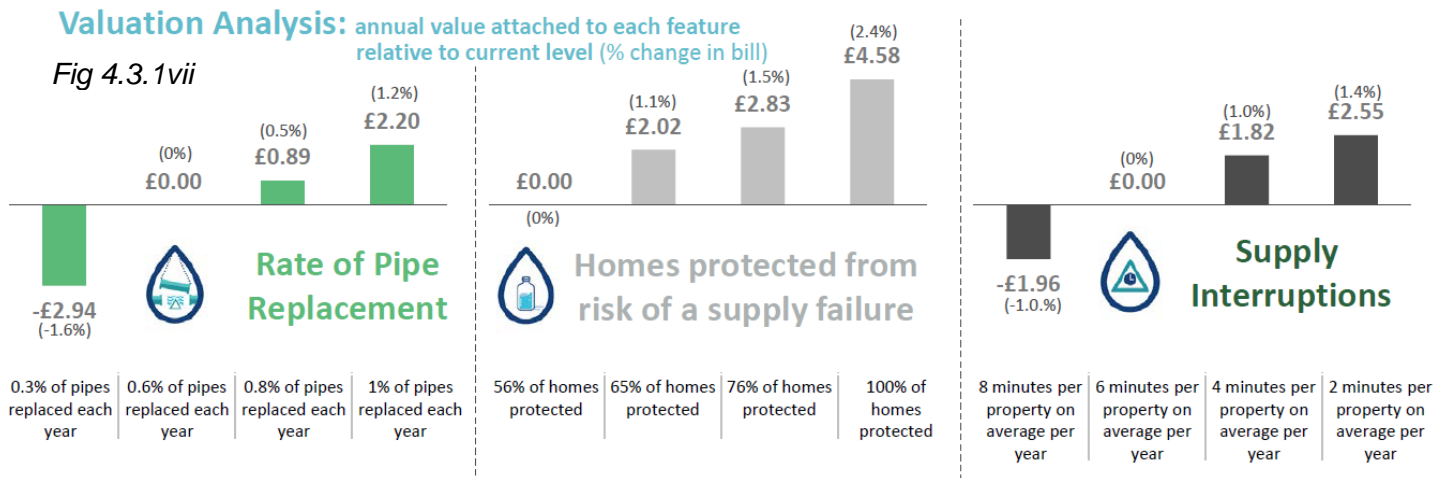
Further customer engagement on resilience was then included within the Phase 2 and 3 main activity of the PR19 engagement, although with a more short-term viewpoint than WRMP considered. As described in Appendix 3 section 4.3.1 the qualitative research included customer input on relative priorities (ref [Fig 4.3.1i](#)), identifying “reliability of supply” as the second highest priority (after water quality). There were also specific workshop discussions on various aspects of water resilience, where participants ranked the service issues individually, and then moderators on each table probed to understand which scenarios they were most willing and least willing to accept and why (ref [Fig 4.3.1iii](#)). The CSP concluded (as per Appendix 3 section 4.3.1) that this qualitative research showed insightful analysis and thus evidence in support of SESW seeking a genuine understanding of customer priorities, testing a genuine set of customer options related to resilience.

The Phase 3 customer engagement also contributed to the evidence and conclusions on resilience. As concluded in Appendix 3 section 4.3.1 the CSP members expressed the view that the conjoint analysis approach of testing various packages of services (rather than individual components) was an effective approach in analysing customers willingness to pay, and providing sound evidence of an approach that ensured testing a realistic range of customer options and priorities. The options (ref Appendix 3 [Fig 4.3.1iv](#), [Fig 4.3.1v](#)) included a number of components relating to resilience i.e.

- Rate of pipe replacement
- Leakage
- Supply interruptions
- Metering
- Alternative supply sources

The initial analysis concluded that, whilst change in bill was most important, other elements accounted for 63% of the choices made (ref Appendix 3 [Fig 4.3.1vi](#)); and metering was the next most important. Also the conjoint analysis sought to identify the perceived value that

consumers attach to each level of service SESW could offer, and as above a number of these attributes were resilience orientated (ref Fig 4.3.1vii recopied below).



As concluded in section 4 the CSP recognised this approach as an innovative aspect of the research, which together with the qualitative research gave very positive evidence of SESW engaging effectively with customers on a genuine set of priorities and options plus testing the affordability of options and willingness to pay.

Further to the WRMP planning at the end of 2017, SESW gave an update on resilience planning at the January 2018 CSP meeting ([Appendix 5 ref M5](#)). SESW published its draft WRMP plan document ([Appendix 5 ref 17](#)) in January and then prepared the WRMP consultation process and presented the WRMP Consultation Plan at the March 2018 CSP (ref [Appendix 5 ref 4](#)). The CSP had also reviewed, at the January CSP meeting, the SESW customer orientated long term vision document, ([Appendix 5 ref 15](#)).

Although the CSP had logged concerns (e.g. [Challenge Log item 7](#)) regarding limited customer engagement during the draft WRMP preparation, the CSP gave positive feedback on the planned consultation process and the quality of the customer friendly briefing documents. The CSP recognised the WRMP document as good evidence of SESW positively informing customers; plus provided the CSP with reassurance around the consultation approach to water resources and the company's long-term plans.

During March 2018 the CSP members leading on Resilience met with SESW to discuss various identified questions and challenges (ref SESW Resilience Discussion [Appendix 5 ref 20](#)), which provided further assurance on a number of points. However, the CSP did identify a number of challenges to SESW regarding the WRMP and resilience in general (ref [Challenge Log items 3, 15, 23, 38](#)), particularly relating to challenging the levels of proposed stretch on performance commitments for leakage and PCC (covered further in "Challenges" below).

In addition the Environment Agency published its response to the SESW draft WRMP at the end of May 2018 (ref [Appendix 5 ref 8](#)), which also identified similar challenges relating to leakage and PCC, as well as further challenges and recommendations e.g. further clarification of how resilient SESW is to drought and non-drought events; greater ambition on leakage reduction; new and innovative ways to reduce per capita consumption; collaboration with neighbouring water companies to share water. The CSP also noted that Sections 3 and 4 of the EA Report on SESW WRMP (ref [Appendix 5 ref 8](#)) included proposed actions and improvements against the above. The report also identifies specific gaps in SESW evidence in its draft WRMP plan to demonstrate compliance with all the WRMP Directions 2017; and provides EA recommendations for SESW to comply with the Directions (as identified in

Section 2 of the EA Report). The CSP reviewed the EA recommendations and agreed the challenges were appropriate (ref [Challenge Log item 40](#)) to be taken account of by SESW as proposed improvements to the final WRMP/Business Plan.

Following the EA feedback, Ofwat published its response to the SESW WRMP plan in June 2018 (ref [Appendix 5 ref 24](#)), which concluded that “there are areas of the plan where insufficient evidence is provided to convince Ofwat that the plan delivers in the best interests of customers”. In particular Ofwat stated:

- There is limited evidence of customer participation in the development of the draft WRMP plan; although Ofwat noted the intention to undertake further engagement is stated in the draft plan.
- SESW has the highest average per capita consumption (PCC) across all companies, and its proposed reductions in the WRMP are unambitious in comparison to others.
- While SESW has a comparatively good record of managing leakage, further work is required regarding the long term leakage aims.
- The resilience to drought is not clearly represented within the draft plan.
- The degree of engagement undertaken with non-household retailers to validate the non-household demand forecast is unclear and greater clarity on this needs to be provided.

The views of the CSP on the EA & Ofwat responses were that;

- SESW phased the customer engagement programme to tie in with PR19 submission, not WRMP, and thus used the consultation process to integrate the PR19 resilience research and engagement into the WRMP ongoing work. The CSP had flagged early in the process (e.g. ref [Challenge Log items 6, 7, 15](#)) that SESW were behind the curve, and were placing too much weight on the August 2017 workshop with CSP members as evidence of customer views. The CSP thus agree with the Ofwat conclusion that SESW did not do sufficient engagement prior to publishing the draft WRMP plan, which should then have been refined between draft and final.
- The CSP recognised though that the later phases of PR19 research with customers (including specifically on resilience) had been much improved and resulted in SESW taking account of the customer and stakeholder feedback e.g. pressing for more improvements on leakage and PCC. This reflected the concerns flagged by the CSP to SESW on a number of occasions (ref [Challenge Log items 32, 38, 42](#)) that the CSP felt the leakage and PCC commitments from SESW were not stretching enough.
- The CSP also noted that the customer consultation documents for WRMP and the Business Plan were well structured and customer friendly.

In conclusion, therefore, the CSP noted that the Ofwat response aligned closely with the EA feedback referenced above, and thus the CSP agreed with the challenges raised by both EA and Ofwat and expected SESW (ref [Challenge Log item 40](#)) to act upon these in refining the final WRMP plan. SESW provided an update to the CSP at the July CSP ([Appendix 5 ref M10](#)) on the key actions related to the WRMP challenges.

Environment

Customer engagement related to the environment and biodiversity was mostly covered within the Phase 2 research ([Appendix 5 ref R2, R3](#)). This highlighted that customers did recognise that education and actions (by the water company and customers) on environmental aspects were important considerations. From a willingness to pay perspective there was also a reasonable level of research support (45% of respondents) for increased spending on SESW's education programmes related to the environment. It is appropriate, therefore, that SESW has included in its Business Plan (Chapter 9) sections on Biodiversity and the Environment (via separate sections on Water Efficiency, Energy strategy and Education). The Business Plan commits SESW to producing a biodiversity action plan to properly target improving biodiversity within its sites and supply area; and to measure its

performance by working towards achieving the biodiversity benchmark at three sites (ref section 3.7.2 regarding Performance commitment for Biodiversity).

SESW has included a specific chapter on environment in its Business Plan. **The CSP welcomes the inclusion of this chapter, and the performance commitments related to the environment and biodiversity**, and note that, following CSP feedback on the draft Plan, the final version of the Business Plan is much improved in this area.

SESW has developed a biodiversity PC in line with the Environment Agency and Natural England's WISER guidance. However, it focuses on SESW owned sites only and, given that it is included as a PC for the first time, is difficult to assess whether it is stretching. The WISER guidance suggests that water companies should grow natural capital and build resilience landscapes such that the business plan contributes towards long term environmental resilience in the wider landscape and catchments. This is little acknowledged through the SESW business plan. There is no mention of natural capital and a commitment to enhance the natural capital of its sites and area of operation would be far more innovative and more in line with what other water companies are proposing. It would also help to align SESW's Business Plan with the Government's 25 Year Environment Plan. There is limited reference to catchment planning and catchment partnership working. Whilst the CSP has congratulated SESW on signing up to the Catchment Management Declaration, the Business Plan does not appear to embrace catchment working or set out how they will deliver the Declaration.

It is notable that although (as confirmed with the EA) SESW has no locations where the abstraction of water from the natural environment meet the criteria specified by Ofwat's guidance regarding the Abstraction Incentive Mechanism (AIM), SESW still aim to account for the fact that customer engagement feedback identified the protection of the natural environment as a priority. SESW has therefore worked with the EA and other stakeholders to develop a proposal that will achieve the objectives of AIM despite not meeting the criteria specified, i.e. to limit abstraction from two chalk boreholes close to the headwaters of the River Wandle – at The Oaks & Woodcote.

Regarding the environment and the impact of water efficiency, SESW has recognised in its Business Plan (Chapter 9) that this is an area which cannot be considered in isolation and needs to be linked with actions on leakage control, metering and education. SESW states that its strategy is to draw these threads together to maximise the impact of each element, with the combined effect being the step change in water use needed to reach the PCC target. SESW also recognises the need to have the buy-in of consumers (i.e. every member of the household) and state an intent to use the most effective techniques from social science, such as applying social norms, to nudge users into more water efficient habits. SESW believes that with a sustained and co-ordinated programme of measures it can bring average consumption down to circa 135 litres per day. SESW states in the Business Plan that their water efficiency strategy is partly dependent on support from central and local government introducing changes to regulations. However, in the opinion of the CSP, all the dependent national initiatives are unlikely to be implemented even by 2025 (e.g. water efficiency labelling scheme, dual flush toilets to have discernible low/high flush button etc.); and thus achieving SESW's water efficiency strategy will be challenging.

SESW also intends improving its, already successful, education programme (ref Business Plan, Chapter 9) to target the younger members of the community (both as future customers and as a catalyst for change within the family group), and encourage children from both primary and secondary schools to understand where their water supplies come from and how they can save water at home by making simple behavioural changes. **The CSP recognises the quality and high regard of the SESW education programme, and supports the aims of the improved education programme.**

However, while the Business Plan acknowledges the importance of increasing the reach of its education programme to include more adults, this needs to include more than just information about water efficiency, and the CSP considered that the Business Plan content on innovation could have highlighted more around use of innovation within environmental education of communities (e.g. innovative initiatives to reduce PCC). The CSP also suggested to SESW that it could consider a wider range of demonstration sites in communities and offering grants and support to help communities and customers install their own water storage, rain gardens etc to support resilience and delivery of Business Plan objectives more widely. The CSP notes that SESW is recognising the importance of working in partnership with other organisations to deliver outcomes, but SESW might need to consider supporting this with funding for other organisations to be proactively involved with delivery, and engaging partners as honest brokers to deliver the messages in new ways.

In addition, as part of its environmental focus, in early 2018 SESW developed a new energy strategy and committed to achieving 100% renewable electricity as the start of a longer-term journey towards reducing energy consumption and associated carbon emissions, as well as delivering reduced overall costs to customers. The Business Plan (Chapter 9) identifies a number of initiatives to support this e.g. purchasing electricity backed by Renewable Energy Guarantee of Origin certificates (REGOs), trials of electric vehicles in SESW's fleet, utilise SESW's available land for renewable generation and battery storage.

4.3.6. CSP review and challenges relating to Innovation

Innovation was one of the components where there were nominated CSP leads who engaged specifically with the Board lead (in this case the Chair), and the SESW management lead on innovation. This approach gave the CSP a helpful and detailed view of the SESW approach and evidence of innovation within the company.

Customers were engaged in terms of innovation, particularly during the qualitative workshops in Phase 1 and 2; e.g. in phase 1 SESW probed customers on "innovation and the future", with feedback on such as smart meters and water recycling.

The customer engagement process, both for the WRMP and Business Plan, included a number of examples where the CSP recognised good use of innovation, e.g.

- At the WRMP stakeholder event on 21 August 2017 (ref [Appendix 5 ref 3](#)), to review SESW proposed options for meeting the demand/supply deficit. As covered in Appendix 3 section 4.3.1 the CSP noted that the exercise was good evidence of innovative thinking in the approach to customer/ stakeholder engagement, although there was limited attendance.
- In section 3.3.1 the CSP noted how it had highlighted to SESW management the opportunity to learn from the Project Inspire report, and SESW subsequently confirmed that it aims to progress a number of components i.e.;
 - An approach similar to SSE's Smart Community Liaison Officers (CLOs) work in local communities to raise awareness.
 - Developing the idea around innovation step cycles.
 - Exploring something similar to Barclay's digital eagles and internal accreditations.
- The CSP recognised the conjoint analysis used in phase 2 (ref Appendix 3 section 4.3.1) as an innovative aspect of the research, which together with the qualitative research gave positive evidence of SESW engaging effectively with customers on a genuine set of priorities and options plus testing the affordability of options and willingness to pay.

In January 2018, the CSP suggested to SESW to use Innovation as a test case to identify the CSP leads who would shadow the Board member leads on the 4 SESW workstreams of Innovation, resilience, customer engagement, and affordability. This aimed to help the CSP in ensuring/assuring the quality/effectiveness of the Board role in customer engagement, and the impact on Business Plan. This led to the CSP leads on innovation meeting with the SESW management lead (ref [Appendix 5 ref 21](#)), to gain a detailed view on the SESW approach to innovation both from an operational and company culture perspective. There was also a follow up meeting with the SESW Chair, who was the Board lead on innovation. These meetings, and the follow up information, gave the CSP an impressive view of SESW's commitment to innovation.

4.3.7. CSP review and challenges relating to Financeability/WTP

The Phase 2 research identified clear areas of priorities for customers (ref [Fig 4.3.1i](#)), plus a prioritisation exercise, where respondents ranked the service issues individually, and then moderators on each table probed to understand which scenarios they were most willing and least willing to accept and why (ref [Fig 4.3.1iii](#)). The quantitative output from Phase 2 research also augmented the understanding and evidence of customer priorities and how much value they attach to the various aspects of their water service via the testing of various packages of services (rather than individual components), which was effective in analysing customers willingness to pay, and providing sound evidence of an approach that ensured testing a realistic range of customer options and priorities, as illustrated by [Fig 4.3.1iv](#), [Fig 4.3.1v](#).

As further outlined in Appendix 3 section 4.3.1 the quantitative analysis by Box Clever enabled calculation of the monetary value customers attribute to each level of service, where these values are calculated relative to the current level of service within each attribute (ref [Fig 4.3.1vii](#)); which was then used to also test the sensitivity of customer acceptance against various price points (ref [Fig 4.3.1viii](#)) to give a detailed view of the likely willingness to pay (WTP) against various options. The CSP recognised this approach as an innovative aspect of the research, which together with the qualitative research gave very positive evidence of SESW engaging effectively with customers on a genuine set of priorities and options plus testing the affordability of options and willingness to pay, and also that SESW has used the most effective methods for engaging with different customer groups. The CSP also noted the value, and flexibility, provided by Box Clever producing a stand-alone model for SESW to keep which then allowed ongoing testing of WTP options and sensitivities.

The Phase 3 research and engagement was then strongly focused on the acceptability testing of the WTP options and conclusions developed from Phase 2. As highlighted in Appendix 3 the CSP concluded that the quality of both the qualitative and quantitative Phase 3 research and analysis was good. This included focused research on WTP related to acceptability of a bill impact for being served by a small/local company, social tariff proposals, and support for customers in vulnerable circumstances, and leakage/usage improvement options; as well as acceptability testing of the overall Business Plan.

The CSP concludes that the research and analysis provided sound evidence of an effective approach to validate the acceptability of the SESW Business Plan and to explore the most acceptable combinations of service commitments versus overall willingness to pay. There was good evidence of informing customers, such as the clear explanation of the potential bill impact (ref [Appendix 3 fig 4.3.1x](#) and p12-14 of [Appendix 5 ref R7](#)). The research analysis validated that there was general customer acceptance of the plan (71%), and as with the Phase 2 research there was an effective approach of testing acceptance at a packaged service level rather than just individual components, as well as segmenting the analysis between separate acceptability of the service improvements, the bill impact and the overall plan. The quantitative analysis then also explored specific attitudes to various options for

leakage, usage (consumption in litres/day) and scope of the social tariff (numbers of people on the scheme). The CSP was impressed with the methodology used to provide effective feedback on the trade-offs that customers would consider (ref Appendix 3 *fig 4.3.1xi*).

The conclusions from this stage of the analysis identified that customers would to some degree prefer that SESW did more to both further reduce leakage plus further reduce household usage, whilst the exercise also caused a proportion of customers to reduce their view on the scope of customers covered by the social tariff (ref Appendix 3 *fig 4.3.1 xii*). During discussion at the June CSP meeting the CSP re-emphasised its agreement with the research conclusions regarding the preference for further improvements in leakage and PCC; and that these conclusions aligned with the challenges (ref Challenge Log item 38) raised by the CSP, as well as EA. For its part SESW accepted that there was now sufficient validation and evidence for it to review the performance commitments, which was good evidence of SESW taking account of customer viewpoints as well as the views of the CSP, and reflecting that in its Business Plan (ref challenge log item 42).

4.3.8. CSP review and challenges relating to PCs/ODIs

The main components of SESW customer engagement on PCs took place in Phases 2 and 3 of the engagement programme. In Phase 1 the engagement provided some initial conclusions on relative customer priorities, but the Phase 2 research (and separate but related WRMP research) was where greater insight was gained in the relative importance to customers of specific performance components. Regarding the Phase 2 research the CSP members expressed the view that the conjoint analysis approach (*“to develop a clear picture of what consumers find important and how much value they attach to the various aspects of their water service”*) of testing various packages of services (rather than individual components) was an effective approach in analysing customers willingness to pay against proposed PC commitments (ref Appendix 3 *Fig 4.3.1iv, Fig 4.3.1v*).

As explained in Appendix 3 section 4.3.1 the research approach then sought to identify the perceived value that consumers attach to each level of (PC related) service SESW could offer. Within the conjoint exercise respondents were constantly trading different levels of service and cost off against one another; so through the further analysis Box Clever were able to calculate the monetary value they attribute to each level of service, where these values are calculated relative to the current level of service within each attribute. *Fig 4.3.1vii* provided an example of the output.

The CSP recognised this approach as an innovative aspect of the research, which together with the qualitative research gave positive evidence of SESW engaging effectively with customers on a genuine set of priorities and options plus testing the affordability of options and willingness to pay against proposed Performance Commitment levels.

Although the CSP was impressed with the quality and insightfulness of the Phase 2 research, following the January 2018 CSP meeting there was feedback from CSP members which identified that the CSP required greater clarity on the overall customer engagement programme, and how the research and analysis was linking back to the Performance Commitments (and stretch within them), to confirm that there are no major gaps in relation to proposed PCs for 2020 to 2025 that have not been addressed and/or that would need to be addressed in Phase 3. The March CSP meeting also included a helpful update from SESW on the difference between the proposed C-MeX measure of customer service and the current SIM score and methodology.

The Water Resources Management Plan (WRMP) research and planning was an important associated activity to the PR19 customer engagement on PCs, as this significantly informed the resilience and environment planning within PR19. Most of the activity related to SESW's

WRMP planning took place during the Phase 2 customer engagement process timeframe, followed by acceptability testing (particularly regarding network resilience, leakage and PCC) during Phase 3 customer engagement.

In April the CSP engaged Atkins, as independent specialists, to assist in reviewing the SESW PCs/ODIs and the conformance to the Ofwat guidance. In addition during April the CSP held a meeting in private ([Appendix 5 ref 18](#)) at which the evidence to support SESW PC proposals was discussed. This included an initial session at which SESW management presented their evidence of comparative data and trends of various PCs to support the proposed commitment levels, and seek to assure the CSP that these did represent “stretching” commitments. Each of the PCs was discussed, and explained in the context of how the commitment was seen as “stretching”. The CSP gave positive feedback that the approach had been helpful, and did provide some assurance on the level of stretching, although the CSP raised a number of queries and challenges (ref section 3.7.3).

During April the CSP also reviewed the proposed Bespoke PCs from SESW (ref [Appendix 5 ref 22](#)) and provided feedback prior to these being submitted to Ofwat. The CSP leads on PCs then discussed the initial conclusions and challenges with Atkins, and Atkins provided their summary of the SESW proposals. These were reviewed by the CSP leads on PCs (including the CSP Chair) and a summary of queries provided to SESW. The key points flagged were;

- Lack of assessment of how SESW compares against other companies’ published 5 year aspirations (e.g. in their WRMP’s); e.g. the CSP understanding of other company proposals suggested that the SESW proposal on PCC would see it fall further behind even the other companies with high PCC levels; and other companies with top ranking leakage performance were proposing higher % reductions compared to SESW.
- The CSP asked for assurance/evidence that initial work and change is already being done, to underpin the existing (positive) trajectory of performance.
- Concern that, while SESW are doing WTP acceptability testing, this does not appear to cover the potential further bill impact (and thus acceptability) of ODI increases/decreases.

The Phase 3 customer research included significant focus on validating the SESW initial proposed commitments for PCs and the CSP had active involvement in reviewing the Phase 3 briefs and programme plans. The Phase 3 output and conclusions, including the specifics on acceptability of proposed PCs, was presented to and discussed with the CSP at the June CSP meeting ([Appendix 5 ref M8](#)). While the CSP concluded that the quality of the research and analysis was good, it also challenged SESW regarding the Phase 3 acceptability testing on Performance Commitments, and whether some of these were really stretching enough (especially re Leakage and Per Capita Performance (ref 3.7.2, 3.7.3 below).

The CSP leads on PCs met with SESW at end of May to review the common and bespoke PCs/ODIs and respond to queries from the CSP (ref [Challenge Log item 38](#)). Following the meeting the CSP requested SESW to help populate a simple table of PCs/ODIs against which the CSP could add its evolving conclusions (see table in 3.7.2).

The Environment Agency (ref [Appendix 5 ref 8](#)), and subsequently Ofwat, published their responses to the SESW draft WRMP at the end of May 2018, which also identified similar challenges relating to leakage and PCC, as well as further challenges and recommendations (refer to section 3.4 re WRMP). The CSP reviewed the recommendations and agreed the challenges were appropriate (ref [Challenge Log item 40](#)) to be taken account of by SESW as proposed improvements to the final WRMP/Business Plan. Ofwat also concluded that the draft WRMP plan did not have sufficient evidence of customer engagement (both household and non-household),

The conclusions re PCs/ODIs, including the EA and Ofwat responses, were discussed at the June CSP meeting ([Appendix 5 ref M8](#)), and SESW recognised that, coupled with the Phase 3 output plus the strength of challenge from the CSP, there was a strong case to review the proposed commitments on at least leakage and PCC (ref also [Challenge Log item 42](#)). SESW thus confirmed that it would be doing this, and would include the revised commitments in the final Business Plan. This was noted by the CSP as good evidence of SESW taking account of customer priorities and feedback in impacting its Business Plan.

There was further detailed discussion on PCs/ODIs at the July 3rd CSP, both with SESW and in private with the CSP (ref [Appendix 5 ref M9, 19](#)). A key CSP challenge in this meeting was that SESW needed clear justification for the decision not to specifically test customer acceptability of ODI rewards/penalties (see comments in 3.7.2).

4.4. Appendix 4: CSP Activity Schedule from May –Sept 2018

	CSP PR19 Workplan																	
	07-May	14-May	21-May	28-May	04-Jun	11-Jun	18-Jun	25-Jun	02-Jul	09-Jul	16-Jul	23-Jul	30-Jul	06-Aug	13-Aug	20-Aug	27-Aug	03-Sep
Bullet point summaries of conclusions and gaps to date; by CSP lead area (cust eng, PC's/WTP, Resilience, Vulnerability, Innovation)																		
Atkins feedback on PC/ODI																		
Circulate/review across CSP																		
Phase 3 outputs due																		
Plan consultation closes																		
CSP updated bullet points to take account (as far as possible) of Ph3 outputs for 12 June feedback																		
SES Board meeting																		
CSP meeting																		
CSP PR19 Plan drafting (GH owns)																		
Ongoing updates from CSP leads to GH; and reviews of drafts of Plan (taking account of Ph3 outputs etc)																		
SES Plan drafting																		
Atkins feedback on PC/ODI & WTP																		
Update to SES on conclusions & gaps																		
CSP meeting																		
WRMP statement of response																		
Further drafting of CSP PR19 Plan																		
Circulate draft for CSP review																		
Ongoing updates from CSP leads to GH; and reviews of drafts of Plan (taking account of 3 July & WRMP)																		
SES Board meeting																		
SES to provide full draft BP																		
Additional private CSP meeting (review full draft of CSP Report)																		
Produce final draft CSP Rep																		
CSP review final draft CSP Rep																		
SES to provide full draft BP																		
CSP meeting																		
SES Board meeting																		
Produce final CSP Rep																		
CSP review final CSP Rep																		
Submit CSP Rep to Ofwat																		

4.5. Appendix 5: References

- 1 Challenge Log
- 2 Triangulation and trade-offs Report from SESW
- 3 AECOM: WRMP Options Report available via web link [WRMP Options Report](#)
- 4 WRMP Consultation document available via web link [WRMP consultation doc](#)
- 5 SESW Business Plan consultation available via web link [SESW Business Plan consultation](#)
- 6 Phase 2 customer engagement CSP review
- 7 SES Triangulation update April (Insight driven decision making – triangulation diagrams)
- 8 EA Report on SES WRMP
- 9 SES Water customer engagement and insight for PR19 (February 2018).
- 10 Customer Scrutiny Panel Feedback: SES Brief for Phase 2
- 11 CSP private meeting notes 31/10/17
- 12 SESW customer engagement review 5 December
- 13 CSP meeting minutes – 5/12/17
- 14 Brief re Feb phase 2 review meeting
- 15 SESW Long term Vision available via web link [SESW Long term Vision](#)
- 16 Ofwat/CCW Triangulation guidance available via web link [Ofwat/CCW Triangulation guidance](#)
- 17 Draft Water Resources Management Plan available via web link [draft WRMP Plan](#)
- 18 CSP meeting in private 17/4/18
- 19 CSP private meeting notes 3/7/18
- 20 SESW Resilience Discussion
- 21 Innovation meeting with Jeremy Heath
- 22 SESW PR19 Bespoke PC's 3/5/18
- 23 DWI letter to CSP (June 18)
- 24 Ofwat: SES Water draft WRMP Response [Ofwat: SES Water draft WRMP Response](#)
- 25 SES response re financing consultation [SES response to finance outperformance consultation](#)
- 26 Independent NED meeting March 2018
- 27 Independent NED meeting July 2018

- M1 Jan 2017 CSP meeting available via web link [CSP meeting minutes](#)
- M2 April 2017 CSP meeting available via web link [CSP meeting minutes](#)
- M3 July 2017 CSP meeting available via web link [CSP meeting minutes](#)
- M4 October 2017 CSP meeting available via web link [CSP meeting minutes](#)
- M5 January 2018 CSP meeting available via web link [CSP meeting minutes](#)
- M6 March 2018 CSP meeting available via web link [CSP meeting minutes](#)
- M7 May 2018 CSP meeting available via web link [CSP meeting minutes](#)
- M8 June 2018 CSP meeting available via web link [CSP meeting minutes](#)
- M9 July 3 2018 CSP available via web link [CSP meeting minutes](#)
- M10 July 20 2018 CSP available via web link [CSP meeting minutes](#)
- M11 Aug 20 2018 CSP available via web link [CSP meeting minutes](#)

- R1 Phase 1 output
- R2 Phase 2 output Explain
- R3 Phase 2 output BoxClever
- R4 Phase 3 output Explain Small Co
- R5 Phase 3 output Explain design Sprint
- R6 Phase 3 output Explain Social tariff
- R7 Phase 3 output BoxClever
- R8 Phase 3 output BoxClever business acceptability

4.6. Appendix 6: Glossary

AIM - Abstraction Incentive Mechanism is a mechanism established by Ofwat that incentivises water companies to reduce their water abstractions from the more environmentally sensitive water sources when river flows are low.

AMP (Asset Management Plan) - the industry operates in five-yearly cycles. Each cycle is called an AMP. We are currently in AMP 6.

BAU – Business as Usual. Generally refers to data and information collected from the day to day operations of the company.

Burst - failures of water pipes usually resulting in large losses of water.

CAB – Citizens Advice Bureau, who provide support in administering the Social Tariff uptake.

Capex (capital expenditure) – spending on investment in infrastructure.

CCG – Customer Challenge Group: collective term for the equivalent of CSP's (see below) in other water companies.

CCW – Consumer Council for Water. The independent representative of household and business water consumers in England and Wales.

C-Mex/D-Mex: (customer experience measure/developer experience measure). C-mex - Mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. D-mex - Mechanism to incentivise water companies to provide an excellent customer experience for developer services customers.

CPI (consumer prices index) - a measure of inflation in the economy published by the Office of National Statistics (ONS). It is calculated as a weighted average of prices of a basket of consumer goods and services.

CSP – Customer Scrutiny Panel: A panel of independent members with the aim *To represent the needs and interests of current and future customers in advising, scrutinising and challenging the company in the development, implementation and delivery of an affordable and sustainable Business Plan, including encouraging the company to consider the impacts on the environment and wider society in a customer context.* The CSP meets with the company and with Ofwat at least quarterly.

DMA (district metered area) - a discrete area of a water distribution network. Water flowing into and out of the DMA can be metered. SES Water has 330 DMAs.

DWI – the Drinking Water Inspectorate who are an agency responsible for water quality.

EA – the Environment Agency

Gearing - Financial gearing refers to the relative proportions of debt and equity that a company uses to support its operations. This information can be used to evaluate the risk of failure of a business. When there is a high proportion of debt to equity, a business is said to be highly geared.

Leak/leakage - water lost from fittings to mains like stop taps, meters and customers' pipes. Leakage is a measure of the water lost between water treatment works and customers' taps.

Megalitre (Ml) - equal to a million litres

NED – Non Executive Director. The members of the Board who are not full-time executives. In SES Water there are 2 NEDs appointed by the shareholders, 3 independent NEDs plus the Chairman.

NEP - National environment programme a list of environmental improvement schemes or, where more evidence is needed, a requirement on water companies to investigate a particular problem to ensure that water companies meet European and national targets related to water. Each water company's NEP is different and progress on delivery is monitored by the Environment Agency.

ODIs - Outcome delivery incentives are the financial rewards or penalties SESW will receive for over or under-delivering on outcomes.

Ofwat - the economic regulator of the water sector in England and Wales that was established in 1989 when the water and sewerage industry was privatised.

Opex (operating expenditure) – spending on the day to day operation of the business such as staff costs, repairs and maintenance expenditures, and overheads.

PCs - Performance commitments: commitments SESW has made on the level of service they will provide in the current five-year period. Performance on some PCs will result in a financial reward or penalty, these are also known as ODIs.

PCC - Per capita consumption is the average amount of water each person in a particular area uses on a daily basis.

Ph1, Ph2, Ph3 customer engagement. Refers to the 3 phases of the PR19 customer engagement programme.

Price control - the control developed by Ofwat to set targets and allowed revenues for companies. The characteristics and mechanisms of each price control are developed by Ofwat in the price control review period.

PR14 - the last price control review. This concluded in December 2014 and set the revenue that companies are allowed to recover for the five years which started on 1 April 2015.

PR19 - the current price control review by Ofwat. This will conclude in December 2019 and set the revenue that companies will be allowed to recover, through charges to their customers, for the five years starting on 1 April 2020.

RCV - Regulatory capital value is the value ascribed to the capital employed in the company's regulated business. In simple terms, the RCV represents the initial market value, including debt at privatisation, plus subsequent net new capital expenditure less disposed assets.

RPI - Retail prices index: a measure of inflation in the economy published by the Office of National Statistics (ONS).

SIM - Service incentive mechanism: an industry-wide measure, set by Ofwat, of the quality of each water company's customer service.

SESW – shortened form for SES Water (formerly Sutton & East Surrey Water) used for abbreviation purposes in this Report (NB: not a formal shortened form).

Social Tariff – A scheme offered by water companies by which they offer reduced charges to help eligible customers in genuine hardship.

Supply interruption - where the supply of water to customers is interrupted due to planned (e.g. replacing old pipes) or unplanned (e.g. a burst) activity.

Triangulation - involves using two or more methods/sources of data when researching, investigating and analysing a hypothesis in order to help make the evidence more robust. The outputs from the different sources are then compared and contrasted against each other to develop more robust hypotheses that can then be tested with e.g. customers/stakeholders

VfM – Value for money

WACC - Weighted average cost of capital: the weighted average of the cost of equity and the cost of debt, where the weighting is provided by the gearing ratio.

WASC - Water and sewerage company: companies that supply water and sewerage services. There are currently 10 WASCs.

Water 2020 - Ofwat's programme of work to develop policy and methodology for the next price control review.

WOC - Water only company: companies that supply only water services. There are currently seven WOCs.

WRMP - Water resources management plan: all water companies in England and Wales are required by the Government to produce a WRMP that outlines their plan to maintain a balance between supply and demand for water over a 25-year period. It is updated every five years with the next update due to be finalised in 2019.

WRSE – Water Resources South East. An alliance of the six south east water companies, the Environment Agency, Ofwat, Consumer Council for Water, Natural England and Defra, to develop long term plans for securing water supplies in the south east.

WTP - Willingness-to-pay: the amount an individual is willing to pay for the service they receive