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Chair's introduction

South East Water (SEW) has the essential role of managing and providing water to more than 2.2 million customers in an area of 5,657km². This includes parts of Kent, Hampshire, Berkshire, Sussex and Surrey.

While business customers can chose their retail water provider, for households this is not the case. Water management also impacts our community, economy and environment more widely. It is especially important therefore that SEW puts the needs of its current and future consumers at the heart of what it does.

As SEW's independent Customer Challenge Group (CCG) we help to hold the Company to account for the promises it makes to its customers and the communities in its region.

We challenge the Company to engage with and listen to its diverse consumers, and to reflect those views in the decisions that they make every day. This includes important decisions for its upcoming business plan for 2020-25 on the environment, levels of service, support for customers with additional needs, and how much customers should pay for their water.



Zoe McLeodSouth East Water Customer
Challenge Group Chair

Over the course of 2016/17 we've updated the Group's membership, governance, and training to ensure that we've the appropriate mix of perspectives, expertise and experience to perform our role. In particular, to perform our consumer engagement challenge role for the Company's Price Review 19 (PR19) business plan submission to Ofwat.

The CCG is made up of SEW customers, the Consumer Council for Water (CCWater), community and business representatives, regulators and independent experts. My thanks go to all the members of the Group, for their work this year.



I would also like to thank South
East Water, which has allowed us
unfettered access to its organisation and
information. Our discussions have been
robust, and candid. We welcome the
Company's openness to feedback and
willingness to engage and respond to
the challenges of the CCG.

Each year the CCG produces a report alongside the Company's annual report that outlines its views on the Company's progress against its business plan commitments. We also provide an update on the work and operation of the Group itself.

The Company has just completed the second year of its current business plan for 2015-20. This report gives the CCG's views on the Company's performance against its 2016/17 targets and its activity to support customers with additional needs over the same period. While we give some high-level opinions on the Company's general approach to engagement, this report does not review SEW's approach to PR19 engagement which will be included in a separate report submitted to Ofwat, and published on the CCG website, in September 2018.

For more information on the work of the CCG see:

www.customerchallenge.co.uk



Headline messages

- Over the course of the year, the focus of the CCG's activity has transitioned from its 'customer panel' role, holding the Company to account on its current 2015-20 business plan commitments, to focusing the majority of our attention on the Company's consumer engagement strategy in preparation for its PR19 submission in September 2018. The CCG will continue its 'customer panel' role in 2017/18, but less time will be spent on this activity. The Group formally became the Customer Challenge Group in April 2017 and we are now adopting this title for all functions going forward.
- From April 2012 to December 2016 the Group was chaired by Roger Darlington. Our thanks go to Roger for his excellent leadership of the CCG. He was succeeded in December 2016, by long-standing consumer advocate and former consumer advisor to Ofwat, Zoe McLeod.

- In Ofwat's Final Determination (FD) for SEW, a total of 25 performance commitments were set by the regulator and agreed by the Company. These measures are broadly of two kinds:
 - 17 traditional measures based on 'hard' units such as time, volume or incidents which are derived from key Company data and
 - Eight novel customer perception measures, which are derived from independent surveys.
- Of the 17 traditional measures, SEW has met seven of its targets including for leakage and low pressure, and missed three. Four are within the acceptable deadband range or neutral zone. This includes for supply interruptions and water quality. Three commitments do not have a formal 2016/17 target.
- We are particularly pleased to see a continued reduction in leakage for the 15th year in a row, which takes the Company to 6th place out of 19 companies¹. We are mindful however that customer expectations on leakage are high, and SEW's relative industry performance and reported customer satisfaction levels indicate there is scope for further improvements.



- SEW has improved its customer satisfaction. Service Incentive Mechanism (SIM) score. It also reduced its complaints for the fifth year in a row, last year by 30%. While the Company has been coming from a particularly low performance base, this improvement is to be applauded, especially against the backdrop of compulsory metering, which has resulted in increased complaints for other water companies in the region. The Company is not complacent and recognises the need for more progress. This is particularly so given its relative industry performance and CCWater's recent research, which suggests a potentially less positive and/or more complex picture².
- The CCG would like to see greater focus on the colour and appearance of tap water. While there were improvements in this area, the Company was in the deadband range for both its customer satisfaction target and its performance target on discolouration. Historically SEW has also been towards the bottom of the water industry league tables in this area and below average customer satisfaction compared to other water companies.

- The Company has only met one of its eight customer satisfaction outcomes satisfaction with the frequency of water use restrictions. However, six of those missed were within the acceptable deadband range and one did not have a formal 2016/17 target. It should also be noted that customer satisfaction has improved since last year in all but one area, water pressure, which stayed the same.
- Given the innovative nature of the customer satisfaction outcomes, the CCG is comfortable that the Company is heading in the right direction in its 2015-20 satisfaction performance commitments. These genuinely stretching targets are encouraging SEW to experiment with and embed customer engagement into its business as usual activities. However, we believe further improvements in performance and a better understanding of its diverse customer base will likely be needed to meet these stretching satisfaction targets.



- The Company has a package of support available for customers who are struggling financially. We are particularly pleased to see that the number of customers receiving its social tariff has more than doubled since last year to 9,471, and there were close to 18,000 home visits by the Customer Care Field Team an impressive number. We encourage the Company to continue to improve social tariff uptake and better capture the benefits to consumers of its social support.
- Despite the Company's relatively high industry position in terms of numbers of customers on the Priority Services Register (PSR) - 4th out of 21 water companies in March 2016³ - the CCG has challenged SEW to increase the number of its customers on the PSR receiving support. This is to better reflect the likely number of customers with additional needs in its area and to be in line with energy sector benchmarks. As part of its commitment to deliver a 'five-out-offive service' for all its customers, the Company recognises this challenge and is reviewing how it identifies, understands, engages with and serves its customers with additional needs.
- The Company has embedded consumer and community engagement into its dayto-day activities and is adopting increasingly tailored communication approaches, which we welcome. SEW has been receptive to challenges to further improve its understanding of its customers, be more strategic and inclusive in its engagement approach, and better capture the impact of activity. Given the lessons learnt from PR14 we feel further progress is still needed to join up engagement around water resources management and drought management with wider engagement activity.



- The CCG continues to believe that in many areas SEW has a good story to tell, which it is not communicating as well as it might. In order "to be the water company people want to be supplied by and want to work for" we encourage the Company to take, and be seen to be taking, a greater leadership role in the water industry and in the region, in line with its societal responsibilities as a water company.
- To ensure the CCG is well prepared for our PR19 customer engagement challenge role in 2017/18, the Group has: updated its membership with many members having undertaken training; renewed its governance arrangements; and will be setting up two new sub-groups on research methodology and consumer vulnerability respectively. We are looking forward to the challenges of the year ahead!



About the Customer Challenge Group

Background

The water regulator Ofwat sets the price, investment and service package that water customers receive. This includes setting limits on the prices that companies can charge their customers. This process involves balancing consumers' interests with the need to ensure companies can still successfully deliver water and sewerage services and protect the environment.

Ofwat review price limits every five years. The last price review was in 2014 (PR14) and applied to customer bills and the services they receive between 2015 and 2020.

SEW has just completed the second year of its current 2015-20 business plan. This plan includes a total of 25 performance targets, (which the Company refers to internally as 'Outcome Delivery Incentives' (ODIs)), which it must meet.

These Outcomes are of two kinds: traditional measures based on 'hard' units such as time, volume or incidents and eight novel measures based on customer perception of the Company's performance.

For some targets the Company has reputational incentives, while for others the Company can earn financial rewards or incur penalties depending on its performance.

In terms of performance, the Company may meet the target, be in the 'deadband' range, or miss the target. Deadband is where the target is not met but the company does not incur a penalty or a reward. This neutral zone is to allow for uncontrollable factors such as the weather, which contribute to expected volatility in performance.

South East Water, along with all other water companies is in the process of developing its future business plans for 2020-25 to be submitted to Ofwat for review to settle the funding – this is called Price Review 19 (PR19). Water companies are expected to ensure that plans meet the needs, priorities and expectations of both their current and future consumers as well as meet a range of statutory and regulatory obligations.



The role and focus of the CCG

South East Water's Customer Challenge Group is independent of the Company and has two distinct primary purposes. These are outlined in our Terms of Reference in more detail.

- To perform a 'customer panel' role this involves advising and challenging the Company on the delivery of its 2015-20 business plan and day-to-day activities. In practice, this means each meeting has as its core a detailed review of all the data on how the Company has performed against its business plan commitments.
- To perform a 'customer engagement challenge role' as set out by Ofwat providing challenge and advice to South East Water and independent assurance to Ofwat on:
 - the quality of South East Water's customer engagement for PR19; and
 - the extent to which the results of its engagement are driving decision making and are reflected in the Company's plan for 2020-25.

How we perform this role is outlined in our CCG TOR.

Over the course of the year, the focus of the Group's activity has transitioned from its 'customer panel' role, to focusing the majority of its attention on the Company's consumer engagement around PR19. The Group formally became the Customer Challenge Group in April 2017 and we are now adopting this title for all functions going forward. We will continue to review South East Water's performance against the current business plan in 2017/18 but less time will be allocated to this function.

The Group has a particular interest in ensuring the diverse views of domestic and business customers are listened to, in particular those in vulnerable situations who can find it harder to get their voice heard.



CCG membership update

From April 2012 to December 2016 the Group was chaired by Roger Darlington. The Group's thanks go to Roger for all his excellent work in this role. Roger was succeeded in December 2016, by long-standing consumer advocate and former consumer advisor to Ofwat, Zoe McLeod. She was appointed as the new Chair following an open competition.

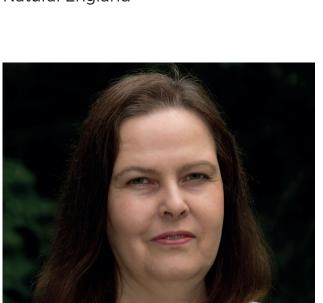
A short review and 'lessons learnt' exercise conducted by the new Chair with members of the CCG and the departing Chair identified the need for additional expertise for the PR19 customer challenge role. Three new members have therefore been recruited by the Chair: two independent research methodology, behaviour change and customer insight experts - Leslie Sopp and Mairi Budge - and one independent regulatory professional, Rupika Madhura. All three members have very strong credentials in their respective fields and demonstrable commitment to consumer advocacy and public service. These new additions will, in particular support the Group's scrutiny of the SEW's research approach, performance setting and overall approach to business plans.

We are also pleased to report that Natural England's Louise Bardsley, will be rejoining the Group in 2017/18. This brings the CCG membership to 14 with a fantastic balance of expertise and perspectives including: environmental, consumer vulnerability, communications, research and engagement expertise, and price review experience; as well as perspectives from local community groups, statutory bodies/regulators, business and importantly of course, South East Water domestic customers.





Dr Louise BardsleyNatural England



Caroline FarquharCommunity representative



Mairi BudgeIndependent consumer research and behaviour change expert



Karen GibbsConsumer Council for Water (CCW) representative





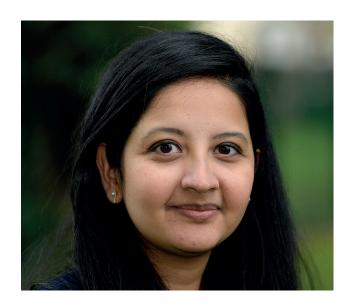
Janet Hill
Community representative



David HowarthEnvironment Agency



Richard LavenderDirector, Kent Invicta Chamber of
Commerce



Rupika MadhuraIndependent economist and price review expert





Adrienne MargolisHousehold customer representative



Veronica McGannonHousehold customer representative



Ben RoomeHousehold customer representative and small business owner



Penny Shepherd MBEConsumer Council for Water (CCW) representative





Leslie SoppIndependent market research and customer insight expert



Operation of the Group

Strengthening our customer challenge

In 2016/17 while predominantly in 'panel' role, the Group met once a quarter with communication by email between meetings. Given the step change in South East Water's activity in preparation for PR19, the main CCG will be meeting every two months in 2017/18. We have also extended the length of the meeting to enable ongoing scrutiny of the Company's performance against its current business plan alongside our PR19 engagement role.

Challenge Log

The Group continues to operate a Challenge Log to record the major challenges to South East Water and the Company's response to them. This records not just the challenges raised in the main CCG but also those raised by any CCG member in other meetings with the Company. In 2016/17 there have been 23 challenges to SEW of which 17 are currently open or in progress.

Deep dives

In 2016/17 the Group continued to have a series of what we call 'deep dives' where we ask the Company for a detailed paper on a given issue and devote a special period of time to more in-depth discussion. These 'Deep Dives' instigated by the former Chair, were recognised as good practice by Ofwat. They enable members to gradually learn more about the water sector and allow for more detailed challenge of the Company's activities. In 2016/17 there were deep dives on leakage, interruptions, environmental performance, and customer interactions and engagement.



CCG training and development

The CCG takes responsibility individually and collectively to ensure members have an up to date understanding of the main obligations, issues and priorities needed to carry out their role on the CCG. To help support this:

- Five members of the Group attended CCG training run by CCWater in November 2016. In addition our CCWater representatives received PR19 training.
- In April we will be holding an away day to develop a common understanding of the price review framework and the role of the CCG. as not all members are familiar with the difference between the panel and CCG roles. This day will also allow time for a deeper dive into SEW's approach to engagement and to share learning and good practice on engagement. It will include presentations from Ofwat, the Environment Agency, CCWater and Accent. South East Water's Managing Director Paul Butler will also be attending to give his perspective on PR19 and answer questions from the Group. Our thanks go to all those who have agreed to participate.

CCG members have also attended a number of relevant external events such as those hosted by CCWater, Ofwat, and Waterwise, to help build knowledge and understanding of engagement approaches and the water sector.

Two new sub-groups for 2017/18

In June 2017 two new sub-groups will be set up to support the work of the main CCG: a Consumer Research Methodology Sub-group and a Consumer Vulnerability Sub-group. These will include members with particular expertise and interest in these respective areas.

The former is felt necessary to provide an appropriate level of assurance to Ofwat on the Company's engagement approach. The Research Methodology Sub-group will enable among other things, a more timely and detailed review of the Company's research methods, topic guides, questionnaires and support materials. More information on both sub-groups is available on the CCG website. CCG training and development.



South East Water's approach to the CCG

Discussions throughout the year between the CCG and the Company have been robust and candid and we welcome this approach. South East Water is to be praised for its openness to feedback and willingness to engage with the CCG and explore ideas suggested.

The Group so far has had unfettered access to all parts of the organisation, information, to third parties working for the Company, and to staff at all levels. The Board has indicated a keen interest in the CCG, which we welcome.

To maximise its independence the CCG decided not to have a standing Board member at its meetings. However, in 2017/18 we will be encouraging further dialogue with the Board, including extending invitations to Board members to attend meetings and discuss relevant issues.

Independence and accountability

The Group has taken/is taking a number of additional steps to further strengthen our ability. These include but are not limited to:

- Updating our Terms of Reference to ensure a clear distinction between the 'panel' business plan assurance role and the CCG challenge role as outlined by Ofwat. This will also be reflected in the structure of the meetings in 2017/18.
- Developing an independent website, with a separate URL to SEW - reflecting our independence from the Company, including in our communications. We understand we are the first CCG to do this.
- Publishing members' remuneration and expenses, and a register of conflicts of interests.
- Reviewing CCG member recruitment processes and members' tenure to ensure the right balance between continuity of expertise and fresh independent perspectives.

At all times the Group seeks to openly and transparently publish as much material as possible about the work of the CCG and its members. However, there are times where publication is not possible due to commercial sensitivities. For more information on how we ensure transparency see the CCG Terms of Reference (TOR).



Company Performance

In Ofwat's Final Determination (FD) for SEW, a total of 25 Outcome Delivery Incentives (ODIs) were set by the regulator and agreed by the Company. These measures are broadly of two kinds:

- 17 traditional measures based on 'hard' units such as time, volume or incidents, which are derived from key company data.
- Eight novel customer perception of Company performance, which are derived from independent surveys.

SEW's performance against its traditional measures

Of the 17 traditional measures, South East Water reports that it has met seven of its targets including for leakage and low pressure. The Company has missed seven but four of these are within the acceptable deadband range. Three Outcomes, the Service Incentive Mechanism (SIM), carbon emissions per customer, and 'sites at risk of flooding' - do not have formal 2016/17 targets and will be assessed either at the end of 2018/19 in the case of SIM, or 2019/20. The overall performance against the ODIs is outlined in the table below. We highlight the following areas:

Leakage

As highlighted in our 2015/16 Annual Report, the CCG is aware that water leakage is a key concern for customers and can have a significant impact on their motivation to save water. We are particularly pleased therefore that South East Water has met its target and improved its performance for the 15th year in a row.

We are mindful however that customer expectations on leakage are high, and that despite the welcome improvements, this is the area of lowest customer satisfaction in SEW's customer perception scores. The Company has been just above mid-table in terms of relative industry performance and has indicated that while this traditional ODI has been met, it recognises there is still scope for further improvement.



Interruptions

When a customer is without water it is classified as an interruption to supply. This can be as a result of planned improvement works, emergency incidents such as a burst water main, or third party damage to the network.

In 2015/16, South East Water was at the bottom of the industry league table for supply interruptions largely due to an incident at Hailsham in East Sussex in May 2015, which took some time to rectify due to the characteristics of the water main. While the Company did not meet its target (being in the deadband), its performance improved significantly. It more than halved interruption times, from 32.1 minutes in 2015/16 to 12.9 minutes 2016/17.

Unfortunately, this year there were large incidents in Barcombe in August and Haywards Heath in March. As the three longest interruptions have all been based in Sussex, SEW has seconded a manager to this area to review response times and see how problems can be addressed. We hope this will deliver improvements and we will continue to keep a close watching brief on this area.

Burst water mains

There was a jump in the number of burst water mains last year, from 2,429 in 2015/16 to 3,032 – a problem experienced by a number of water companies. The CCG recognises that this was in part due to the dry winter, followed by a cold snap in January. Nonetheless, with climate change an inevitable reality SEW needs to consider how it will ensure resilience within this changing context.

Water quality and appearance

Drinking water must meet strict standards that ensure it is safe to drink and the quality is acceptable to consumers. SEW did not meet its 100% target, however the Company was in line with industry average performance for 2015 of 99.95.

Small variations tend to be due to local factors that can affect individual samples of drinking water. The pipe material connecting a customer's supply can also influence water quality, as can internal plumbing arrangements. To find the results of the latest tests on water in any SEW postcode go to the link in the footnote below⁴. Customers can also ask for a sample of water from their own home to be tested if they have concerns.



The CCG would like to see a continued focus on the colour and appearance of water. The number of customers reporting water that is not clear has decreased marginally. However, while the Company was within its acceptable level of performance for water discolouration and did not incur a penalty, at 0.96 it was short of its 0.78 target and has historically been towards the bottom of the water industry league table in this area. CCWater's Water Matters research also indicates below average customer satisfaction with the colour and appearance of water - 90% compared to an industry average of 93% within an industry range of 89-97%. The Company is also down from a satisfaction high of 97% in 2012⁵.

Customer service and complaints

Ofwat measures the quality of service that companies provide to customers on a routine basis. The measure used is called the Service Incentive Mechanism (SIM) and is scored out of 100. The higher the score the better the performance. The SIM measures how well customers feel a company did when the contacted them, and how many times customers had to contact a company about something that went wrong or to make a complaint.

When the CCG was first established we were very concerned about the volume of complaints made by SEW customers, and customer service. In 2016/17 SEW improved its performance in this area. It increased its SIM performance by 2.6 points to 84.6. The Company estimates this will likely put them in 9th place out of 19 water companies for 2016/17. The Company received 1,496 written complaints compared to 2,145 in 2015/16. This is the fifth year in a row that SEW has reduced its complaints and reflects a 30% reduction last year and a 76% reduction over the last three-year period.

While the Company was coming from a particularly low performance base, this improvement is to be applauded, especially against the backdrop of compulsory metering, which has led to increased levels of complaints for other water companies in the region.



CCWater's Water Matters also indicates lower levels of customers self-reporting as complaining, and a very positive trend in satisfaction with how customer queries are handled - from 60% in 2012 to 82% in 2016⁶.

In 2015/16 South East Water launched a new vision and values throughout the Company - "To be the water company people want to be supplied by and want to work for". The Company has reviewed its internal systems, communications, training, recruitment, and customer engagement to help drive improvements. This has been further embedded in 2016/17.

The CCG believes that SEW is genuinely committed to delivering its stated 'five-out-of-five' customer service. However, the Company is aware that they still have a way to go. For example, CCWater's Water Matters research indicates that only 77% of customers are satisfied with SEW's overall customer services compared to an industry average of 79% and an industry range of 72-89%.

While we recognise the limitations of this annual research, SEW needs to better understand the apparent contradiction between the CCWater survey findings and its own customer surveys.

This year the Company has started to send automated satisfaction survey requests to all customers who contact its call centre, and has introduced a new dedicated team to proactively contact customers who indicate they are dissatisfied or have an unresolved problem. We congratulate South East Water on the progress made to date and encourage the Company to aspire to be an industry leader in customer service.

Beyond an average consumer experience

The use of averages in performance metrics can of course mask the reality of the true scale and depth of individual customer or community experiences. The CCG is keen to better understand the distributional impact of issues faced by SEW customers and will be putting more emphasis on this going forward. Our challenge to the Company, to, where appropriate, better understand and demonstrate the distribution of 'satisfaction' across its customer base has been well received. We believe this understanding could help better target engagement and improvements where they are most needed.



SEW's performance against its traditional measures

The table below outlines SEW's performance against the 2016/17 targets in its business plan and shows how this compares to its performance in 2015/16. It also highlights the Company's performance, relative to other water companies, as published on the Discover Water⁷ website. It should be noted that this relative company position is for the most part derived from 2015/16 data (the latest year most data is available at the time of writing) and that the Company's relative performance may have improved or declined since that time. It nonetheless offers a useful benchmark. Green indicates the target is met; red indicates the target was missed; amber indicates that the Company was within the acceptable deadband range. Pale green indicates that there is no target for 2016/17, but the Company is on track for its 2019 or 2020 target.

South East Water's Performance, People and Planet Report has further detail on the Outcomes below, at:

www.southeastwater.co.uk/reporting17



| Outcome | Performance 2015/16 | Position 2015/16 | Target 2016/17 | Performance 2016/17 | Trend |
|--|------------------------|------------------------|--|------------------------|--------------|
| Leakage - loss of water from the supply network (million litres per day) | 88.1 | 6 ^{th*} | 90.9 | 88.6 | \ |
| SIM Score (linked to customer service and complaints) | 82 | 12 th | Assessed based on average performance for 4 years relative to the industry | 84.6 | ↑ |
| Number of properties at risk of low pressure per million | 53 | 7 th | 60 | 49 | ↑ |
| Average supply interruption - time lost per property In minutes | 32.1 | 19 th | 12.3 | 12.93 | 1 |
| Meeting the water resource deficit (ensuring there is sufficient water supply) | 0 | - | 0 | 0 | © |
| Mean zonal compliance (drinking water quality at customers taps) | 99.96 | Joint 7 th | 100 | 99.95 | \downarrow |
| Number of breaches of abstraction licences, discharge consents and environmental permits | 25 | - | 0 | 5 | 1 |

^{*} This industry position relates to when comparing leakage with other water companies based on the kilometres of water mains. You can find out more about industry comparisons at www.discoverwater.co.uk/leaking-pipes



| Outcome | Performance 2015/16 | Position 2015/16 | Target 2016/17 | Performance 2016/17 | Trend |
|--|------------------------|---------------------|-------------------|------------------------|----------|
| Number of pollution incidents (Category 1-2 risks) | 0 | - | 0 | 2 | \ |
| Number of compliance breaches of health and safety legislation | 0 | - | 0 | 0 | © |
| Number of breaches of National Security obligations and licence conditions | 0 | - | 0 | 0 | © |
| Number of compliance breaches with other statutory obligations and licence conditions | 0 | 0 | 0 | 1 | ţ |
| Discolouration contacts (number of contacts per 1,000 customers because their water isn't clear) | 0.98 | 16 th | 0.78 | 0.96 | ↑ |
| Above ground asset performance (includes 4 indicators related to water cloudiness and the presence of bacteria - coliform) | Stable | - | Stable | Stable | ☺ |
| Number of sites at risk of flooding | 55 | - | 0 by 2019/20 | 32 | ↑ |



| Outcome | Performance 2015/16 | Position 2015/16 | Target 2016/17 | Performance 2016/17 | Trend |
|--|------------------------|---------------------|--------------------|------------------------|--------------|
| Water mains bursts | 2307 | _ | 2429 | 3032 | Ţ |
| Water Friding Salets | 2507 | | 2129 | | • |
| KG of carbon emissions per customer per year | 36.8 | 16 th | 37.7 by 2019/20 | 37.2 | \downarrow |
| Monitoring of abstractions at low flows at environmentally sensitive sites | N/A | - | 0 or less | - 0.18 | N/A |

SEW's satisfaction measures

For PR14, SEW developed, with the support of the previous CCG, an innovative approach to the measurement of outcomes. Rather than simply measure its performance against hard delivery metrics such as leakage, water quality and pressure, SEW developed eight customer satisfaction measures.

Each month approximately 130 customers are randomly selected to undertake a telephone survey to understand how satisfied they are with seven areas of the Company's service – the areas are outlined below. They are asked to score the Company out of five with one being 'completely dissatisfied' and five being 'completely satisfied'.

In addition, once a year SEW measures customer satisfaction with value for money via an annual tracker survey. Last year this took place in September 2016 and involved more than 3,100 customers.



SEW's performance against its customer satisfaction outcomes

Customer satisfaction scores have increased for most measures during the year, in particular for the level of leakage and frequency of water restrictions. Unfortunately, however the Company has met only one of its targets and has incurred penalties for failure to meet three of these targets (those highlighted on page 30). Three are in deadband, the other does not have a 2016/17 target.

The CCG is sympathetic to the challenges of using customer perception measures. In particular we are mindful of the range of factors beyond South East Water's control that can influence customer opinion e.g. the weather, actions of other companies, and the media.

We recognise that customer satisfaction measures can be difficult to measure and difficult to achieve. It can for example, be hard for customers to give an informed view of issues such as leakage or interruptions that they may not have witnessed either for some time or at all. It is also hard to assess how the Company handles direct interactions with most customers because most customers most of the time do not need to interact with the Company. Therefore, the proportion of customers answering 'don't know' can be high.

Customer satisfaction can be complex and emotional, with customers not always giving views that directly reflect, or reflect in isolation the issue being asked about. That said, the satisfaction levels reported by customers are not incongruous with the Company's performance against the related hard measures over the same period. e.g. leakage has reduced and satisfaction with the level of leakage has increased - though perhaps not as much as the Company might have hoped. The Company has reduced the number of households on the lowest water pressure levels but this has not led to an increase in satisfaction across the board, perhaps due to the low numbers that benefitted from improvements.

Despite the challenges, the CCG sees value in these genuinely stretching targets. This is particular the case given the Company's stated vision to "to be the water company people want to be supplied by and want to work for."



CCG support for satisfaction measures

The CCG remains broadly supportive of the customer satisfaction Outcomes and believe they are incentivising the correct company behaviour. Some CCG members had a nervousness that the use of satisfaction measures might lead to a 'beauty parade', where the Company focuses too much on the perception of what they do at the expense of actual delivery (a focus on 'style over substance') but this is not currently a concern.

A focus on satisfaction has required the Company to more actively consider how it engages and communicates with its customers in its day-to-day activities. To achieve satisfaction scores SEW has to proactively engage with, listen to, and respond to the changing needs and expectations of its customers on an ongoing, daily basis. This is reflected for example in its approach to customer service and its engagement activity around supply interruptions where the Company is now surveying customers after incidents to get their feedback and learn lessons which has informed its approach.

We recognise that perception measures by their nature can be a rising target. Customer expectations do not stand still, so it may require a higher level of service to achieve the same level of satisfaction year after year. For example, customers when deciding how satisfied they are with their 'interaction' with SEW, will inevitably be comparing the Company to other non-water companies that they engage with. Expectations will rise as wider company service levels rise. In some areas SEW may need to be seen as among the best of all companies, not just the water industry, if it is to achieve and exceed satisfaction levels.

SEW should be praised for its innovative Outcomes and its improvements in most areas. The novel approach was by its nature largely untested and we recognise that the Company is on a valuable learning curve. We believe the direction of travel is positive and is resulting in a better customer experience.

However, we suspect that SEW will need not just improvements in service levels but also a better understanding of its customers and a more tailored approach to service delivery and communication in order to reach and exceed its customer satisfaction targets. This is particularly the case, as the increased satisfaction with frequency of water use restrictions has taken place after several years of favourable weather conditions and might reasonably be expected to fall when drought-related restrictions are needed. We are pleased that SEW is openly considering how it can tailor its approach.



Performance against the eight customer perception measures: customer satisfaction levels, out of five.

Green indicates the Company met its business plan target. Red indicates the Company did not meet its target and incurred a penalty. Amber indicates the Company did not meet its target but is within the allocated deadband. Pale green indicates there is no published target for 2016/17, but the Company appears to be on track.

Resilience

The CCG is conscious that performance in the short-term on both traditional and perception measures may be impacted either positively or negatively by external factors such as weather conditions. This needs to be taken into account in assessing both apparent performance improvements such as increased customer satisfaction with frequency of water use restrictions and negative results such as this year's increase in burst water mains. The CCG would encourage the Company to consider what more it can do to ensure that its performance is robust against such external fluctuations, not just by a continued focus on effective asset management but also through improved customer service and transparent performance reporting.



| | Satisfaction 2015/16 | Satisfaction 2016/17 | Target 2016/17 | Trend |
|---|-------------------------|-------------------------|-------------------|----------|
| Appearance of water is acceptable | 4.4 | 4.5 | 4.6 | ↑ |
| Taste and odour of their water is acceptable | 4.1 | 4.2 | 4.3 | ↑ |
| Level of leakage acceptable | 3.4 | 3.8 | 4.0 | 1 |
| Direct interaction experience positive | 4.2 | 4.3 | 4.5 | 1 |
| Water supply is of sufficient pressure | 4.2 | 4.2 | 4.5 | = |
| Frequency and duration of supply interruptions are acceptable | 4.2 | 4.6 | 4.7 | 1 |
| Frequency of water use restrictions is acceptable | 4.2 | 4.4 | 4.1 | 1 |

Affordability and value for money

| | Satisfaction 2015/16 | Satisfaction 2016/17 | Target 2016/17 | Trend |
|---|-------------------------|-------------------------|-------------------|-------|
| Bills are considered value for money and affordable | 71% | 74% | 80% | 1 |



Customers in vulnerable situations

The Group has a particular interest in ensuring the Company meets its obligations to protect customers in vulnerable situations and to ensure that all consumers benefit from South East Water's committed 'five-out-of-five service'. We note the following in particular:

Social tariff

The Group has been closely monitoring the social tariff introduced by SEW in 2015/16. The previous CCG observed that some 30,000 customers might be eligible for the social tariff - but that taking into account the current level of subsidy that customers were willing to support for the business plan, that some 15,000 could be expected to be on the tariff by 2019/20. We are pleased to see that the number of customers receiving the social tariff has more than doubled from 4.581 customers, to 9.471 at the end of March. Customers on the social tariff received on average £73.10 in 2015/16 and £67.23 in 2017/17 in financial support/ discounts. We encourage the Company to continue to increase the number of customers in financial hardship in receipt of the social tariff in 2017-18.

Outreach work

As with many companies, SEW is encouraging customers to use its online services, in part to help reduce costs. For many customers digital communication is also their preferred channel of communication. We are pleased to see however that SEW is continuing to invest in its outreach activity, recognising that some of its most vulnerable customers will always need some hand holding and face to face support. For example, the Company's dedicated Customer Care Field team made an impressive 17,959 home visits in 2016/17.



Understanding and identifying vulnerability

The Company report that they have good quality Priority Services Register (PSR) data and systems in place to keep this information up to date. We will be exploring this further in 2017/18.

The number of customers the Company has on its PSR compares well in the water industry: it increased the number of customers on its Register by 8.5% in 2016/17 to 15,627. Among water companies for 2015-16 (the latest year for which figures are available) it had the 4th highest numbers of customer on its PSR⁸.

Despite this positive trend, we have challenged the Company to significantly increase the number of customers on the PSR so it better reflects the number of customers with additional needs in its area, and is in line with good practice benchmarks in other utilities particularly energy. PSR numbers alone are of course not a good indicator of the effectiveness of support so we have also challenged the Company to not just increase the number of customers on the PSR but to also monitor and report the types of additional support received by consumers and customer satisfaction with this.

The Company is also aware of the need to update its vulnerability flags and align them with other utilities to enable better recording of additional needs, transient vulnerability and more effective data sharing. We have challenged the SEW to more effectively use available data, including publically available data to better understand and identify the needs of its customers. SEW has been receptive to these challenges and we look forward to seeing the progress made in the coming months.

Measuring impact

The CCG has encouraged the Company to better monitor, capture and communicate the impact of its engagement activity, and support for customers with additional needs. This includes capturing both qualitative and quantitative benefits to customers, the public interest and benefits to the business.



Again SEW has been very receptive to this challenge. For example, the Company reports that they are aware that improving support for customers in financial difficulties can reduce the cost of bad debt but that they have not yet systematically monitored or captured that impact. The CCG believes that this kind of information is valuable to help inform customers' willingness to pay decisions on social support as part of PR19.

We are also mindful that 'doing the right thing' by customers with additional needs. if communicated well. has potentially positive reputational benefits for the Company and staff retention benefits as people are proud to work for the Company. This is arguably particularly important for SEW given that the latest CCWater's, Water Matters, suggested that only 59% of customers thought SEW cares about the service they provide to them. This was the lowest score of all the companies and compares to a water industry average of 65% and an industry range of 59-80%. Awareness of both the social tariff and the additional services available had also fallen in the previous year. We would encourage the Company to consider how they can best address these issues.

Partnership working and collaboration

SEW has continued to expand its collaborative work. The Company has a number of partnership arrangements in place with charities and social housing providers such as West Kent Housing who refer customers in need of support onto their social support schemes. Similarly the Company works with organisations such as Citizens Advice so that when they identify a customer in financial difficulty, with their consent, they can refer them to wider help. We particularly welcome this kind of proactive action that can help prevent debt build up, and ensure earlier support. This is in consumers' and the public interest.

SEW has also supported other water companies in the region with the development of their social tariff. SEW's social tariff eligibility model was developed by working with neighbouring company Affinity Water, and it has in turn helped Portsmouth Water develop and implement a tariff based on the same principles of simplicity for the customer.



The good and innovative practice challenge

The Group has challenged SEW to identify and adopt relevant good and innovative practice from beyond the water sector and to further strengthen its partnerships with other utilities. The Company has also responded well to this Challenge. SEW's Customer Services Director Steve George will be attending Sustainability First's Energy for All Innovation event in April 2017 where more than 60 examples of good practice in supporting customers with additional needs will be showcased. Following a CCG Challenge, Simon Mullan and Sheila Bowdery met with award winning Western Power Distribution to discuss their approach to supporting customers with additional needs and the team is liaising with neighbouring energy networks UKPN and SSEN to understand how they map and support the vulnerable customers they have in common.

We similarly welcome the Company changing the name of its Special Assistance Register to the Priority Services Register in March 2017.

This kind of simple alignment of approaches between utility companies makes it easier for charities to communicate additional support to those that most need it. We strongly support partnership working, which can not only result in improved customer service but also help to reduce the costs of identifying customers in vulnerable situations and delivering additional support. It can also deliver wider societal value to SEW's customers.



The Consumer Vulnerability Sub-group

The CCG is in the process of setting up a Consumer Vulnerability Sub-group to enable greater scrutiny and assurance in this area. The Sub-group is being set up for a number of reasons:

- To support the Company's desire to provide 'five-out-of-five service' for all its customers – including those who need additional support. The Company is doing some excellent work in this area but recognises there is scope for improvement.
- To ensure SEW's wider consumer engagement strategy for PR19 has sufficient consideration of how to engage with hard to reach groups and customers in vulnerable situations.
- We are mindful that for the first time Ofwat is proposing to include vulnerability as an explicit part of the price review including requiring the companies to develop bespoke performance commitments.

It is also an area of engagement that we believe has the potential to deliver significantly better outcomes for some consumers.

The aims of the Group are in the Terms of Reference at the CCG website.



SEW's customer engagement

Background

The CCG is required by the water regulator Ofwat to challenge South East Water and provide independent assurance to Ofwat on:

- the quality of South East Water's customer engagement for Price Review 19 and;
- the extent to which the results of this engagement are driving decision making and are reflected in the Company's plan for 2020-25.

The Group and the new Research Methodology Sub-group monitor/will monitor and challenge the Company's engagement via:

- presentations from, and meetings with South East Water and its appointed research companies.
- input into research materials
 e.g. questionnaires, and research materials.
- observation of research focus groups
- attendance at engagement events

- regular attendance at the Company's Environmental Focus Group (EFG).
- input into general communications materials e.g. the new website design.

The Company's ongoing approach to engagement

As there is a competitive element to PR19 engagement, and also not wanting to unduly influence the regulatory process, we have decided not to report publically on the Company's approach to PR19 engagement. However we make the following general comments about the Company's ongoing engagement activity, which also links to their customer satisfaction targets.

Ofwat's 'engagement Principle 3' states that engagement should not simply take place at price reviews. As noted, the CCG recognises that South East Water's customer satisfaction outcomes have encouraged the Company to engage with and listen to customers on an ongoing basis. While there is scope for improvement, the Company has business as usual mechanisms in place to seek and capture customers' views and we are aware of a number of examples of how the Company has responded to these views.



For example: SEW reviewed the bill format and moved to a combined water bill with Southern Water and have changed the moving house process following customer feedback.

The Company's Environmental Focus
Group has also provided a forum
for community groups and local experts
to influence the Company's approach
to water resource management. For
example, the Group has been very
helpful in shaping its coarse
screening process to ensure that
the best combination of options are
shortlisted for the Water Resource
Management Plan.

In December 2016 Ofwat in its annual assessment of the quality of information and assurance provided by water companies (The Companies Monitoring Framework) upgraded SEW to the top mark 'self-assurance status'9. In their assessment they highlighted SEW's commitment to providing high-quality transparent and timely information to its customers and stakeholders.

The CCG strongly welcomes the Company piloting new engagement approaches and being braver in its communications. For example, its behavioural insights work with Advizzo, which has led to water use reductions; the Company launching, despite the media risks, an online portal, which shows, amongst other information realtime comprehensive data on leaks and interruptions in its area. For the first time, the Company also engaged customers at its open day in a frank discussion on the challenges of tackling leaks. This was received positively.

The Group has challenged the Company to better articulate the rationale for its engagement approach and the impact of activity. We have also challenged the Company, among other areas to carry out a gap analysis on engagement, and map its stakeholder groups so that the Company can demonstrate it is engaging with the right groups on the right issues at the right time.

Ofwat's engagement 'Principle 6' highlights that engagement is not a 'one-sized fits all' process but should reflect the particular circumstances of the company and its various household and non-household customers. The Company is working on better understanding its customer base and improving its use of its in-house and publically available data e.g. to identify their socio, economic and geographical differences of relevance to water.



Lastly, we welcome the levels of commitment demonstrated by SEW staff working on the design, and delivery of the Company's engagement activity. We have challenged the Company however to further join up its ongoing engagement around retail and more customer facing elements with its day to day water resources and drought management engagement. We look forward to seeing developments in this area.

There appears to be a strong ambition within the Company to be the best in how it engages with and meets the needs of its customers. In 2017/18 we hope to engage more with the Board to more effectively gauge if this aspiration is shared by SEW's leadership.

The desire to be 'best in class'

In the CCG's submission to Ofwat on the Company's business plan for PR14, the Group stated that "Although historically SEW has been a well-performing company, it has not traditionally shown evidence of a wish to be best in class". The CCG has consistently encouraged SEW to be more aspirational and ambitious in its planning and performance.

In the same spirit, the CCG has historically challenged SEW to be more assertive and higher profile in the water sector including showcasing its work.

This can have staff morale, retention and recruitment benefits, which in turn can have a positive impact on the quality of service provided to customers. We are pleased to report therefore that the Company put in for and won the following awards last year:

- Water Industry Achievement Awards
 Customer Satisfaction Initiative of the Year (June 2016)
- Water Industry Achievement Awards People Initiative of the year (June 2016)
- Rushlight Sustainable Agriculture,
 Forestry and Biodiversity Award
 (Feb 2017)
- Kent Healthy Business Award (November 2016)

The CCG continues to believe that in many areas, SEW has a good story to tell, which it is not communicating as well as it might do. In order "to be the water company people want to be supplied by and want to work for" we encourage the Company to actively aspire to be at the top of the industry league tables. Also, to take, and be seen to be taking, a greater leadership role in the water industry and in the region, in line with its societal responsibilities as a water company.