

MINUTES OF THE WATERSHARE + PANEL MEETING (PUBLIC) – 23 June 2023

Present

Panel Members:

Lord Matthew Taylor – Chair (MT)
Nick Buckland – Deputy Chair (NB)
Tony Denham – Deputy Chair Bristol Water Challenge Panel (AD)
Carole Theobald (CT)
Richard Lacey (RL)

In attendance:

Independent Report Writer - Jeremy Hawkins (JHa)

Customer attendees:

Customer 1 (C1)
Customer 2 (C2)
Customer 3 (C3)
Customer 4 (C4)
Customer 5 (C5)
Customer 6 (C6)
Customer 7 (C7)
Customer 8 (C8)
Customer 9 (C9)
Customer 10 (C10)

Expert Advisors:

Catherine Jones – Consumer Council for Water (CJ)
Tamsin Sutton – Environment Agency (TS)

SWW Representatives:

Susan Davy – Group Chief Executive Officer (SD)
Dr Lisa Gahan – Group Director of Regulatory, Strategy and Asset Management (LG)
John Halsall – Group Chief Operating Officer (JHa)
Louise Rowe - Group Compliance and ESG Director (LR)
Adele Barker – Group Chief People Officer (ABa)
David Harris - Group Drought and Resilience Director (DH)
Laura Flowerdew - Group Chief Customer & Digital Officer (LF)
Jon Hill - Head of Regulation Projects (JHi)
Sue Clarke – Head of Customer Strategy and Research (SC)

Apologies:

Peaches Golding – Chair Bristol Water Challenge Panel (PG)
Kevin Ward – Environment Agency (KW)
Adrian Bratt (AB) - Panel member
Fergus Mitchell – Natural England (FM)

1.	Welcome and introduction to the meeting
1.1	MT welcomed everyone to the WaterShare+ (WS+) Panel public meeting, particularly the customers that had joined. He said that this meeting was an opportunity for the company to present its performance in 2022/23 and its current water resources and resilience position. It would also enable customers to interact directly with the company on these matters and on other issues of interest to them. He said that some customer questions had been submitted in advance but noted that some customers who had pre-submitted questions were not in the meeting. He also invited further questions from the customer attendees during the meeting.
1.2	MT explained the role of the WS+ Panel in representing consumers in its scrutiny of the company's delivery of its current Business Plan commitments in the current Price Review period (PR19: 2020 – 2025) and the development and content of its Business Plan for 2025 to 2030. The Panel has two sub-groups: one scrutinising the customer engagement for the next Business Plan, the other looking at the technical and environmental aspects of it. The Panel is supported by independent advisors from the Consumer Council for Water (CCW), the Environment Agency (EA) and Natural England (NE).
1.3	MT reported the sad news that Mark Duddridge had passed away recently. Mark was an extremely likeable but formidable Panel member and will be greatly missed. The Panel's thoughts are with Mark's family at this time.
1.4	The Panel members and the expert advisers introduced themselves.
1.5	SD, the Pennon Group Chief Executive, welcomed the customers attending the meeting. She thanked people for the time they were committing to today's meeting. She echoed MT's sentiments about Mark Duddridge, adding that he was a valued member of the Panel in supporting its work on behalf of customers. The company's thoughts are also with his family.
1.6	The company representatives attending the meeting introduced themselves.
2.	Approval of minutes
2.1	The minutes of the public meeting held on 28 March 2023 were approved.
3.	Review of 2022/23 company performance
3.1	The company provided an overview of its performance in 2022/23 against its PR19 performance commitments. The slides presenting the detail of this were taken as read.

3.2	MT thanked the company for its presentation.
3.3	MT noted that a large number of questions from customers had been received. In the interests of time at today's meeting, he had selected questions that covered the main areas of concern. However, all questions submitted would receive a written response from the company.
3.4	The first question was from C10 (not present at the meeting). She had asked about the company's plan to stop dumping sewage into rivers and the sea, the cost of doing this and who will pay for it.
3.5	SD replied that the company had invested £13 billion over the last 30 years, when, at that time, large quantities of sewage went untreated and were discharged directly to the environment. Today virtually all sewage is treated. However, the company knows it has more to do. It has monitors at all sewage overflows but must now concentrate on ways of removing surface water from the sewerage system to minimise the risk of spillages during heavy rainfall.
3.6	JHal added that preventing pollution from sewage is an absolute priority for the company. It has heard what customers and stakeholders have said on this matter and is determined to deliver improvements. It is fighting the legacy of a combined surface and foul water sewerage system, some of which was designed and built up to 150 years ago. Full remediation will take a long time, however. Improved intelligence and information are key and, while all spill sites are now monitored, some of the monitors don't work all the time. There are also opportunities to operate sewage treatment works and the sewerage system in a smarter way. The company will also make significant capital investments to deliver improvements, both in the next five years and beyond, and will be proposing this to Ofwat in the forthcoming Business Plan.
3.7	LG addressed the question of who pays for this work by saying that the company will be investing £750 million over the next two years. It will be raising funds from lenders and shareholders to do this. The cost of this borrowing (interest payments and dividends) will be borne by customers, as is the case with all capital investment the company makes.
3.8	MT then turned to a question from C2 who is concerned that the company is paying large dividends to shareholders while customers are being asked to pay for the investment.
3.9	SD replied that the company obtains the money for capital investment from banks and shareholders. The company must make these investments and must pay the associated interest to lenders and provide a return to investors (shareholders) by paying them dividends. This mechanism allows the improvements to be made and makes sure that

	<p>funds can continue to be raised expediently and in the same way in future. Dividends provide a yield to shareholders of 4 to 5% so are similar to current savings rates. Two thirds of shareholders are UK pension funds, charities, colleagues, and customers, all of whom rely on dividend income.</p>
3.10	<p>Later in the meeting, C2 asked who the remaining third of shareholders are. SD replied that they are financial institutions, some of which are based overseas.</p>
3.11	<p>MT asked how the proposed investments impact water bills. LG replied by saying that the funding for the new investment comes from lenders and shareholders. The interest and dividend payments associated with this are included in future customer bills.</p>
3.12	<p>MT asked a further question, which had been raised by customers and which is a core focus of the Panel. This concerned why, if the issues with the sewerage system were known about 30 years ago, they haven't been addressed before.</p>
3.13	<p>LG repeated that, compared to 30 years ago when half of sewage went untreated, nearly all is now treated, and the company's aim is to treat everything. 100% bathing water compliance was achieved last year but the company recognises there is still more to do. Current challenges are water resource resilience, more visitors to the region and 'urban creep' (such as increased paving over of permeable areas). Public expectations have changed, and the company recognises this. It will be spending £750 million over the next 18 months alongside encouraging consumers to use water wisely. The company will present its plans at the next public meeting.</p>
3.14	<p>C1 said there is a need for clarity. He has heard from the company about the positives and the money being spent. However, its C-Mex (customer service) performance is going down so, whatever is being done isn't having an impact.</p>
3.15	<p>SD replied that C-Mex reflects how customers are feeling as well as service delivery and how the company is responding to customer issues. Given water restrictions and sewage spills, customers are not feeling the company is where it needs to be, hence the reduction in C-Mex.</p>
3.16	<p>C2 asked why customers should pay for poor investment decisions made in the past and why investors are still receiving returns when there are clearly improvements to be made.</p>
3.17	<p>SD replied that the company's assets were not in a good place 30 years ago. Only 28% of bathing waters met standards. The figure is now 100%. The Victorian sewerage system is not designed to current specifications or customer expectations. It was always known that decades of investment would be needed to address the legacy issues. Further improvements will still take time and investment. The company recognises that</p>

	<p>it is unacceptable to have sewage entering the environment and wants to stop this. However, it also wants to make sure investment is efficient and effective for communities. Surface water entering the sewers is adding to the problem. The company is working with communities to divert some of this flow. It is also installing more storage in the sewerage system. Investors will help with this. Returns to investors are necessary. They are not excessive and are overseen by the regulator (Ofwat).</p>
3.18	<p>C7 noted that some dividends paid today are not to shareholders who invested in the business initially. He asked if the company knows how many initial shareholders remain.</p>
3.19	<p>SD replied that shareholdings change hands over time as part of a normal share market. This maintains the funding level. Nevertheless, there has been consistency over time, for example from pension fund and charities holdings.</p>
3.20	<p>MT noted that there may be confusion over dividend payments from South West Water, which were cut this year, and the Pennon Group, the level of which were maintained. He asked to company to explain.</p>
3.21	<p>SD replied that Pennon Group plc is the listed company that raises the funds from shareholders and pays them dividends. One of its businesses is South West Water which has its own board and dividend policy. South West Water's dividends paid to the Group this year were impacted by high energy costs and regulatory penalties. Most people are aware of the Pennon Group dividends.</p>
3.22	<p>MT noted that the water business (South West Water) is ring fenced and money coming from customers will pay for its operation. SD agreed and added that money raised by Pennon Group supports South West Water, not the other way around.</p>
3.23	<p>C9 said that ten years ago she was involved in a climate impact partnership looking at climate change patterns and their effects on water infrastructure. She was surprised to hear that the unusual weather is being discussed now, rather than it being regarded as the new normal, given that such weather events had been considered for many years. She agreed that nobody should be washing cars with clean water. Properties should have rainwater saving devices, but she notes that the company has run out of water butts. She accepts the company is passionate about water efficiency but has some sympathy with those who feel that the issues are being addressed rather late in the day. She also mentioned the need to reflect the true cost of water in the summer and asked if the company is lobbying proactively on this.</p>
3.24	<p>MT thanked C9 for her questions and suggested they would be covered in the next part of the meeting.</p>

4.	Drought and resilience update
4.1	DH presented an update on the company's drought and water resilience situation.
4.2	He responded to one of C9's questions by saying the company had plenty of water butts available for customers who wanted them.
4.3	MT thanked DH for his summary. He said he would put several customers' questions together in the time remaining for the meeting. These related to when the company is going to build more water treatment and storage capacity, how the company is tackling leaks, why tourist businesses are exempt from water restrictions and why hotel rooms are not metered individually.
4.4	DH replied that there has been a doubling of storage capacity since privatisation. The company is introducing water treatment by desalination, the production of which is limited by plant capacity. New pipelines will improve the flexibility of existing supplies and help balance out supply and demand. Additional storage at Hawks Tor will come online in the autumn/winter. The company is pursuing two new reservoirs with Wessex Water (Cheddar 2 and Mendip quarries in the longer term).
4.5	DH said there is currently a hosepipe ban in place in Cornwall and large parts of Devon. The company's Save Every Drop encourages people to think about their water usage and targets residents, tourists and businesses.
4.6	JHal said the company is very sensitive to the risks and opportunities associated with fixing leaks, particularly as it's asking customers at the same time to do their bit by reducing water usage. Significant sums are being spent annually on finding and fixing leaks. The work involves hundreds of operational personnel and employs a range of methods. A large proportion of this expenditure addresses the natural rate of increase in leakage rather than reducing the overall level. JHal explained why leakage occurs referring to changes in ground conditions (caused by temperature), changes in water temperature (particularly during cold weather) and older pipes being less flexible than newer ones. There will always be more that can be done but reducing leakage really matters to the company.
4.7	Later in the meeting MT asked to what extent is getting the work done a factor in not reducing leakage. JHal replied that about 40% of the effort goes into finding leaks and 60% repairing them. Detection of leaks can be difficult technically and operationally.
4.8	C8 noted the Save Every Drop initiative but said that his water butts were empty before the ban because of this. He considered that desalination should be an absolute priority rather reliance on reservoirs.

4.9	DH replied that desalination is part of a holistic programme in conjunction with other water sources and a more efficient distribution system. The company will have one of the larger desalination plants operating in the UK.
4.10	DH also said the regulators require new supply measures to come online when needed as part of the agreed water resources plan with its regulators.
4.11	C7 noted the criticism of underinvestment by the former South West Water Authority. However, the apparent doubling of water storage since then hasn't improved the resource position. He also said that the temporary use bans only save 5% of supply but leaks account for 136 MI/d. It feels misleading to suggest these are customers' problems rather than the company's.
4.12	DH replied that water saving involves everyone coming together and contributing including the company, customers, and government (by changing regulations enabling the parties to do this).
4.13	C1 said he had noted in the Water Resource Management Plan the possibility of transferring ownership of customer supply pipes to the company. He asked how this would come about and how much leakage would be saved as a result.
4.14	LG replied that around 30% of leakage is estimated to come from customers' supply pipes and internal plumbing. Leaking customer supply pipes may be contributing around 5% of the total leakage. Replacing these can be expensive for customers so transferring ownership to the company will remove this constraint. The company is looking into how this transfer might happen.
5.	Final questions from customer attendees
5.1	The Chair explained that this part of the agenda was to receive and respond to any questions from customers.
5.2	C1 asked about the priority services scheme, how successful this has been and the extent of auditing that takes place to show this.
5.3	LF replied that it encourages customers to go on its Priority Services Register (PSR) so it can identify and provide help in specific operational circumstances. The help depends on the individual needs of the customer, often related to health conditions which require constant water supply e.g., dialysis. The company also researches the satisfaction of its PSR customers. The latest satisfaction rate is 91%. It also regularly checks to ensure the information on the PSR is accurate and up to date.

6.	AOB and meeting closure
6.1	MT summed up by saying the WaterShare+ Panel is spending a lot of time with the company and the regulators on the next five-year plan. The plan must go through Ofwat later this year. The Panel will report on whether customers have fully informed the plan that's put forward and that the regulators have also responded to it. This is happening in the context of pollutions, drought, and the cost-of-living crisis. The affordability of the plan for customers and the fairness of bill distribution are important considerations. This is a critical moment, and these issues will be covered at the next public meeting .
6.2	MT thanked the customers for taking part. He said the Panel is normally very vocal but had agreed to prioritise customers' questions at this meeting.
6.3	MT also thanked the company for the information provided and being available to answer customers' questions. He added that the scope and format of this meeting is not something that most other companies adopt.
6.4	The next public meeting will be the on 13 th October 2023
6.5	The meeting was closed.