

PENNON GROUP/BOURNEMOUTH WATER MERGER INQUIRY

Summary of hearing with Bournemouth Water Customer View Group on 22 July 2015

Background

1. Bournemouth Water Customer View Group (BWCVG) said that up until the price review in 2014 (PR14), its predecessor had been the Customer Engagement Planning Forum (CEPF). BWCVG had now been fully formed and some of the CEPF members had continued their involvement in the new organisation. However, additional new members had also joined to strengthen the customer representation on both the business and domestic side.
2. BWCVG said that the CEPF had fed into PR14 and set targets for Bournemouth Water (BW) to achieve, for example the outcome delivery incentives (ODIs) around providing a wholesome water supply, a reliable and excellent customer experience and financial stability.
3. BWCVG said that it would hold the company to the agreed targets for PR14. It also said that if savings were made from capex, and therefore if there was an underspend, BWCVG would decide how that would be shared with customers.
4. BWCVG said that the CEPF had had a wider remit than just the ODIs. It had also helped to develop the business plan by undertaking customer research to understand what was wanted.

ODIs

5. BWCVG said that benchmarking ODIs was the main driver to ensure that a company be held to account, and therefore the ODIs had been developed through each company's own initiatives. BW had responded to what customers had raised in the research, and the ODI levels decided upon were the result of what was felt by customers to be achievable and affordable rather than due to external benchmarking.
6. Nonetheless, BWCVG said that benchmarking was important to improve standards. It noted that BW was already in the upper quartile with its ODIs. A new report was due out presently, but BW was meeting and exceeding all of

its targets at the moment. BWCVG thought that a key aspect to BW's good performance was its manageable size.

7. BWCVG said measuring the company against PR14 should be straightforward because of the ODIs and other targets. However, it was more concerned post-PR14 because there were no guidelines about how the combined companies would report. It said five years was a small time in water years, and what needed to be done for the next review needed to be addressed as BW's performance needed to be protected in the longer term.

The companies

8. BWCVG said that the two companies were very different in that BW's bills were the second lowest in the country, whereas South West Water (SWW) had the highest due to it having 3% of the UK population but 35% of the coastline. SWW also had more than 650 wastewater treatment plants and a rural setting.
9. BWCVG said that BW had excellent customer service levels and it thought the reason for this was the size of the company and the ethos of the management. It said that customer focus ran throughout the organisation, but that while the size of the company helped, there was also a very determined and sympathetic approach to debt. BW's debt ratio was around 5%, whereas other companies were 10 to 15%.
10. It said that BW had just put in a new billing system and it was aware that SWW had struggled with its new billing system. In addition to this, SWW had outsourced its customer service and then brought it back in-house when it had not worked very well. Therefore, BWCVG thought that SWW could learn a lot from BW.
11. BWCVG also said BW was innovative with a unique software package relating to energy usage and leakage.

The merger

12. BWCVG said that it would expect to be consulted on how the joint company would be run.
13. BWCVG said that BW was a high performing company and it did not want to lose the capability to measure and assess its performance. It said that the service incentive mechanism (SIM) was a way of finding out about a company's performance and it thought that provided separate reporting was maintained until 2020, there should not be any negative impact on Ofwat's

ability to make comparisons. However, it said that if the reports were to be amalgamated, or the performance consolidated, there was a risk that the positive steps already taken would be lost.

14. BWCVG said that it wanted to protect BW's customers in the long term and it did not want to see a decrease in the quality of the services, but rather service quality enhancements. It said that BW had struggled with the social tariff but that SWW already had a scheme and it thought that this could be a benefit of the merger. In addition to this, SWW had also done well regarding engineering works, and its IT capabilities were strong.
15. It thought the merger was a good thing because both companies could bring their strengths to the other; for example, BW's debt recovery practices and SWW's catchment management and environmental practices. BWCVG thought that Ofwat needed to consider more funding for catchment management initiatives as this would be beneficial for customers.
16. BWCVG said that while there were benefits to be obtained, and as a combined company there were savings to be made, it should not be forgotten that BW was a higher performer than SWW, and it did not want to see BW move backwards. BWCVG said that BW had to continue to look after local customers, and it did not want to see a decrease in the resources devoted to achieving this.