

# CCG response to Ofwat

Prepared by the Thames Water  
Customer Challenge Group



## Executive summary

The CCG welcomes the opportunity to answer the questions contained in Ofwat's Aide Memoire, and to set out its thinking and observations around Thames Water's business plan. In particular the CCG will focus on the quality of customer research and engagement that Thames has undertaken in recent years in order to shape its thinking and plans and how well it feels those plans have been translated into the final PR19 document.

It is important to say at the outset that Thames Water is a very different company now to the one which existed when the PR19 exercise began: there has been change in the shareholders, the Chairman, Board, Chief Executive, and senior management. The CCG has seen first-hand a demonstrable and genuine desire to listen to, and deliver for, customers and to tackle issues around trust and confidence. Thames's actions, for example, around dividends and movements in the debt/equity ratio seem authentic, the ambition to support vulnerable customers is also a step in the right direction and there appears to be a growing determination to innovate effectively in order to deliver its plans.

The CCG feels that Thames has run a thorough and highly professional research and engagement programme to help it prepare for PR19, which has been carried out over a sustained period. The CCG has been particularly impressed by the way that Thames has used the learning from its research programme and engagement activities in the current Asset Management Plan (AMP). Elements of the process that the CCG consider particularly worthy of note are its creation of a core document, *What Customers Want*, which Thames people have used as the source document for their planning processes; the use of a so-called "line of sight" document, which summarises how customer needs and wants

are translated into costed business plans; and the development of an innovative interactive customer tool, which enables users to create baskets of wants within certain parameters, make trade-offs and shape their "water world". The scale and depth of the various customer engagement exercises are also to be commended.

As noted, Thames has demonstrated throughout the planning cycle that it is willing to listen to customers, and indeed the CCG, and evolve its plans accordingly. Areas where Thames has responded by increasing or stretching its targets include its approach to leakage in PR19 and its proposed lead pipe replacement programme. Thames has also made some longer term promises around such topics as ceasing abstractions from chalk streams, halving leakage and zero pollution incidents which are to be welcomed.

That said, the CCG has challenged Thames on various elements of its research, its thinking and its planning over the last few years. The CCG has been heavily involved in the way that Thames has approached its customers, critiquing its thinking, its proposed materials and the methodologies used. The CCG has also given Thames feedback on how it has translated research findings into actions.

When considering the plan from a customer point of view, it is important to say that Thames asked its customers to set the threshold for the affordability and acceptability of the plan and that the 2020 - 2025 plan exceeded those boundaries. This is an important part of demonstrating that customers are committed to the plan that is being proposed.

The CCG continues to challenge Thames; this document lists some strategic challenges which are still outstanding, some challenges which the CCG believes will continue into PR19 and into AMP7 and finally a list of performance commitments where the CCG feels that Thames has not wholly followed the views of customers.

Challenges which fall into the first category include how Thames will reduce its leakage beyond the target it has set itself for AMP7, and whether customers would regard achieving 50% leakage reduction by 2050 as being too slow, whether flat targets can ever be considered stretching and the appropriateness of using an Net Promoter Score (NPS) measure to gauge the success of the Priority Register Scheme. Challenges which will continue through the PR19 and into AMP7 include how Thames can take a more nuanced approach to customer segmentation, how



the Priority Register Scheme is implemented and whether Thames can do more to engage customers in co-creation and participation.

Challenges which fall into the final category are largely around how well Thames has reflected the detail of customer feedback when it has created Performance Commitments and Outcome Delivery incentives. The CCG feels that this is an important part of listening to customers.

Of course, whether Thames delivers on its promises during the remainder of AMP6 and then into AMP7 remains to be seen. Thames serves a very large region, with differing topology and a varied customer base and as a result, Thames inevitably faces very significant challenges.

In summary, though, the CCG believes that Thames has run a very sound research and engagement programme and that it has listened to its customers. Thames now knows what its customers want and, overall, the plan now seems designed to deliver against its customers' wants and needs.



# 1. The CCG role

Customer Challenge groups will provide independent challenge to companies and provide independent assurance to Ofwat on the quality of a company's customer engagement and the degree to which this is reflected in its business plan.

## 1.1 Role of the Thames Water Customer Challenge Group (CCG)

The Thames Water CCG was originally set up in 2012. It reported to Ofwat regarding PR14. Since 2015, it has met on 40 occasions (as at August 2018). It has around 16 members. Their biographies are attached at Annex A. Most of the members are there by reason of their link with a specific organisation, but others are entirely independent and bring their experience to assist the CCG in considering both Thames Water's current performance and also how well it is listening to and engaging with customers as part of its PR19 submission.

The Thames Water CCG has two main roles; to monitor whether Thames Water is meeting its commitments and reporting what progress it finds on an annual basis and also to see whether Thames Water's future plans reflect what customers need and want. It reports on its findings to Thames Water customers, the wider public and Ofwat.

The Thames Water CCG's mission is to represent the needs and interests of current and future customers in attempting to ensure Thames Water both develops and delivers 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 Thames Water CCG's objectives are to be

- Independent
- Customer focussed
- Transparent (to customers, stakeholders, Ofwat and the company)
- Able to offer a balanced view in the light of the external environment eg. customer needs, environmental challenges, regulation.

## 1.2 Structure

The main Thames Water CCG meets 11 times a year. Its terms of reference are attached at Annex B.

The Terms of Reference summarise the Purpose of the CCG; the primary role of the group is to act as an independent body that will provide independent reporting to Ofwat and/or the public on both the preparation of, and performance against, Thames Water's business plans. The document describes how the group will challenge, comment and advise the company on its plans to inform and consult its customers on the development and delivery of Thames Water's Business Plans. It will do this by facilitating inclusive discussion in an open and transparent manner. It will also observe whether the customer preferences that are expressed are appropriately and fully reflected in the business plan.

The CCG reviews Thames's performance against its current business plan on a quarterly basis. These meetings are attended by a wider group of members, which includes those with an environmental focus. There is time set aside when needed for part of the meeting to be conducted without Thames Water present.

The CCG has decided to have two sub groups; the Customer Engagement Sub Group and the Business Plan and Finance Sub Group. Terms of reference for these groups are attached at Annex C.

They meet when needed; the CESG has met 16 times and the BPFSG 14 times since 2015 (as at August 2018). They report to the main CCG.

CCG members also attend research sessions conducted on behalf of Thames Water and observe Thames Water during their engagement activities where possible. CCG members have been present to



observe at least one customer session for all the PR19 research programmes.

This document focusses on the engagement associated with the PR19 process; it does not attempt to address the annual review of performance in any degree of detail.

### 1.3 Minutes, annual performance review and responses

Full minutes are taken of CCG meetings. A public version of these is available on the Thames Water website in the CCG section. The Chair has a blog which accompanies the minutes to provide some background and context. Minutes are taken of the two sub groups, but as these are in effect working groups, these minutes are not published, but reports of the sub groups' activities are contained in the main CCG minutes.

Every year the CCG produces a report on Thames Water's performance against its commitments. This is also published on the website. The report is published on the same day as Thames Water's annual report and reflects both the CCG's experience throughout the year and also its specific discussions with Thames Water people at the quarterly reviews of performance.

The CCG responds when appropriate to consultations.

The CCG has responded to 6 Ofwat consultations and also responded to DEFRA regarding the draft Water Resources Management Plan.

### 1.4 Recruitment of Chair/payment/secretariat

The Chair was recruited in 2015 through a competitive recruitment process. The Chair is not paid through the Thames Water payroll, instead invoicing the company directly. This is also true of the independent members of the CCG. Payment (a day rate and/or expenses) is made as appropriate to the charities/NGO bodies which are involved in the CCG. Other bodies/companies are not paid.

Thames Water provides the CCG with a small secretariat (one person) which supports the work of the CCG and acts as a link into Thames Water. The secretariat is regarded as independent by Thames Water but for practical reasons, the secretariat is paid and managed through Thames Water. The Chair has been involved in the recruitment of new secretariat members.

### 1.5 How challenge is made

The CCG keeps a Challenge Log; this summarises concerns or issues raised by the CCG. Thames Water then responds to it and the progress of the issue is logged. Some of the items are more transactional than others, for example a request for further detail on



a particular topic; others reflect a point of difference between the CCG and the company. This log has been reviewed and a version which removes the more transactional items and which reflects the situation in August 2018, can be found later in this document and at Annex C. The contents of the log are used to set agendas and identify areas where the CCG thinks Thames needs to focus.

When a research project involving customers is about to take place, Thames Water discusses the objectives of the research, the methodology to be used and the potential audience with the CCG. The proposed materials to be used are also presented for comment. CCG members make suggestions and request amendments to the materials if required to ensure that they are really clear to customers. CCG members then attend the research sessions involving customers, giving immediate feedback if necessary to allow Thames to modify the stimulus material or approach as necessary. Finally, Thames's researchers and/or Thames Water will present the research findings. These are then discussed in detail with the CCG, in general at a meeting of the Customer Engagement Sub Group, but then followed-up with a report to the main CCG.

Thames Water then takes the findings from the research and will typically include any pertinent details in its document *What Customers Want*. This document brings together the output of Thames's research work with data from other sources such as operational complaints and summarises the five outcomes customers are seeking from Thames

Water; it also lists the key data sources which underpin these outcomes. Every assertion in the document can be traced back to its source. The CCG has reviewed the contents of *What Customers Want* in some detail, including message by message in a series of “deep dives”. Updates are flagged and reviewed as needed.

The CCG has been told that *What Customers Want* has been used throughout Thames as a key part of the business planning process.

The key findings from *What Customers Want* are then included in a document called “the line of sight document”; this brings together the business planning process with what customers have said they want. It also includes a summary of other key planning items. This process is discussed in greater detail in section 6c.

### 1.6 Providing assurance to Ofwat

This document is the major way that the CCG will provide assurance to Ofwat.

As part of that process, the CCG has met with KPMG and PWC, who have provided assurance to the CCG on key areas of the Thames Water plan. Initial meetings were held with the CCG’s Finance and Business Planning Subgroup to discuss in some detail the assurance approach that Thames has taken and the whole CCG was also briefed on this approach and their findings. Thames has also provided relevant reports and summaries from Grant Thornton and Mott MacDonald.

The CCG was presented with a summary of the assurance process, including assurance by information flow, and explored in some detail the respective roles of the various third party assurance

partners. The CCG was seeking in particular to understand how they had used key documents such as *What Customers Want* as part of the assurance process and also to understand how well what Thames was proposing met regulatory, legislative and other relevant requirements. The CCG was also encouraged to learn that Thames has created an Independent Challenge Panel to act as part of the assurance process.

While the CCG is not able to comment in any depth on the detail within the various models and activities considered, the CCG feels that Thames has put in place a robust assurance process and the CCG can be comfortable that appropriate account has been taken of issues and processes that are of concern to the CCG.

That said, while the process is apparently robust, the CCG was concerned and disappointed to learn that the assurance around PCs and ODIs only covered a small number (15) of the 53 measures being proposed, selected on the basis of the level of the risk to Thames and to customers. In discussion with the assurance partner, there was a shared recognition that it was hard - to judge how stretching targets were when there were no historical or other comparators, and the research confirmed that in many cases customers found it hard - if not impossible – even when there was some historic perspective. Given this, the CCG would have preferred to see the full range of measures looked at in depth rather than a handful. The CCG has a number of concerns about PCs and ODIs which are listed in Annex C.

As part of the process of providing assurance to Ofwat, The CCG chair also attended a session with Ofwat and Thames Water where Thames Water presented their engagement programme and some key learnings.



## 2. Customer Engagement

Customer engagement will be a central part of the initial assessment of business plans. Customer engagement also provides essential evidence for companies' proposals in their business plans. [In assessing the customer engagement test we will take into account including, but not limited to, evidence from its CCG.]

Ofwat has stated that it expects companies to demonstrate a clear commitment across the entire business to understanding and responding to the different needs and requirements of their customers. In this section the CCG sets out its observations of the approaches Thames Water has taken to engaging with its customers in relation to PR19 planning, in terms of education and behaviour change and in terms of the work it is putting in place with regard to its day to day interaction across its customer base.

### 2.1 Customer engagement relating to PR19

Much of the CCG's work over the last few years has been focussed around various aspects of planning for PR19. Thames has sought to develop an evidence base which will enable it to demonstrate a clear linkage between what its customers say they want and need and the business plan that it submits to Ofwat as part of the process. Various types of research have been undertaken as part of this; these have included deliberative research, revealed and stated preference, and gamification. Thames has created an online community which also has provided input to the process. In addition, Thames has used data gleaned from its operations and other sources (such as wellbeing research) to feed into its thinking. This data has included complaints, social media interaction and behavioural experimentation. The combination of research and "real" data has been evaluated and fed into a key document called *What Customers Want* (see section 1.5), with Thames seeking to "triangulate" and



demonstrate that its thinking and assumptions can be validated by looking through a number of different lenses. Thames is also to be commended for having undertaken a thorough learning exercise from PR14 and for attempting to draw on learning from other water companies, as part of this overall approach.

Thames began the research process by using deliberative techniques to understand customer perspectives better and also to find out how customers described the various aspects of a water company's work. Research then continued in an iterative way, with the next stage involving a series of "deep dives" around a series of topics that appeared to be of most interest and concern to customers. These included innovative stimuli such as a pressure comparison device and a hard/soft water tasting session. A portfolio of quantitative, qualitative research and co-creation methods were used in appropriate combinations. An important aspect of the research is, that to a great extent, Thames has allowed customers to set the agenda and the next stage of research through their reactions and feedback at each stage.

In parallel, Thames has summarised its value driven customer preference research work into a single report which aims to assess the value of Thames's services to customers, wider society and the environment. This more empirical data is used to determine investment priorities and the levels of service that should be provided throughout the business. It also provides input to Thames's thinking around performance commitments and Outcome Delivery Incentive design. Again, Thames used a series of different research techniques including stated preference, gamification and a customer preference tool in order to ensure that this research was as robust as possible.

At various points, Thames tested its thinking through large scale engagement programmes; it first opened a dialogue with customers once it believed it had its overarching outcomes – this was mainly an online exercise to validate its assumptions; it then conducted a major engagement exercise in May 2017 (the "May conversation") and followed this up with a further, more refined, dialogue in February 2018.

The CCG was involved in Thames’s planning for both engagement activities, providing input on the areas to be discussed, the materials to be used and the approach to be taken. The May programme included Thames being present at a number of local events and also running their own “Local Engagement Forums”, the February programme included further local engagement forums but also more digital activity and the use of Thames’s own media such as bill inserts.

Overall, the CCG found these to be well conducted programmes of activity, with an attempt to reach customers across the region in an interesting and engaging way. The CCG was particularly impressed by the development of the Customer Engagement Tool, which enabled customers to make complex and informed tradeoffs about service and strategy while considering the potential impact on their bills.

The CCG was, however, disappointed by Thames’s approach to gauging customers’ reaction to different suggested bill levels in the May conversation. In particular, the CCG was concerned that Thames was not willing to explore a path which saw bills rise in order to get further improved service. The CCG also expressed concerns over the paucity of information on what service levels customers would receive for the different bill options offered. These challenges remain on the CCG Challenge Log as unresolved. So while the manner and extent of engagement with customers across a range of communities and through different activities was commendable, the CCG feels that this aspect of the May conversation lacks the credibility of other aspects of the programme.

As the final part of the research process Thames has undertaken research with a representative sample of customers to assess the acceptability of its near

final and final proposals with customers. Thames first undertook some interim work to show customers 5 different bill and service scenarios and used feedback from this to shape its final testing programme. This research also explored the long term acceptability/affordability of the plan as well as demonstrating possible inflation and ODI impacts.

### CCG CHALLENGE

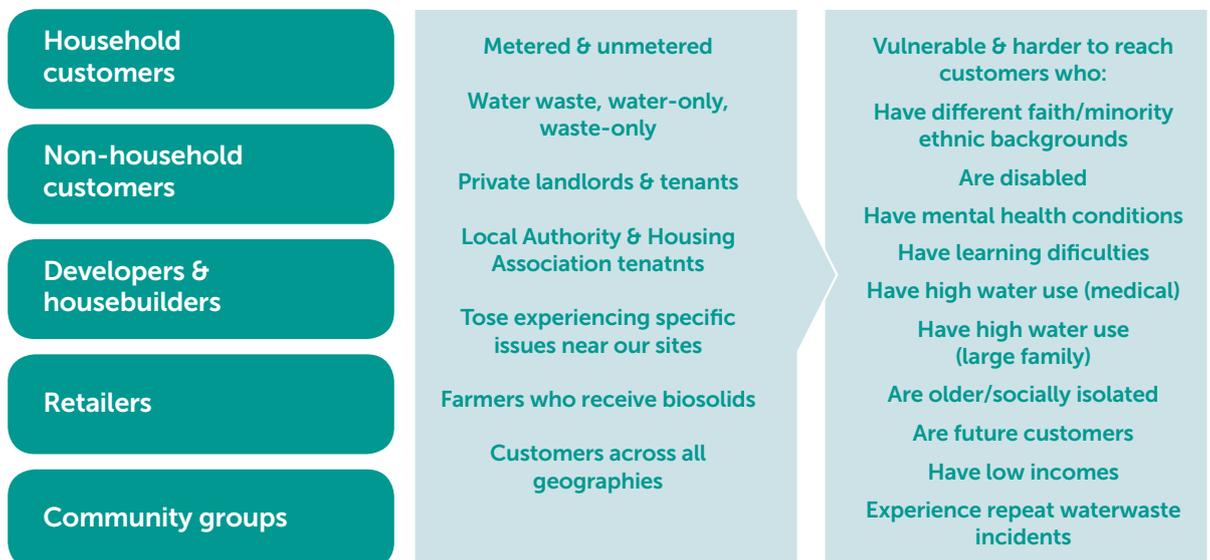
Nature of May conversation research into bill levels (absence of increased level of service for increased bill option) was a missed opportunity.

The results for phase 1 showed that 69% of customers found the 2020-25 plan acceptable and 74% found it affordable. However 62% of customers stated that an average of 64% of customers should say the plan is acceptable before it is reasonable for Thames to proceed. These results were effectively confirmed in the Final Acceptability Testing research with customers thinking the plan should reach 63% acceptability and 62% affordability. In the event the scores were 67% for acceptability and 68% affordability.

However, customers were less certain about the 2025-30 plan with only 60% of customers finding it acceptable and 60% affordable. The CCG feels that this is an important message that Thames should take into account as it begins to plan for the following AMP.

The CCG has been consulted throughout as to how Thames constructs its research in order to ensure that it is representative of its customers. CCG members have relevant expertise in this area and have encouraged Thames to ensure that the appropriate segmentation is put in place. This is especially true of vulnerable, potentially vulnerable and so called “hard to reach” customers. The CCG has also challenged

### Thames has spoken to customers from many segments



Thames to ensure that it is looking deeply enough across its very diverse region, which encompasses rural areas as well as London.

Thames has also sought to engage its future customers. Thames works with schools and reaches around 20,000 school children a year, using classrooms at their sites and school visits. While the CCG applauds this, it believes that it is somewhat unambitious for a company of Thames's scale and reach and that more could be done to communicate with this crucial age group who help to spread messages about behaviour change.

Thames tells the CCG that there are a number of other aspects to its education programme and that it has an AMP 7 target of reaching every child in its area using a wider variety of channels.

Thames also works with two University Technical Colleges to support future engineers and scientists. It has also communicated with so-called "Generation Z" consumers, through events created by others such as the "Battle of Ideas" and through an innovation challenge it devised which drew on the creativity of university students to solve water industry issues.

Thames has also undertaken more conventional research with future customers, which the CCG has been engaged with and this has helped provide input to *What Customers Want*.

Other practical activities that Thames has begun to introduce included contribution to GCSE papers and national curriculum support.

The CCG welcomes such initiatives, and believes they demonstrate that Thames has begun to think differently and creatively about how to engage its younger customers and future customers.

Finally, looking more broadly, Thames has invited people who have participated in its various research projects to join an on-line panel. This has provided some further insight and helpful corroboration. However, the CCG is mindful that the panellists are effectively self-selecting from a pool of participants from earlier research projects, and also become ever more informed customers.

## 2.2 Customer engagement relating to education and behaviour change

Beyond its work with schools, Thames has used a number of programmes in an attempt to effect behaviour change across its customer base. These include a long standing water efficiency campaign, aimed at getting customers to use water more wisely, and encouraging the mending of leaky appliances. Demand management is crucial to Thames's 2020-

25 Business Plan and beyond and the CCG will look forward to a scaling up of this programme in order to manage Thames's ambitious targets. The CCG would also suggest that this is an appropriate area for further customer participation and co-creation and would encourage Thames to explore this; customers often say how much more they would like to be involved and Thames should do its best to deliver this.

Activities such as metering and smart home visits are an important part of joining up these factors to bring about real and lasting behaviour change.

Thames also runs a programme called "bin it don't block it" which aims to stop customers putting the wrong things down the toilet; this has been refined and developed using behavioural techniques and learning from experience. Data presented to the CCG suggests that this campaign does have an impact where it is deployed, with fewer blockages occurring. This is to be commended.

During PR14, however, the hero of the sewage world has been Thames's Whitechapel fatberg, achieving iconic status globally, spreading the word about the evils of wet wipes and other items and hopefully encouraging better customer behaviour; it has been a very successful and cost effective promotional activity for Thames.

Thames tells us that it is actively working with manufacturers and other key parties to try and tackle the issue of wet wipes at source. This is to be encouraged and promoted and the CCG would urge Ofwat to do all it can to support Thames and the wider sector.

Recently, Thames has been more engaged in the question of how to get customers not to use plastic bottles when out and about and also to encourage them to drink tap water not bottled water in general. These initiatives are at an early stage, and mostly in London and the CCG would urge Thames to do more, more rapidly, and throughout its region to get momentum in this critical area.

Looking at another aspect of behavioural change, Thames would also note that it has made some progress in its management of customer bad debt and the statistics would suggest that this is the case; its challenge is to continue this in PR19.

## 2.3 Customer engagement on a regular basis including participation and co-creation

Thames engages with its customers on a daily basis, as the provider of services. But it also has links with its customers through a variety of projects and contacts.

Thames works with more than 600 organisations



and groups across its region, from NGOs and fishing groups to local government and civic societies. Some of the activities covered include river restoration, practical support for local projects and collaboration around issues such as odour and traffic. The CCG has been interested to hear of Thames's activities and believes that it should be more vocal in communicating the positive work it supports these groups to deliver. Customers are keen to be more engaged in certain areas and there seems to be real enthusiasm from some customers for participating actively in co-creation. That being said, in other research customers have intimated that they actually want little interaction with their water company, so it is very much incumbent on Thames to find a path which recognises the differing requirements of its customers.

Over the course of the last few years, as Thames has been implementing the current AMP6 and planning for AMP 7 the CCG has been made aware of changes in Thames's strategic approach to customer engagement. These have included increasing use of insight derived from customer contacts and customer journeys, which has helped to inform *What Customers Want*, and a total overhaul of its handling of social media, including moving to a 24/7 approach following intervention from the CCG. Thames has also worked hard at improving its handling of incident management, although this remains very much a work in progress. Thames has undertaken various relevant pieces of research which have helped it with regard to communications, including some around being a good neighbour, addressing such issues as proximity to worksites and handling of roadworks. These have appeared useful and relevant in developing Thames's corporate responsibility strategy.

Perhaps more significantly, the CCG has observed a growing realisation within Thames of the need to extend communications beyond those customers who actually contact Thames to all customers,

whether or not they have actually been in touch. Thames has also embraced the concept of advocacy and the CCG understands its approach to engagement between 2020-2025 will be based on the idea that customers should ultimately be advocates for the Thames business. The CCG has heard about the way that, through its 'One Thames' strategy, the company is reorganising itself to be more "joined up", particularly with regard to customer experience, and this is to be welcomed. Specific and practical initiatives such as the leakage area of the Thames website which aims to keep customers updated about progress with leakage targets are also very timely.

### CCG CHALLENGE

The CCG challenges Thames to develop further and communicate more overtly its thinking on participation and co-creation

One aspect where the CCG has challenged Thames – and continues to do so – is with regard to communicating and engaging with customers on a more local basis. Ideally, the CCG might even like to see some investment or prioritisation decisions taken more locally, but accepts that this might not be feasible in the short or medium term. The CCG feels that more local engagement could be used to bring out the very local nature of a water company's topology and make customers feel more connected to the company while recognising better the differences across the region (eg rural/urban; hard water/soft water; near river etc). The CCG hopes that this thinking might be increasingly embedded in Thames's plans, and suggests that there is a resonance with the thinking that is underway within Thames around catchment management. It is also worth saying the extensive and very local nature of the May conversation and the followup in February shows what can be achieved in terms of engagement and the positive response it received.

### CCG CHALLENGE

The CCG challenges Thames to communicate and act on a more local basis, recognising the essential differences across the Thames region and avoiding the concern that Thames has focussed on a "generic" customer.

The CCG has been briefed by Thames on its approach to customer engagement throughout PR19 and was encouraged to see that Thames is seeking to communicate more with customers through proactive marketing and wider engagement techniques, rather than just relying on contact when an issue has occurred. Thames has also outlined its approach to segmentation. The plan includes a recognition of the

need for service excellence, including channel choice, and simple transparent services. It recognises too, that it needs to inform to add value, and to encourage customers to make profound behaviour changes as well as taking up more practical offers such as fixing customer side leaks or signing up to a social tariff. (Although some customers feel that Thames should be circumspect about pushing them on customer leakage when leakage attributable to Thames is high).

The CCG is pleased that Thames has expressed the intention to engage customers as advocates, both through successful interactions and also through sharing information about initiatives such as innovation, and describing its heritage. Thames tried out some (but not all) of these elements as part of its communication response to the heatwave and was encouraged by the results. The CCG was also pleased to hear about Thames's presence at the BBC Countryfile show where it provided free tap water on tap and sold reusable water bottles and the Chelsea Flower Show where it featured "drought" gardening. The CCG hopes that this more proactive stance combined with a more nuanced approach to segmentation will help address the issues that the CCG has raised in this area.

#### 2.4 Summary

When considering Thames's approach to engagement, the CCG is minded of the PR14 principles described by Ofwat and the more recent additional principles. The CCG considers that Thames's research has focussed around the need to understand and deliver outcomes that customers and society value at a price that they are willing to pay – and that Thames recognises the need to undertake customer engagement in order to achieve the right outcomes at the right time and the right price. The CCG very much agrees with the principle

that engagement should not simply take place at price review time, rather that it should take place throughout the cycle. Thames's research has been constant throughout the cycle and the CCG has seen how learning from the research activity is being factored into current thinking. This is especially true with regard to Thames's work around vulnerability. It is fair to say that the CCG would encourage Thames to move some work forward rather than wait for PR19.

The CCG's challenge to communicate more locally does remain, however, although the CCG would acknowledge that much work has been done to avoid the "one size fits all" trap. Through the engagement process the CCG has seen Thames review and amend research materials after CCG feedback, undertake impressive intergenerational research and use a wide range of methods to ensure the company builds up a thorough understanding of customers and their needs. Thames has undertaken a lot of research, which has been focussed around the issues that matter to customers (and areas that Ofwat have requested as part of the process).

The CCG endorses the fact that Thames has taken seriously the responsibility to engage with customers, and - as an ongoing process with a few exceptions - Thames can demonstrate that it has done it very well. Indeed this has been specifically recorded by the CCG in its Challenge Log.

The CCG has been able to challenge Thames throughout the process and the extensive nature of the engagement programme means that customers have also been able to do so, through a variety of media and contact opportunities. Where possible, comparative information has been used to assist the dialogue.

#### CCG COMMENT

The CCG has noted some excellent work in Thames's engagement plans compared to PR 14 and is broadly happy with the direction of customer engagement by Thames Water.

Involving customers in the delivery process has been an issue which the CCG and Thames has frequently discussed and debated; it is clear though that Thames's extensive links with the various community groups and projects is an important and growing part of this. Finally, Thames has worked hard to ensure that it has understood and responded to the needs of customers in a variety of circumstances including those that might make them vulnerable; it has learned from a series of events and the shortcomings of its previous arrangements, which is to be commended. It has also been willing to take learning from the energy companies, around engaging customers.



### 3. Engagement with business retailers

Ofwat considers wholesalers should engage with business retailers as part of the customer engagement process to learn about their views and the views of their customers.

The CCG has watched the process around the creation of a competitive business market with interest, especially as Thames Water's strategic approach to the opening of the business market meant that it divested its customer base to Castle Water. The CCG is aware that there are now around 21 non-household retailers operating in the Thames region. This is a substantial number and adds greatly to the complexity of interactions between wholesaler, retailer and customer; events such as the "freeze thaw" experience show all too clearly how challenging this interaction can be. The CCG understands that Thames maintains a dialogue with these retailers in a number of ways, including a regular forum and has undertaken some fairly limited research with retailers as well. Feedback from these research activities is included in *What Customers Want*.



The CCG has also seen research relating to non-household end customers which Thames has undertaken and which is also included in *What Customers Want*. Non-household customer views also form part of Thames's standard segmentation when it conducts research and data from this is included as well. It is not clear to the CCG what research - if any - conducted by retailers has been seen by Thames. Thames has also sought to understand the views of its developer customers and this research has been included in *What Customers Want*.

The CCG wishes to note that it has maintained a dialogue with Castle Water and that the CEO of Castle Water has attended the CCG on 3 occasions. The CCG is mindful of recent press publicity around non-household users' dissatisfaction with particular retailers, but recognises that oversight of the non-



household competitive market falls outside the CCG's remit.

The CCG is also intending to attend a future retailer forum. The CCG considers that it has a challenge to create and maintain meaningful links with retailers; while the CCG is associated with Thames Water it is minded of the fact that interfaces between Thames and retailers are critical especially at times of crisis.



#### CCG COMMENT

The CCG needs to find an appropriate way to engage with the range of retailers in the Thames Water region.

## 4. Affordability

Companies are required to provide robust evidence in their business plans on how their approaches have, and will, deliver affordability for current customers, future customers, those struggling or at risk of struggling to pay. This includes evidence on the customer engagement they have carried out on their approaches, how well the company understands what affordability looks like for its customers, and the customer support for the approach they have taken. [Ofwat commentary omitted]

Thames has undertaken a wide ranging programme of research regarding affordability, using a variety of research methods. Overall, the findings show that most customers think that water charges are affordable (possibly when compared with other utilities) and are satisfied that the service offers value for money. However, a large minority of customers feel they struggle to pay. Currently only a few get financial support with their water bill. Low income customers, or those who are receiving some sort of financial support are, unsurprisingly, more concerned about the affordability of bills; they try to use less water to save money and also are worried that metering may make their bills higher. Thames has also done some useful and thought provoking work around the issue of “can’t pay, won’t pay” which has helpfully informed their thinking and approach.

Customers would prefer bills to be stable and consistent – however further probing showed that some customers were happy to see bills go downwards and forego stability. Any significant increases need to be communicated clearly. In terms of intergenerational fairness, the message was clear – everyone should contribute, because at some point everyone will benefit. Past investment benefits each generation and so everyone has a responsibility to support future generations. This was despite all ages showing spontaneous concern for the future of younger generations. There was support for the need to keep investing to keep the network going. Importantly, customers felt investment should be undertaken across the region not just in certain areas. When considering lower income customers, a majority of customers were content to help pay towards a discounted rate. Thames then explored this in more detail, with the conclusion being that a majority were happy to pay up to £11 per annum to help up to 300,000 customers who struggled to pay water and wastewater bills.

Customers felt such schemes should be offered to help customers on a low income or with a disability. This whole area of research elicited considerable surprise from customers who had no idea such schemes were available and who urged Thames to promote them much more widely and through a wider range of channels. Thames also has a customer assistance fund which supports customers who can afford to pay current charges but not outstanding arrears by paying off debt. This enables customers to pay current and future bills; Thames’s debt then reduces which results in lower costs and savings which are then passed onto customers through their bills. Its shareholders also fund a charitable Trust Fund which provides household essentials to customers in need and supports debt agencies. Thames is looking at how these funds are publicised as customers have little or no awareness that they exist.

Overall, in the final acceptability testing, customers felt Thames should reach 63% acceptability and 62% affordability in order to proceed with the plan: in fact, 67% of customers found the plan acceptable and 68% to be affordable. Over 6 out of 10 combined supply customers found the plan acceptable and affordable; this was also true of wastewater only customers. It is interesting to note that those who found the plan unacceptable were especially negative about the social tariff and ODIs.

It can be inferred that when looked at in isolation, customers supported a social tariff. However when a social tariff was presented as part of a package, customers were less receptive to the idea, with the social tariff being the most polarising part of the plan. It may be worth Thames considering further research in this area, including how best to communicate with customers around the concept of social tariffs.

## 5. Vulnerability

Ofwat have described how they would encourage CCGs to use the Vulnerability Focus report as a basis on which to challenge companies and their business plans when considering both customer service excellence and their companies’ approaches to addressing vulnerability. In assessing the vulnerability test we will take into account evidence that the company’s approach to vulnerability is targeted, efficient and effective including evidence from the independent CCG report.

The CCG has taken Ofwat’s comments regarding its Vulnerability Focus report into consideration when addressing the question of vulnerability for customers of Thames water.

The CCG agrees that companies should aspire to provide excellent service to all customers and that they should seek to do this by the effective use of data to enable them to understand their customers and identify those in situations of vulnerability. The CCG also acknowledges the principle that anyone can find themselves in circumstances that make them vulnerable and that this situation may not be permanent.

Thames has undertaken a considerable amount of research with potentially vulnerable customers. It undertook scoping research in 2016, and expanded its target research groups later that year. It also undertook preference research with potentially vulnerable customers in 2017. The range of research was summarised in a document in 2018 which set out the various data sources used to construct its strategic approach. Importantly, Thames also spoke to a wide range of experts in affordability

and priority services. Thames held a number of customer immersion sessions across its customer base, which helped to underpin its thinking.

As a result Thames set out a number of overarching needs summarised in a table below.

Thames also recognised that there were 5 themes to its overall vulnerability strategy – understand customers, grow awareness, services offered, accessibility of services and people and delivery.

It recognised, too, that this was not the end of shaping its approach to vulnerable customers and that what this represented was a strategic approach rather than a final programme of work. The overall approach relies very much on partnership working with other bodies both to identify customers but also to support delivery and evaluate the quality of the services offered.

Thames also gathered insight from employees who worked in its Extra Care team and from staff who worked directly with priority services customers. In addition to looking at the needs of current

### Meet the needs of customers in vulnerable circumstances

Staff	Diversity	Range of Flexible Options	Personalisation	Make it Simple
Key focus is on training, recruitment, support and empowerment. Awareness and recognition of vulnerability should be embedded across all employees	We need to recognise and understand the diversity of our vulnerable customer base, so we can develop our offering to address this	One size doesn’t fit all –we need to ensure we offer a range of options to meet different needs (but less is more)	We should be tailoring the support and services we offer to an individual’s specific needs.	All aspects of the vulnerable customer journey should be as simple as possible (application, renewal, eligibility criteria, support, advice). For customers and advisors
Proactive	Awareness	Partnerships	Omni-Channel	Joined up
We need to proactively find, engage with and support our vulnerable customers	We need to grow awareness of our vulnerable customer offerings at both a general and specific level (e.g. language line)	These are integral to everything. We need to actively seek alliances that will benefit our customers	We need to embrace digital – but there must be non-digital channel alternatives too	Ensure that our approach to affordability and priority services are closely linked both internally and externally

customers, Thames undertook some horizon scanning, working with a future trends agency to identify and monitor a number of relevant trends and then ensuring that this thinking was embedded in the vulnerability strategy.

Thames has recognised the importance of sharing of data and other intelligence with other relevant parties. As a result, it will be looking to boost its Priority Services Register from around 60,000 to 400,000 by 2025.

The CCG considers that Thames has responded thoughtfully and thoroughly to Ofwat's challenges in this critical area; various CCG members have considerable expertise in this field and have carefully assessed what Thames is proposing to do. The CCG has challenged Thames constructively throughout the process and has been encouraged to see Thames's change in approach and thinking as Thames undertook its research and made contact with other relevant parties and partners. Importantly, the CCG has been assured by Thames that this new strategic approach has been endorsed by the Thames Board – something that the CCG believes is critical for its success and which echoes Ofwat's comments around leadership and culture.

The CCG has some remaining challenges and concerns in this area, (see 5b below regarding the bespoke commitments) but recognises that this is very much a work in progress and that Thames will continue to refine its approach and thinking through the current AMP period. The CCG notes in particular the importance of taking on board learning which will be assembled as a result of the review into the freeze thaw incident and also its view that waiting for the next AMP to make substantial progress in this area would be an opportunity missed. It also considers that Thames needs to work to ensure that the various aspects of the service associated with the priority services register are defined carefully, are appropriate and continue to be so and that they are delivered effectively. The CCG looks forward to a continuing dialogue with Thames across all aspects of this critical area.

## CCG CHALLENGE

The CCG is keen to see more detail around the proposed delivery of the Priority Services offer.

### 5b. Vulnerability – bespoke performance commitment

*Ofwat requires companies to include at least one bespoke performance commitment for addressing vulnerability in their business plans, after engaging with customers and taking on board challenges from their CCGs.*

Thames has created two bespoke measures. The first is the number of priority service customers on its register and the second is the satisfaction and experience of PSR customers, which Thames intends to measure using a Net Promoter Score metric (would you recommend...?).

The CCG has had concerns about both of these commitments. While the increase in numbers on the register appears significant, it still falls short of what other utilities are doing (eg UK Power Networks). Thames has looked at various ways of calculating what would be a sensible yet ambitious number and continues to assert that the figure it is proposing is indeed a challenging target not least given the ambiguities associated with data obtained from other bodies. In the absence of any more concrete evidence, the CCG accepts this as a measure, but would ask that it is reviewed annually by Thames as more information becomes available. The CCG would also note that performing notably well against a perhaps unambitious target would be a limited form of progress and would urge Thames to look at how best to ensure excellent delivery. To avoid a 'tick-box' approach to numbers on the register, the CCG has advised that this should be supplemented by recording the actual numbers of customers where some form of intervention has been made.

With regard to the satisfaction and experience of PSR customers, the CCG has been concerned that a net promoter metric is not the right one to use for vulnerable and potentially vulnerable customers. Thames has undertaken to provide further comfort in this area; it has also determined that the measure would draw on a sample comprising 50% of PSR registered customers who had not necessarily had contact with Thames during the relevant period and 50% PSR registered customers who had used the PSR services.

As things stand, the CCG continues to challenge Thames on the appropriateness of this as a measure, although the CCG is pleased that Thames is attempting to gauge the success of its intervention in this particular area. The main aim of the register for priority services must be to maintain a continuous supply of drinking water to customers and a continuous collection and disposal of waste from customers.

## CCG CHALLENGE

The CCG is concerned as to the appropriateness of an NPS measure being used with PSR customers.

## 6. Performance commitments

### 6a. General approach to performance commitments

*CCGs will challenge companies on their approaches to setting performance commitments including how well they reflect customers' views and how stretching they are.*

Thames has put in place an extensive programme of research relating to performance commitments (PCs) which the CCG has reviewed, challenged and observed. This included specific qualitative research in a series of focus groups through May and June 2018 addressing whether customers considered the measures to be stretching, which the CCG believes was often hard for customers to assess.

Thames's overall approach was to link performance commitments to the customer outcomes and the service elements that underpinned them; it then reconciled these against the 42 customer insights that it had identified and which are described in *What Customers Want*. Thames felt that performance commitments should be capable of being measured reliably and accurately and should be comparable against historic trends and/or other companies' performance. The CCG felt this approach was sensible and in line with Ofwat guidance. However for some commitments comparative information is limited or unavailable, making it difficult for customers (and the CCG) to assess. Thames also tried to propose commitments where it was possible to link incremental expenditure to its business plan – eg where it is spending more money to improve service. Finally it was keen to create commitments which were linked to outcomes not outputs, although there are some exceptions such as the financial transparency report.

Looking overall at the suite of measures Thames proposed, the CCG would observe that customers largely understood the proposed measures and why they had been included. There were some exceptions, notably measures associated with the Thames Tideway Tunnel, where customers felt Thames was already incentivised to perform or deliver something already planned and to which it was committed, and the inclusion of a measure relating to numbers of customers on a payment plan was also questioned. Additionally, customers were not wholly certain what was meant by the concept of some measures, notably the one associated with employee culture change and the way the unplanned outage measure was described.

The CCG felt that this was a difficult area to research meaningfully. There were difficulties in describing with clarity and in layman's terms the technical



and operational aspects/terminology associated with delivery of the water/wastewater services and attendant levels of service—more effort could have been made to avoid industry jargon and make these concepts more accessible to research participants, and to avoid relying on 'experts' to explain them. The CCG considers that Thames's summary of its success in this research tends towards the over-positive but there was some helpful information and direction derived from it. The question of how stretching customers found the performance targets is addressed in 6b.

### 6b. Setting stretching performance commitments.

*Our approach to setting stretching performance commitment levels for PR19 is that companies should engage with their customers on their performance commitment levels; and challenge the level of stretch in their performance commitments with their customers, CCGs and other stakeholders.*

Thames explored in some detail whether customers thought the performance commitments proposed were stretching. Where possible it provided historical information and comparative data. It also offered some context eg whether Thames would be reaching "frontier" or "upper quartile" or not.

Observing the research sessions, it was clear that in many cases customers found this a very difficult – indeed frustrating – question to answer and as a result, there were a number of targets where they felt they simply could not judge. Importantly, these tended to be commitments where there was little or no comparative performance information available.

Examples of this included PCs around renewable energy or unplanned outages.

Overall, customers tended to agree that just over half of the performance measures were stretching; Thames have suggested that this meant that customers thought they “were stretching”; the CCG feel that is a little overoptimistic. There were a group of commitments where feedback was mixed. Customers did not react positively to targets where the profile was flat and did not appear convinced by the explanations. The CCG has challenged Thames on these “flat” targets, but Thames has not at the date of writing amended them.

The table at Annex C summarises the performance commitments where the CCG believes customer concerns around the degree of stretch have not been addressed or where there were mixed views or a feeling that it was hard to assess given the limited (comparative) information available.

### CCG CHALLENGE

The CCG has challenges on the issue of whether flat targets can be ever considered stretching.

### CCG CHALLENGE

The CCG challenges with regard to the pollution target.

### CCG CHALLENGE

The CCG notes that some aspects of some PCs and ODIs do not fully reflect the views of customers.

#### **6c. Using multiple data sources for performance commitment levels (“triangulation”).**

*Companies will need to engage with their stakeholders on the factors they take into account and will then need to explain how they have balanced these factors when setting their performance commitment levels using multiple data sources. The role of CCG will be important in assuring how customers have engaged with their customers on this issue.*

Thames has described to the CCG how it developed its performance commitments, seeing this as part of a five stage process, starting with a programme using existing and new research and customer insight aimed at building an understanding of what customers want– captured in its pivotal document *What Customers Want*. Using this research and customer insight, it concluded it was seeking 5 key outcomes;

these were also researched and checked for validity. From this research Thames obtained 43 customer insights or messages setting out what customers want the company to deliver. Thames’s performance commitments were based on these outcomes and insights. Its ambition was to have a performance measure in place that directly related to each service element of the outcomes. In order to do this Thames took what it described as a building block approach of activities contributing to the measure. If an Ofwat comparative measure/commitment did not exist, Thames created a bespoke one. These performance commitments were then tested with customers.

The outcomes and insights in *What Customers Want* were derived from multiple data sources and the exercise of a triangulation process. Thames has set out the range of the sources of evidence it has used. This includes stated and revealed preference studies, customer contacts and company performance data, customer wellbeing measures, actual customer expenditure and market based impacts. Because Thames has used the *What Customers Want* document as its core source, using multiple data sources and which references each source used, it is possible to see how each performance commitment is derived from what customers have said and how the combination of performance commitments and underlying service targets will therefore deliver what customers have said they want.

Thames has explained to the CCG in some detail how customer values have helped to set the economic level of service, comparing costs and benefits of potential investments. This included an explanation of how customer insights and priorities (as derived from a series of inputs including revealed preference, transfer values and subjective wellbeing) work together with stated preference surveys and insights helping to develop themes and priorities giving a picture of levels of service desired by customers for which they are willing to pay. Thames has also explained how customer values are used to derive the financial rewards and penalties associated with ODIs. Thames has used a multistep approach to test how much the finished plan reflects customers’ wants and priorities; there is a focus on proportionality and the “materiality” of customer values.

The CCG has been engaged throughout this process and has challenged appropriately throughout. Each of the 42 insights or messages were explored with the CCG in detail, to see how each was derived through ‘triangulation’ of different research sources. Thames then outlined to the CCG the broad scope of its proposed performance commitments, and tested with customers the detailed proposed PCs including the scope and definitions of measures, and whether targets were considered stretching. Given

the approach that Thames has taken, namely basing its performance commitments on the key outcomes its customers have asked of it and given its reliance on its core document, *What Customers Want*, the CCG is, on the whole, content to say that it can see a clear linkage between what customers are seeking and Thames’s proposed list of performance commitments and that it has directly observed Thames listening to and working with its customers to derive these. Further, the CCG considers that the underlying thinking which links research to *What Customers Want* and the linkage from preference research to line of sight is thorough, thoughtful and robust, although it is for Ofwat to test the economic analysis behind this work.

**6d. Setting initial service levels (2019-2020) for performance commitments.**

*At PR19 we expect companies to forecast appropriate initial service levels for 2019-2020 and for these to influence the level of their performance commitments. CCGs will challenge companies on their forecasts for 2019-2020, as well as their performance commitment levels.*

The CCG has quarterly reviews of Thames Water’s AMP6 performance, which includes challenges on its forecasts for the remaining years of the AMP. The CCG are concerned that for some of their performance commitments the 19/20 forecasts are challenging, for example on leakage. The CCG would comment that Thames Water has ambitious targets for AMP7 and is concerned that current performance in some areas suggests that Thames Water may find it hard to deliver against them.

**6e. Common performance commitments**

*We expect companies to have four common performance commitments on asset health; mains bursts, unplanned outages, sewer collapses and treatment works compliance. This will enable customers, CCGs and us to compare performance and challenge companies about their proposed levels for these commitments.*

The CCG welcomes the use of common performance commitments; it is clear that customers value the ability to compare the performance of “their” water company to others and the common commitments will enable this to happen.

Thames Water has accepted the requirement to have such common commitments and customer research has not highlighted any customer issues or concerns with that principle that the CCG have observed, other than some concerns around the unplanned outage measure.

Thames Water has researched the detail of the proposed common commitments with its customers and the CCG made appropriate challenges throughout that research process, with the aim of making the research as helpful and relevant as possible and also so that customers were able to understand the detail of the commitments in order that they could answer in an informed way. That said, not all of the commitments were perhaps as clear as they might have been. And for some common PCs (for example interruptions to supply, unplanned

**Customer line of sight methodology**



outages, pollution incidents) customers felt the incentive should be under performance only.

The CCG has been involved in reviewing each of the performance commitments, both common and bespoke, to ensure that Thames has explained clearly why it believes the targets are appropriately stretching. The CCG has undertaken this review by means of a series of deep dives into the key commitments, examining all aspects of the commitment and how in particular it links back to *What Customers Want*.

#### 6f. Bespoke Performance Commitments

*Companies have the freedom to engage widely with their customers and local stakeholders to propose bespoke performance commitments that reflect their customers' particular preferences. There should be no, or very few, exemptions included in the definition of bespoke performance commitments and any exemptions need to be well justified and supported by customers.*

The CCG has observed Thames test its portfolio of performance commitments with customers, showing them the combination of common and bespoke commitments. As a result of customer feedback, Thames has made amendments and deletions from the original list proposed.

The CCG acknowledges that customers were by and large content with the scope of the commitments; it is however concerned that so many PCs are being suggested as large numbers of commitments are not helpful to customer understanding and engagement when progress is being reported through the AMP. For some bespoke financial PCs customers wanted an underperformance only incentive and did not want Thames to be rewarded for outperformance. The CCG notes that some bespoke financial PCs do not reflect the customer view.

The CCG has challenged Thames to reconsider whether the employee engagement target is relevant or appropriate to be a commitment; the CCG is concerned that an ill conceived and poorly expressed metric could cause unintended consequences, while it does recognise and respect Thames's ambition that employees need to be fully and enthusiastically involved in Thames's customer engagement activities.

#### 6g. Abstraction Incentive Mechanism (AIM)

*It is for companies to propose their AIM incentives following engagement with their local stakeholders, and assurance from the CCG. Companies should identify suitable sites in liaison with the Environment Agency and provide evidence of their engagement.*

The CCG received presentations on Thames Water's proposed approach to AIM, its selection of sites (in conjunction with the Environment Agency) and its

## CCG CHALLENGE

The CCG questions whether the employee culture commitment is appropriate – it received relatively little support from customers and the CCG believes motivating and managing employees should not be a performance commitment in its own right.

intended customer engagement activity in 2016 with a further update in 2017. This engagement activity included a presentation to local stakeholders with independent review and presentation by the World Wide Fund for Nature. These briefings have assisted the CCG in monitoring Thames's performance in the current AMP as well as understanding the relevant issues in PR14 and PR19. Thames agreed that it would report on progress in the 2017 Annual Review and subsequently this has occurred. The CCG is content that Thames has selected the sites as required and that it has engaged appropriately with local stakeholders. The CCG understands that the EA accepts the continuation of the existing schemes; further schemes have not yet been explored with the EA in any formal way.

#### 6h. Leakage performance commitments.

*We expect companies to explain how their 5 year performance commitment levels and long-term projections for leakage take into account the views of their customers (with CCG assurance on how those views have been taken into account) and local stakeholders.*

*Companies can make the case for leakage reductions that do not achieve our challenges above where they can provide robust evidence and a strong rationale for this.*

Leakage is the area where the CCG has challenged Thames most vigorously. Thames has researched leakage extensively with its customers, including in a detailed and thorough "deep dive". In almost every research session – no matter what the topic – customers express their concern regarding leakage. Leakage is seen as wastage and Thames is seen as having a moral obligation to fix it. Thames therefore knows what its customers expect of it in terms of leakage reduction.

Thames – after challenge from the CCG – revised its leakage reduction target for the AMP so that it now meets Ofwat's minimum requirement of 15% reduction from the current level of leakage, Thames's current level of leakage is about 26% of all water put into supply. However, customer research shows that customers are looking for a leakage level of 14-15% at the end of the AMP period. Working to Ofwat's

15% reduction target will not achieve this. Thames Water has stated publicly that it is willing to aim for a 50% reduction in leakage looking beyond the AMP7 period – which would take leakage to 14-15% – but it has provided no detail as to how this might be achieved and the CCG therefore continues to challenge it, although it is aware that Thames is considering how best to do this.

### CCG CHALLENGE

The CCG can currently see no path to the promised 50% reduction in leakage by 2045 and therefore cannot see how Thames is preparing to meet the customer requirement of 14-15% leakage.

The CCG would observe that customers do not want significant new water sources brought into supply without leakage being brought down to their desired level (14%-15%). There is therefore an outstanding challenge regarding what will be the actual level of leakage when, for example, the proposed reservoir is brought into service (2037).

Thames has suggested it may be able to reduce leakage to c18% which does not match what customers have said they want.

#### 6i. Transparency of performance commitments

*We require companies to explain in their business plans how they will disseminate their performance information during the 2020-25 period to customers, CCGs and other stakeholders.*

The CCG has been briefed by Thames on its current thinking around customer engagement more broadly. Looking specifically at communicating the commitments, the CCG understands Thames’s intention is to build on the learning gained from developing new communications approaches related to its PR14 leakage targets, and on the new approach of combining the Annual Report and performance report into one document. One specific additional area that Thames will address is the creation of two documents as specific reputational performance commitments. First it commits to publish annually a customer friendly report ‘Our Finances Explained’ which is intended to explain Thames’s business, finance and governance in a more accessible way. Thames also intends to tackle customer concerns around gearing, finances and long-term financial stability through the annual publication of a customer friendly report discussing Thames’ long term viability statement. The CCG welcomes these initiatives but would suggest, however, that some sort of

### CCG CHALLENGE

The CCG would like to see the financial transparency commitments having a qualitative element.

quality test is put in place alongside the creation and publication of the documents. The CCG looks forward to hearing more detail on Thames’s overall approach to the communication of performance commitments as plans develop. The CCG is aware that Thames is considering how best to describe the commitments so that they are as clear to customers as possible and has already made a start on this; this is also to be welcomed.

### CCG CHALLENGE

The CCG would like to see all PCs/ODIs expressed in customer friendly language.

#### 6j. Scheme-specific performance commitments

*A company should engage with its customers and CCGs on any scheme-specific performance commitments, as part of its engagement process on all its performance commitments.*

Thames has included several performance commitments which relate to delivery of the Thames Tideway Tunnel. These no longer contain any customer orientated commitments which, given that the Tunnel will become operational during the period may be an opportunity missed; however, when customers were exposed to these highly operational commitments during the research process they were concerned that Thames was seeking to be rewarded for what was effectively business as usual. The CCG would therefore challenge the inclusion of the commitments, suggesting that they should be considered to be not acceptable to customers, given Thames’s involvement in this activity. Delivery of the Tunnel should be assured by the various legal and regulatory objectives associated with it.

### CCG CHALLENGE

The CCG considers TTT measures should be business as usual and not put forward as performance commitments.

In addition, it has proposed a performance commitment relating to resilience schemes in North East London.

## 7. Outcome delivery incentives (ODIs)

### 7a. Consulting customers on ODIs

*We expect companies to develop their ODIs in consultation with their customers. CCGs will challenge companies on how well their proposed ODI outperformance and underperformance payment rates reflect a suitably wide range of evidence on their customers' preferences. Companies can propose outperformance payment caps and underperformance penalty collars on individual ODIs, if supported by their customer engagement. Our approach allows for a company to propose a reputational-only ODI if the company provides convincing evidence that this is appropriate. This includes evidence from its customer engagement of that a performance commitment is not well suited to a financial ODI.*

As with the performance commitments, Thames has researched its ODI proposals using a variety of research methods, including deliberative research and surveying customer preferences. As well as looking at each PC/ODI in some detail, Thames addressed the basic concepts of an ODI framework. In general customers were supportive of regulatory oversight in the setting of bills, combined with stretching performance commitments. They liked Ofwat's aim of promoting sector wide improvement and sharing best practice; they recognised the different roles that financial and reputational ODIs could play in delivering performance and they were receptive to seeing reduced customer bills where companies failed to deliver their commitments. It is fair to say that customers found some of these to be hard concepts to grasp, but in general they seemed to understand them; as with performance commitments, they were less comfortable with identifying what was a stretching target and there was some suspicion regarding this, not least given there were potential financial rewards for Thames.

This is symptomatic of another customer concern, notably that of incentivising companies to "do what they should be doing already". They also do not want one single measure to be the (sole) focus of incentives and therefore bill impact, but this is not the case for Thames in their proposals.

### 7b. In-period ODIs

*Companies would need to justify, with evidence, why 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. The evidence should include customer research and the views of the CCG on the quality of the research and how well the company has taken it into account.*

Thames's research suggested that while customers do prefer stable bills (see section 4), they are open to the use of financial performance incentives and would accept some variability in bills in order to deliver this. There is a difference between customers in terms of what variability is acceptable; low income and non household customers tend to prefer stable bills.

However, customers seem to have no preference as to whether bills should vary on an annual or five year cycle.

The CCG is content that Thames has addressed this issue adequately, but is minded that it needs to be sensitive to the needs and preferences of customers depending on whether the bill is to go up or down and whether the change (increase) is a significant one. Good communication is key in this regard.

### 7c. Setting ODI rates

*CCGs will challenge companies on how well their proposed ODI out-performance and underperformance rates reflect a suitably wide range of evidence on their customers' preference. Companies can base their ODI outperformance and underperformance payment rates on the existing formulas, but amended, so companies can use alternative customers valuations instead of only marginal stated preference WTP. Companies can use other customer evidence to propose changes to the ODI outperformance and underperformance payment rates calculated according to the existing formulas, provided the changes are well justified.*

Customers believe that different types of calculations are, and can be, appropriate for different types of measures, but it was apparent that this was a difficult topic and the conclusions were not clear. Some



customers did feel that punitive incentive rates could be appropriate where underperformance would have a serious impact of some sort. This was particularly the case if the environment was to suffer significant harm, or there were multiple incidents.

Customers did believe that there was room for some sort of limit on incentive structures. This appears to be linked to their preference for a smoothed bill. However, customers did worry that such limits might mean that Thames was not sufficiently encouraged to improve performance. If questioned, customers showed a preference for deadbands where there were small amounts of variation which was not necessarily under Thames's control (eg third party activities or weather). Deadbands are not seen as appropriate where substantial improvement is needed or where there is no margin for error.

Overall customers did struggle to see how incentive rate calculations would affect them.

## CCG CHALLENGE

The CCG is concerned customers do not understand the concept of an ODI rate and how it affects them.

### 7d. The overall size of a company's ODI package

*We expect companies to develop their ODIs in consultation with their customers, and obtain customer support for the overall range of possible bill impacts from ODIs (referred to as the RoRE range in the PR19 methodology).*

*We expect companies to propose approaches to protecting customers in case their ODI payments turn out to be much higher than their expected range for ODIs.*

Customers discussed caps and collars as a means of limiting financial exposure and as a way of avoiding any one measure dominating. When customers opposed a cap and collar they did so in the context of an overall limit on the total level of bill variability of +/- 3% RORE. This means that NOT wanting a cap and collar cannot be seen as an endorsement of unlimited penalties or rewards.

Thames has analysed and shared with the CCG its views on shocks and scenarios which could impact on its performance and hence on customers' bills as a result of ODIs. Thames's analysis included a review of the risk register, discussions with subject matter experts, desk top review of other water companies' risks and impacts, advice from external modelling experts and Ofwat's recommended shocks and scenarios. The CCG is content that Thames has

considered this area thoroughly and that this has been useful input to Thames's ODI thinking.

Thames has explained to the CCG the assumptions it has made around outperformance and underperformance and these were shared with customers in the Final Acceptability Testing process.

The CCG has been told by Thames that it believes a combination of Ofwat action and Thames response will ultimately limit ODIs. First, Ofwat will review targets to ensure they are stretching which has the impact of limiting any (undeserved) upside potential. Secondly Ofwat will also review incentive rates to ensure rewards do not exceed the incremental costs of improvement. This removes the incentive for companies to just spend to get rewards, which would limit upside potential. High ODI rewards would then only be paid for exceptional above target performance improvements. Further, one or two PCs do have ODI caps which will limit potential rewards.

In addition, Thames stated on a showcard in its final acceptability test, that "...Thames Water would consider adjusting any increases to avoid an increase of more than 5% in any one year". It would be desirable for Thames to make a more specific commitment in this area; 5% would seem to be sensible but this could be researched with customers.

### 7e. ODIs for resilience performance commitments

*Companies should only propose financial ODIs related to resilience performance commitments if they reflect the particular resilience challenges facing them, are supported by evidence and by their customers and do not involve ODI outperformance payments that overlap with funding received through the cost allowances. (CCGs not asked to comment or challenge).*

The CCG has no comment to make on this particular issue.



#### **7f. ODIs for asset health performance commitments**

*Companies should engage with their customers and CCGs on how their asset health metrics protect current and future customers and the environment. Companies should explain to their customers, CCGs and Ofwat the size of their asset health underperformance penalties (and any outperformance payments) and how they relate to their past performance and the asset health challenges they face.*

*Companies can only propose outperformance payments for asset health performance commitments if they can show there are benefits for customers and their proposals reflect evidence of customer preferences.*

As a general point, Thames's research suggested that customers found it difficult to assess the trade-off between asset health and service measures. There tends to be a preference for looking long term, but they do not want a focus on the long term at the expense of day to day service delivery.

It is important to highlight one specific area, which is that of lead. The CCG has been encouraged by Thames's willingness to address this important issue, both in PR14 and PR19, which is something that customers are keen to see progressed.

#### **CCG COMMENT**

The CCG is pleased with the approach Thames is taking to the removal of lead, both in this AMP and in AMP7.

#### **7g. Enhanced ODI outperformance payments and underperformance penalties.**

*The enhanced outperformance and underperformance payments are only appropriate for the common performance commitments which are based on comparable data. This is so that customers, CCGs and Ofwat can be more certain that the enhanced outperformance truly represents frontier-shifting performance.*

Thames is not proposing any enhanced payments.

## 8. Securing confidence and assurance

This section repeats CCGs’ main role: it is also important that CCG reports highlight areas of challenge and disagreement, including how the company has responded to challenges and any areas of outstanding disagreement.

*The Environment Agency, Natural England and Natural Resources Wales have also set out wider expectations for companies as have the UK and Welsh Governments through their strategic policy statements. We expect companies to take these into account when developing their business plans and outcomes and to implement them when they are in customers’ interests and have customer support.*

The CCG has logged areas of challenge and enquiry since the start of the current AMP. These have been used to set CCG agendas and to steer discussions between Thames and the CCG. The full Challenge Log is available on request. The challenges (and observations) that are outstanding

are listed below with Thames’s response and the current CCG view. It is important to say that after reflection, the CCG believes there are two types of challenge – those which directly relate to key elements of PR19 and where there is a continuing difference of opinion between Thames and the CCG, and those which the CCG feel merit further scrutiny throughout the course of PR19 and which are therefore not of material relevance.

The CCG has also listed a number of specific challenges relating to individual PCs and ODIs and those are listed at Annex C. In many cases these relate to the attribution of the strength of support from customers for the measure itself or for the application of caps, collars and bands.

### Challenges Relating to PR19

Challenge	Thames Response	CCG Comments
The nature of the May conversation research into bill levels (absence of bill increase option and no exploration of additional service levels) was a missed opportunity.	We accept this challenge and therefore we included a rise in bill level as an option in our February 2018 consultation.	That did not really address the absence of potentially increased service levels and the CCG concern remains.
The CCG is concerned as to the appropriateness of an NPS measure being used with PSR customers. (AR05)	Our main customer metric, NPS, is aligned with our strategic priority to create lifelong customer advocates. Our plan describes how we will be implementing a Net Promoter System to drive continuous improvement in customer service and engagement.  We believe that it is important to measure the number of customers registered for priority services and the experience these customers receive from Thames Water. This is why we have chosen to include two bespoke performance commitments.	The CCG looks forward to working with Thames to understand more about the suitability of NPS as a measure and the effectiveness of it as a measure in this very specific context.

Challenge	Thames Response	CCG Comments
	<p>Performance commitment AR05 specifically measures the NPS of customers on the priority services register and includes both those that have been impacted by incidents and those that have not.</p> <p>The CCG has challenged the use of NPS as the metric for this segment of customers as they are concerned that some may not be able to understand and answer the question. We believe that it is the right metric for these customers as NPS, unlike CSAT, measures trust and respect which we believe is particularly important for these customers. For example, the NHS is using NPS following doctor and hospital appointments and we have shared with the CCG the specific question that they use. We will be consulting with the CCG as we develop the pilot of this survey in 2018-19 when we will test the survey design and setting the right context for the NPS question. This will then inform the survey approach used in the full shadow year in 2019-20 which will become the baseline from which we will improve.</p>	
<p>The CCG has challenges on the issue of whether flat targets can be ever considered stretching.</p>	<p>We are always striving to give our customers the very best service we can and look to challenge ourselves to that goal at all times. On the face of it that might be interpreted as, in order to stretch ourselves, all our performance commitments should have an improving trend.</p> <p>However, history has shown us that the physical and financial environments in which we operate change and will continue to change into the future.</p>	<p>The CCG remains concerned that customers felt that certain flat targets did not demonstrate enough challenge to merit reward.</p>

Challenge	Thames Response	CCG Comments
	<p>Certain changes, for example a tightening environmental compliance targets, assets or an increased occurrence of severe weather patterns would challenge our current performance against our commitments, if we didn't do things differently.</p> <p>Other changes, such as rising unit costs for materials, challenge our ability to afford to make certain interventions.</p> <p>Our plan is therefore a careful balance between innovation, activity levels, costs and performance promises to give the best all round package of service to our customers.</p> <p>In our customer engagement sessions on specific performance commitments, customers did understand the concept that a stable numeric target could be stretching under circumstances involving changes in environment or choices in priority for investment.</p>	
<p>The CCG challenges with regard to the pollution target, given the importance customers place on this issue.</p>	<p>In the research we carried out in February and March 2018, approximately 70% of our customers supported a service level between 24 and 26 pollution incidents per 10,000km of sewer. As part of our ODI research we then asked our customers whether they thought that our original target of 25 pollution incidents per 10,000km of sewer was stretching or not. Customers had mixed views, with some expressing that this represented only a marginal improvement over 5 year and others saying that as Thames Water is already performing well in this area, this target was acceptable. Following this feedback from our customers, we have revised our target to 23 pollutions per 10,000km of sewer - a</p>	<p>Pollution target - the CCG is pleased to see that Thames have shifted its view but remains concerned that this is still not fully reflective of customers' concerns.</p>

Challenge	Thames Response	CCG Comments
	<p>30% reduction from our 16/17 performance. This is the basis on which we have customers willingness to pay, and this the basis of our plan.</p>	
<p>The CCG is concerned that customers do not understand the concept of an ODI rate and how it effects them.</p>	<p>We acknowledge this is a difficult concept for customers but were encouraged by our recent PC and ODI engagement where we did succeed in explaining the idea to customers and we will use the lessons gained during this exercise. We accept the CCGs challenge and as we start to report to customers on our performance for AMP7 we will continue to involve the CCG as we develop materials and descriptions to ensure we give customers as much clarity as is possible.</p>	<p>The CCG will be more than happy to be involved and recognises this is a difficult concept requiring judgements to be made.</p>
<p>The CCG considers the TTT commitments should be business as usual and not performance commitments.</p>	<p>The final report on the Customer research on Performance Commitments and Outcome Delivery Incentives prepared by Britain Thinks concluded: "Most [customers] are content for this measure to be included, however a minority strongly feel it should not be"</p> <p>Those who felt strongly the measures should not be included mostly made the point they expected the outcomes to have been planned for by Thames as part of the Thames Tideway Tunnel project and not subject to incentive.</p> <p>We feel the measures signal our strong commitment to the project and close working relationship with our partners to ensure the success of this this nationally important infrastructure project.</p>	<p>The CCG's position remains unchanged.</p>
<p>The CCG questions whether the employee culture commitment is appropriate.</p>	<p>It has the objective of ensuring that all of our employees have a clear line of sight to our customer outcomes. This supports the delivery of our cultural change programme across the business that aims</p>	<p>The CCG recognises that this is a very important issue for Thames but feels that this is not an appropriate area for a performance commitment and could be better handled as an internal measure.</p>

Challenge	Thames Response	CCG Comments
	<p>to ensure that we are a learning organisation that creates a culture of customer obsession, putting our customers first, at the heart of our decision-making processes.</p> <p>The performance commitment is specifically linked to our outcome of an “effortless customer experience” and will be allocated across all of our price controls.</p>	
<p>The CCG notes that some aspects of PCs and ODIs do not fully reflect the views of customers. These are listed at Annex C</p>	<p>These are covered in detail in Annex C</p>	
<p>The CCG would like to see all PCs/ODIs expressed in customer friendly language</p>	<p>If a customer does not understand our question to them, their response is meaningless.</p> <p>Therefore, throughout our programme of engagement with customers, we have always checked their confidence they had understood the issue under discussion. Where they told us they were struggling, we have provided further explanation whilst amending descriptions, examples and language for future activities.</p> <p>In their independent report on Customer Engagement on Performance Commitments and Outcome Delivery Incentives, Britain Thinks state that “In all workshops, the majority of showcards relating to specific measures were well understood” but that “a small number required table moderator discussion to ensure comprehension”</p> <p>In addition, following this exercise we have made changes to a number of performance commitment titles to make them clearer.</p>	<p>In focus group research customers had the benefit of explanation and discussion to reach an understanding of the issues under discussion. The CCG would suggest that all PCs and ODIs should be clear and easily understandable on their own without the support of a moderator.</p>

Challenge	Thames Response	CCG Comments
	<p>We already have summary documents which explain all of our performance commitments. To ensure these are easy for customers to understand, we will:</p> <ul style="list-style-type: none"> <li>- draft short (1 or 2 page) versions of these documents to explain these measures and targets simply and clearly to our customers</li> <li>■ test these documents in draft with a representative group of customers, and act on their feedback to improve the documents clarity and accessibility</li> <li>■ seek feedback on the revised drafts of these documents (following the customer feedback) with the CCG prior to publishing</li> <li>■ propose to complete this exercise by April 2019</li> </ul>	

### Ongoing Challenges

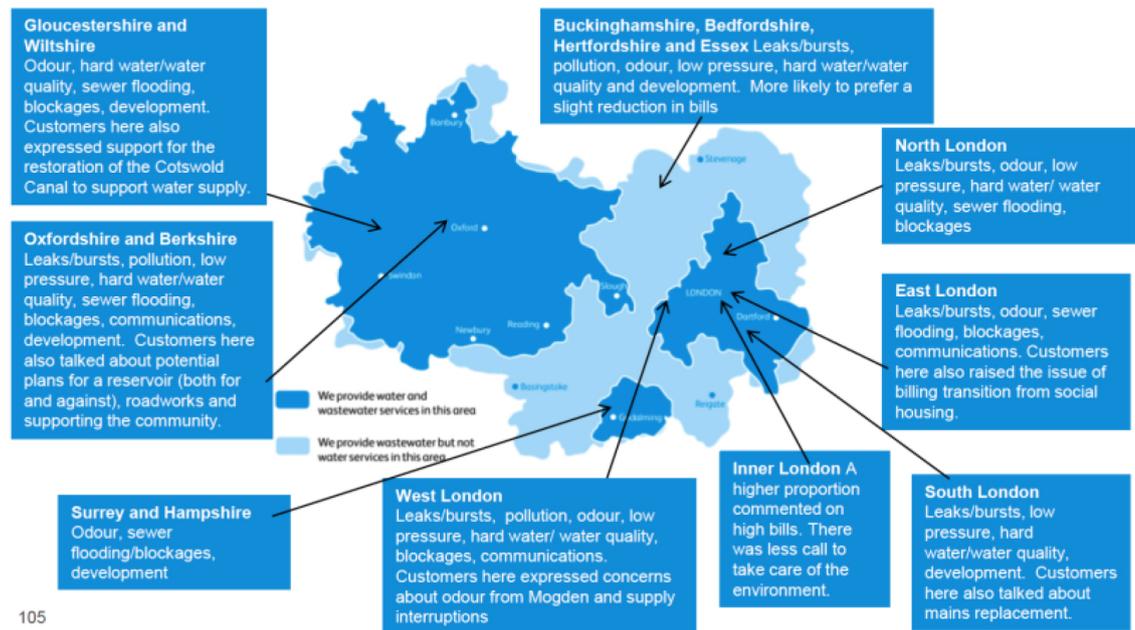
Challenge	Thames Response	CCG Comments
<p>The CCG is keen to see more detail around the proposed delivery and composition of the nature of the services provided to those on the Priority Services Register.</p>	<p>Our main customer metric is NPS is aligned with our strategic priority to create lifelong customer advocates. Our plan describes how we will be implementing a Net Promoter System to drive continuous improvement in customer service and engagement.</p> <p>We believe that it is important to measure the number of customers registered for priority services and also the experience these customers receive from Thames Water. This is why we have chosen to include two bespoke performance commitments.</p> <p>Performance commitment AR05 specifically measures the NPS of customers on the priority services register and includes those that have been impacted</p>	<p>The CCG is not only concerned with the measurement but also with the nature of the register and how effectively Thames is able to deliver it. These remain ongoing points of challenge.</p>

Challenge	Thames Response	CCG Comments
	<p>by incidents and those that have not. The CCG has challenged the use of NPS as the metric for this segment of customers as they are concerned that some may not be able to understand and answer the question. We believe that it is the right metric for these customers as NPS, unlike CSAT, measures trust and respect which we believe is particularly important for these customers. The NHS are using NPS following doctor and hospital appointments for example and we have shared with the CCG the specific question that they use. We will continue to consult with the CCG as we develop the pilot of this survey in 2018-19 when we will test the survey design and setting the right context for the NPS question. This will then inform the survey approach used in the full shadow year in 2019-20 which will become the baseline from which we will improve.</p>	
<p>The CCG will monitor feedback from the new dWRMP consultation, especially regarding the plans for the shared reservoir (including 2037 leakage levels) the new research on water trading and other customer feedback.</p>	<p>We will share our rdWRMP material consultation material with the CCG and will update them on the consultation responses and how we will update our rdWRMP in light of the consultation.</p>	<p>The CCG looks forward to working with Thames as customer feedback is received from the new dWRMP consultation.</p>
<p>Thames should communicate and act on a more local basis, recognising the essential differences across the Thames region and avoiding the concern that Thames has focussed on a "generic" customer.</p>	<p>In the development of the plan we have very consciously worked to understand the local needs of the numerous different communities we serve.</p> <p>As part of our engagement all of our 15 million customers had the opportunity to shape our plan and 984,000 have actively participated in the engagement process, from across our whole region.</p>	<p>While the CCG would agree that Thames has made real progress in this area, the CCG feels that there is still more Thames can do, including looking at how certain aspects of operations might be regionalised and talking to customers in greater detail about the circumstances they live in and the effect that has on their service.</p>

Challenge	Thames Response	CCG Comments
	<p>The extract from “What Customers Want” illustrating the geographical understanding we have of our customers differences (CSO – What Customers Want, page 105) is below this table.</p>	<p>The CCG will continue to press Thames for more information about what it is actually doing as well as encouraging it to do more.</p>
<p>Thames needs to develop further its thinking on participation and co-creation.</p>	<p>We continue to accept the challenge to make participation and co-creation part of our ‘business as usual’ way of working.</p> <p>One example highlighted in our plan is where we are using ‘co-creation’ to optimise the service we provide to vulnerable customers. Partnering with charities, Non-Profit Organisations (NPOs), industry peers and vulnerable customers to design a Priority Service that is best in class. We are also networking with the utilities industries and the third sector to share best practice and create a more consistent experience for the consumer.</p>	

## What customers told us, across the region.

There are common themes that customers talk about in most areas of our region. Customers raise concerns about leaks and bursts, pollution, sewage treatment works and odour, low pressure, hard water and water quality, sewer flooding, blockages, pressure from development and communications.



## CCG Comment

Challenge	Thames Response	CCG Comments
The CCG needs to find an appropriate way to engage with the range of retailers in the Thames Water region.	We would be very willing to assist the CCG in finding a way to engage with retailers into the future if required.	Thank you!
The CCG has noted some excellent work in Thames’s engagement plans compared to PR14 and is broadly happy with the direction of customer engagement by Thames Water.	We acknowledge and thank the CCG for their support and advice on how to strengthen our engagement given to us throughout this process.	
The CCG is pleased with the approach Thames is taking to the removal of lead.		

The CCG would note that Thames is about to consult again on its draft Water Resources Management Plan, as a number of key elements have changed. The CCG recognises the need for further consultation, but regrets the fact that this crucial element of the PR19 planning process will be out of step with the rest of the plan. The CCG would urge Ofwat and DEFRA to work together in future years to try to avoid this if it is in any way possible.

The CCG has had presentations from the Environment Agency and Natural England on their requirements for water companies in PR19 (WISER) and the CCG has greatly benefitted throughout the PR19 process from the input made to its discussions by EA and NE experts.

### The Environment Agency

The full Environment Agency commentary on Thames Water’s plans is to be found at Annex E.

The EA is carrying out a separate process to ensure that water companies plan to meet the statutory environmental obligations in their Business Plans 2020-25. Following this exercise the EA will be reporting its findings to Defra and Ofwat. The Environment Agency wants to see a Business Plan that reflects the importance attached to the environment by its customers and stakeholders, and one that is clearly setting the direction for the longer term environmental objectives. Before that process is completed though and as input to the CCG submission the EA notes that Thames Water’s Business Plan has much to commend it from an environmental standpoint, reflected in the

number and range of its bespoke performance commitments geared to achieving environmental outcomes.

However, the EA notes some areas of concern, of which some are included in the CCG challenges listed above. Their full list includes Thames’s approach to reducing pollution incidents and its stance on leakage. The EA also has issues around the way Thames has addressed phosphorus, and its process around AIM. It shares the CCG’s concerns around the dWRMP reconsultation.

### Natural England

In its discussions with the CCG, Natural England has noted that Thames Water’s WISER delivery to date does contribute towards the company demonstrating improved environmental leadership albeit with the areas of concern and areas for potential improvement that are summarised in annex F. Natural England stresses its view that Thames’s work in this regard continues to be supported by customer feedback which highlights the environment as an area where company investment to secure positive environmental outcomes is seen as important.

### DWI

The Drinking Water Inspectorate has met with the CCG to discuss its views on Thames Water’s PR19 plans. The DWI have prepared a document for the Thames Water CCG which is attached at Annex G. The CCG recognises the importance that customers place on clean safe water and Thames’s legal obligations in this crucial area.

The DWI has told the CCG that they are content with the approach that Thames has shared with them, that they have specifically endorsed one particular programme of work around lead pipes and that following government discussions they will review the Thames submission regarding metaldehyde.

During their presentation the DWI discussed their new suite of measures and their view of PR19 for Thames, namely the lead strategy, metaldehyde and a transformation programme regarding turbidity

monitoring and control, cryptosporidium and management change. Thames has explained to the CCG that the vast majority of costs associated with the transformation programme will be covered in the current AMP and so there will be little if any impact on PR19. The CCG is therefore content that Thames has taken the DWI's requirements into account when considering PR19.

The CCG's views of the overall assurance process are to be found in section 1.6.

## 9. Resilience planning principles

*9a. Assessments of resilience should be informed by engagement with customers to help companies understand their customers' expectations on levels of service. This will also help companies understand their customers' appetite for risk and how customer behaviour, in matters such as water efficiency, might influence approach to resilience.*

*9b. The company will need to demonstrate the incremental improvement of the proposed investment, that it considered a range of options and that the proposed solution delivers outcomes that reflect customers' priorities, identified through customer engagement.*

Thames has undertaken a thorough programme of engagement with customers regarding resilience (or as customers prefer to think of it, "protecting the future water supply and waste service"). It is perhaps the area where Thames has placed most focus, for understandable reasons. This engagement has included deliberative research and a series of intensive deep dives to understand customers' thinking around key issues including loss of water, flooding and sewage flooding, and various weather scenarios. It is important to note, though, that Thames have only tested a 1 in 200 scenario rather than a range of options. During that research customers ranked scenarios in terms of importance to them, defining severity in terms of impacts on quality of life and cost followed by impacts on property, with flooding scenarios having the most severe impacts. The research also addressed the options of short or longer term solutions (and thereby the question of risk) – in general, customers tended to prefer permanent ones while recognising that it was not a case of either/or. Thames also used its innovative interactive tool to explore some of the trade offs customers might make in this area.

Extensive research and consultation also took place around the draft Water Resources Management Plan, which obviously addressed many of the core issues of resilience. Overall, customers expect that Thames will do what is needed to provide a 24/7 resilient and reliable service into the future, with appropriate mitigation for a variety of hazards from population growth and climate change to cyber threats. Customers appear in general receptive to spending on infrastructure projects that will deliver this.

Focussing on the availability of water in the future, customers would prefer to use what is already there more efficiently and effectively before new

sources are sought. Although the issue of leakage is raised constantly when this issue is being discussed, with customers wanting leakage to be reduced before new infrastructure or spending is undertaken, it is not the answer to the question of resilience. Overall, customers want their water supply to continue as it is now, with the threat of any restrictions kept to a minimum and with the system able to deal with a 1 in 200 year event. It is worth saying that until the issue is explained to them, customers have very little idea of the future pressures on their water supply. Customers are reasonably positive about metering to reduce usage and they are broadly supportive of water efficiency campaigns, although they are not wholly certain about their efficacy – education in schools is thought to be helpful though. Tariffs may provide an acceptable way forward and may indeed be the next "big thing"; however, there is no customer research as yet in this area so firm conclusions cannot be drawn.

As a result of this, Thames has been able to summarise what is important to customers in terms of securing water supplies, including cost (most important) deliverability, sustainability, environmental soundness, resilience (high importance) and acceptability and adaptability (moderate importance). Plans must be both flexible and long term (25 years+).

Thames discussed a number of new supply options with their customers, through a number of methodologies including deep dives, customer preference research and supporting qualitative research. During that research, customers stressed the importance to them of Thames having reduced leakage to an "acceptable" level before new sources came on line – the CCG believes it is important, therefore that Thames is clear about its commitment to long term leakage reduction in order to ensure that this is the case.

Customers also seek a resilient waste water system, that can cope with increased demand and changing weather patterns. Again, it is for Thames to ensure that the system is ready to cope with the future – sewer flooding in particular is feared and is to be avoided. Customers do not wish to set out precisely what they think should be done – that is for the experts. And, in addition to the issue of sewer flooding, there is a need to provide a network that is more broadly resilient, able to deal with blockages and with sufficient capacity to cope.

Again, customers are supportive of educational initiatives such as the “bin it don’t block it campaign” – and again, customers say how little they know about the problems that can be caused.

Thames’s engagement around the draft Water Resources Management Plan was set alongside its consultation on the wider business plan. It was the culmination of an extensive engagement process, including a number of customer orientated groups. The documentation for the consultation built on the research Thames had done with customers and set out the options and the reasons for their recommendation or otherwise. It also tackled a number of resilience-linked issues, giving customers the chance to seek additional service for additional cost on their bills. As the engagement process developed, customers were given an understanding of the possible impacts of various projects both in terms of bill impact and ability to deliver resilience, what the pros and cons were and any other relevant points.

The CCG feels that Thames has a good picture of what customers want in the area of resilience. The

CCG would note, however, customers’ concern that leakage should be addressed as an issue before Thames is “allowed” to undertake significant investment in the water supply area.

At the time of writing, it had been decided that Thames needed to re-consult regarding the draft Water Resources Management Plan, given that there had been a number of changes, most notably the inclusion of a reservoir which would be started in the plan period, the removal of the Teddington project, an evolving approach to water transfer and some changes to the population figures. As a result, the dWRMP and the main plan will move apart somewhat in terms of timing and process, but the CCG hopes that there will be clarity around how they are linked.

### CCG CHALLENGE

The CCG will monitor feedback from the new dWRMP consultation, especially regarding the plans for the shared reservoir (including 2037 leakage levels) the new research on water trading and other customer feedback.

## 10. Securing cost efficiency – need for investment

In relation to cost adjustment claims: where appropriate, is there evidence – assured by the Customer Challenge Group – that customers support the project?

*Best option for customers:*

■ *Does the proposal deliver outcomes that reflect customers' priorities, identified through customer engagement? Is there CCG assurance that the company has engaged with customers on the project and this engagement has been taken account of?*

■ *Is there persuasive evidence that the proposed solution represents the best value for customers in the long term, including evidence from customer engagement?*

Thames has explained in some detail to the CCG (in particular the Business Plan and Finance sub-group) how the plan has been constructed in financial terms; during the course of the planning process the CCG has seen how Thames's thinking has developed, including its "bottom up" build (>£15bn) and its movement to an "efficient" plan of £11.4bn, which includes a distinction between steady state costs (business as usual) and TOTEX which is linked to improving current (PR14) performance or reducing

risk. Thames has constructed an overview of its plan which sets out how around £2bn of investment in resilience and other enhancement spend is in direct response to what customers say they want in terms of improvement or added security (sourced from the main *What Customers Want* document). Thames has also set out the "revenue building blocks" and other modelling assumptions.

Thames has set out how their CAPEX assumptions have been tested, in terms of pricing methodology, scope, the process by which efficiencies have been identified and what efficiencies have been applied. Thames has also shared information regarding reviews by external experts (including Mott MacDonald and Arcadis).

The CCG found this background information to be a helpful summary of how customer needs and outcomes are linked to incremental and other spend.

Thames has also briefed the CCG on how the Thames Water Board has challenged the plan, both in terms of base operating costs and so called "intervention TOTEX". The CCG is pleased that the Board has been engaged in this way and Thames has told the CCG that adjustments have been made following these discussions.

The CCG wrote to Ofwat in May, regarding special cost factors, having reviewed these in some detail with Thames. The CCG will be interested to see which special cost factors are applicable to Thames.

Overall, the CCG is content that Thames has provided a link between customer requirements and the overall shape, scope and efficiency of its plan and that these aspects of the plan have been scrutinised and tested by Thames's Board.



# 11. Financeability

We will look for evidence of customer support where companies take steps to address financeability constraints.

The CCG would make a number of observations regarding financeability. Given the Total Expenditure (Totex) regime, companies have greater autonomy over the projects they invest in, the service they provide over time and the timing over which customers pay. This clearly has implications in terms of when Thames chooses to invest and therefore whether current or future customers should pay. Thames has undertaken research in the area of intergenerational fairness in order to understand what customers feel about this issue. Efforts were made to get a range of different generations in the room and discuss the issues fairly and in some detail. While no one was perhaps surprised by the research results, the CCG considers this was an important piece of research, which was done thoroughly and was well conducted.

While customers are generally concerned for future generations, they do not particularly see it as relevant to the water sector, feeling that everyone uses water and all should therefore contribute – all have benefited from past investment and so should expect to do the same for future generations. Everyone uses it so everyone should pay. However, customers appeared to struggle with the concept of intergenerational fairness beyond these simple conclusions and there are probably relatively few lessons for companies to glean from this. Customers also expressed their desire though for a smoothed bill over time which potentially has some implications for Thames's thinking, as currently there is likely to be a rise in bills at the end of AMP7 and into AMP8.

Looking more broadly, away from intergenerational issues, customers were concerned by the specific and relevant issue of gearing. Thames explored gearing in some detail in its programme of corporate and financial responsibility research. Once customers had understood the concept of gearing, there was considerable concern and surprise at the level of debt. This general concern was heightened when customers saw the Ofwat "model" level of gearing for a water company which Thames exceeded significantly. Having high levels of gearing was felt to be risky and potentially could cause problems in the future with a possible

negative impact on bills. Reducing gearing was seen as desirable, and it was felt that Thames ought to be able to benefit from lowering the cost of debt. Once the issue was exposed, customers wanted to understand more about it – was the level of debt rising or falling? Was it sustainable? If interest rates rose, would that materially affect customers and therefore bills? Did it create fundamental instability? Having high gearing was considered not to be responsible behaviour; being closer to Ofwat's model was seen as more prudent. That said, a few were less concerned, believing that higher gearing was cheaper than paying out dividends.

Overall, there was a desire for greater transparency around this issue, especially about Thames's deviation from Ofwat's model and what the assumptions about debt were for the future. Customers were generally supportive of Thames reducing customer bills as a result of any financial outperformance but few thought this was likely to happen.

In its second phase of research, Thames put forward some specific proposals, including revising the shareholder dividend policy, enhanced transparency around corporate and financial structures, an increase in the equity buffer, which would have the effect over time of reducing gearing, and sharing the benefits of putting in place new low cost debt. These were well received by customers; customers were not so positive about sharing limited benefits when schemes were not progressed preferring these funds to be retained by Thames for future investment, given the negligible impact on individual bills and were less enthusiastic about sharing the benefits of low cost debt. Importantly, though, there was a feeling that Thames was seeking to be more open and transparent in a complex area and this was welcomed by customers.

The CCG felt this was an especially well thought through (and brave) piece of research and was also pleased that Thames was able to put together a wide ranging package to which customers could then respond.

## 12. Bill profiles

Companies should take into account customers' views on the profile of bills over time which will enable companies to understand customers' implicit views on the impact of their PAYG and RCV run-off choices on bills both in the short and long term... we do not expect companies to directly ask their customers about their PAYG and RCV run off rates.

Thames plans to maintain average bills flat in real terms for AMP 7, but currently envisages a (pronounced) rise at the start of AMP8. This flat profile excludes payments made by Thames as a result of its leakage rebates. The CCG feels this does not reflect the preference stated by customers for a smooth bill over time, given the uptick in AMP 8. The CCG feels that Thames would have more data and insight in this area had it included options around higher bills/better service in the May conversation, rather than assuming only flat or declining bills were an option.

That said, Thames clearly believes that it is meeting customer requirements, as pre rebate for AMP7, the combined bill profile is smooth and broadly flat; component water bills increase very slightly over time, waste bills reduce very slightly over time. The

profiling sets out to best achieve the smoothest and flattest combined bill profile but only over AMP7.

The CCG has been told by Thames that it is attempting within AMP8 to smooth combined bill increases; both waste and water rise. However, Thames has not attempted to smooth AMP7 and AMP8 in combination, largely because of its uncertainties around what precisely will happen in AMP8.

The CCG understands the issues that Thames is facing here and would ask that further research is done in advance of AMP8 to better understand customers' views about how they prefer the issue of transition between AMPs to be dealt with given the uncertainties that undoubtedly exist in the longer term.

## 13. Accounting for past delivery

When testing how well the company has provided evidence for its proposed reconciliations for the 2015-20 period and how well it has followed the PR14 methodology... we would expect to see...evidence of customers' support, for its proposed adjustments to the 2020-25 price controls.

Thames has told the CCG that the PR14 reconciliation adjustment to ensure comparability will be a c£4 reduction to customer bills and that this (with certain exceptions) follows the PR14 rulebook methodology. However, there will be an impact of overspending in PR14 which will see an increase in customer bills over AMP7 such that Thames can recover part of its overspend (c£500m in water, £80m in waste and £120m underspend for the Thames Tideway Tunnel). As it is an adjustment associated with RCV, Thames say it is difficult to quantify but suggest the impact is about £8 extra over the AMP eg about £2 per year. This is very much work in progress and the CCG will continue to discuss with Thames.

## 14. The initial assessment of business plans (IAP)

*A high-quality business plan (points most relevant to the CCG role):*

- *Is grounded in excellent customer engagement with a wide range of evidence;*
- *Should include stretching outcomes and performance commitments that reflect what customers want, and their relevant priorities, and clear line of sight from these through the plan. It should also include evidence of consideration of customer participation;*
- *Is affordable to all current and future customers, with appropriate assistance provided where needed;*
- *Sets out the company's approach to effectively and efficiently identifying and providing support for customers in circumstances which make them vulnerable.*

In summary, the CCG feels that Thames has run a thorough and highly professional research and engagement programme to help it prepare for PR19, which has been carried out over a sustained period. Elements of the plan that the CCG consider particularly worthy of note are the range of evidence and methodologies used, its creation of a core document, *What Customers Want*, which Thames people have used as the source document for their planning processes; the use of a so-called "line of sight" document, which summarises how customer needs and wants are translated into costed business plans; and the development of an innovative interactive customer tool, which enables users to create baskets of wants within certain parameters, make trade-offs and shape their "water world". The scale and depth of the various customer engagement exercises are also to be commended.

The CCG has challenged Thames on various elements of its research, its rationale and its planning. The CCG has been heavily involved in the way that Thames has approached its customers, critiquing its thinking, its proposed materials and the methodologies used. The CCG has also given Thames feedback on how it has translated research findings into actions.

Thames asked its customers to set the threshold for the affordability and acceptability of the plan and the 2020 -2025 plan exceeded those thresholds. In the Final Acceptability Testing research customers thought the plan should reach 63% acceptability and 62% affordability. In the event the scores were 67%

for acceptability and 68% affordability. This is an important part of demonstrating that customers are committed to the scale and scope of the plan that is being proposed.

Thames will be seeking to support up to 200,000 customers who struggle to pay water and waste water bills. They are also seeking to support 400,000 customers with their Priority Service Scheme. While it is hard to know in this specific area whether these are truly stretching targets, they clearly represent progress from the current status quo and are to be encouraged. Thames sensibly sees the content of the Priority Service offering as something as a work in progress and is seeking to learn from other companies and industries.

Over the course of PR14, the CCG has pressed Thames Water with regard to its approach to innovation. It is clear that much innovation takes place, but it is not well communicated. The CCG also believes that the outsourcing of key activities did not help Thames in this regard. The CCG is therefore pleased that there appears to be a much greater, top down, focus on innovation of all types and looks forward to hearing more about it in the next AMP; Thames clearly recognises the importance of innovation in delivering the targets it has set itself.

Thames has undertaken extensive research around its Performance Commitments and ODIs. Customers have not always found it easy to understand some of the concepts and issues, particularly where there is no real comparative data, either historic or across the industry. Inevitably judgements will have to be made and the CCG has noted in an annex a list of commitments where it does not think Thames has fully reflected customer thinking.

The CCG continues to challenge Thames; this document lists some strategic challenges which are still outstanding, and some challenges which the CCG believes will continue through the conclusion off the PR19 process and into AMP7.

In summary, though, the CCG believes that Thames has run a very sound research and engagement programme and that it has listened to its customers. Thames now knows what its customers want. and, overall, its plan seems designed to deliver against its customers' wants and needs.

Annex A

CCG people



Anne Heal  
(CCG Chair) -  
Independent



Sir Anthony Redmond  
(CCG Vice Chair)  
Consumer Council  
for Water



Gill Tishler  
Independent (Advice  
sector/vulnerability)



Kay Lacey  
Pang Valley Flood  
Forum



Samantha Heath  
London Sustainability  
Exchange



Helen Charlton  
Independent  
(consumer advocate)



Steve Bloomfield  
Independent  
(consumer advocate)



Harry Hodgson  
Federation of Small  
Businesses



Jeremy Gould  
Greenwich  
Leisure Ltd



Geoffrey Fowler  
University Technical  
College London



David Leam  
London First



Cassie Sutherland  
Greater London  
Authority



Karen Gibbs  
CCWater



Adam Wallace  
Natural England



Dr Bella Davies  
Blueprint for Water



Robin Edwards  
Country Land and  
Business Association



David Howarth  
Environment Agency

## Annex B

# Thames Water Customer Challenge Group (CCG) Terms of Reference

Approved at the meeting of the Customer Challenge Group on 17 June 2015 Revised October 2016

### 1 Purpose

The primary role of the group is to act as an independent body that will provide independent reporting to Ofwat and/or the public on both the performance against, and preparation of Thames Water's Business Plans. The group will challenge, comment and advise the company on its plans to inform and consult its customers on the development and delivery of Thames Water's Business Plans (2015-2020). It will do this by facilitating inclusive discussion in an open and transparent manner. It will also ensure that the customer preferences that are expressed are appropriately and fully reflected in the Business Plan.

### 2 Activities

1) Review, input and comment on the delivery of Thames Water's commitments to its customers:

- Monitor and challenge Thames Water's delivery of its performance commitments, balancing this alongside the role CCWater has in monitoring the company's performance commitments.
- Examine, in particular, those commitments which involve customer communications, research and engagement.
- Review the delivery of all performance commitments by challenging the internal Thames Water team and reviewing external assurance processes to ensure a proportionate and transparent approach.
- Understand and challenge the plans for recovery of any underperformance.
- Monitor and input into how Thames Water communicates with its customers on performance.
- Challenge Thames Water to produce clear and accurate communications with their customers regarding how the company is performing.
- Provide an independent report to Ofwat and/or the public on how the company has delivered against its performance commitments. This will be written by the Chair and Vice-Chair of the CCG with support from the independent secretariat and approved by members.

- 2) Review, challenge and comment on the development of Water 2020 in terms of reflecting whether the plan represents needs of both customers and the environment;
  - Monitor, challenge and input into Thames Water's ongoing research/engagement programme with customers.
  - Understand and challenge the use of customer engagement in preparing the Water 2020 business plan.
  - Challenge the company on how it acquires and interprets customers' views and decides how to reflect them in its long-term strategy and business plan.
  - Advise and challenge on the phasing of delivery or outcomes to maximise the affordability and acceptability of the overall business plan.
  - Challenge longer-term views around risk and resilience to ensure customer views are fully represented.
  - Challenge regulation, legislation and compliance with regard to the environment from a customer perspective.
  - Challenge the company to work with other water companies in areas of overlap for the wider interest of the customers e.g. explanation of the Thames Tideway Tunnel, the environment and water resources in the South East.
  - Provide an independent report to Ofwat and/or the public on the effectiveness of the company's engagement programme with its customers and stakeholders; whether the level of engagement undertaken is proportionate to the materiality of the company's business plan proposals and whether the company's strategy and business plan reflect the views of both customers and stakeholders. This will be written by the Chair and Vice-Chair of the CCG with support from the independent secretariat and approved by members.
- 3) Review and comment on the company's developing strategy for market opening as needed in the prevailing circumstances
  - Specifically reviewing the communication with customers
  - Reviewing the strategy to ensure fairness across all customers.

## 2 Membership

A Chair and Vice-Chair will be appointed to the group, which will have two types of membership:

- The core team will attend the main monthly meetings
- The Environmental panel will be invited to attend quarterly meetings to discuss environmental issues. Members of the Environmental panel are also welcome to attend any main meetings and will be sent all CCG correspondence.

The core team will represent both our domestic and retail customers, with members invited from the following organisations:

- CCWater
- Federation of Small Businesses
- Large Business Customer
- London Chamber of Commerce
- CLA
- Greater London Authority
- Local authority (Thames Valley)
- London Sustainability Exchange
- Independent
- Citizens Advice Bureau
- Mind
- Mencap
- Further Education representative

Note: Ethnic minority groups will be represented via specific sampling in the research (see Sampling Strategy)

The Environmental Panel will represent our environmental and quality regulators as well as wider environmental groups:

- Drinking Water Inspectorate (to be invited to attend when possible)
- Environment Agency
- Natural England
- Environmental NGO (Sustainability /biodiversity) or Environmental Independent

The Chair, independent members and charity organisations will be paid a day rate for attendance at meetings. All members will be reimbursed for reasonable expenses incurred in relation to their membership of the CCG.

## 3 Meetings

### Frequency

- Meetings of the CCG with the Thames Water team will be held at monthly intervals, unless otherwise agreed by the group.
- Private meetings of the CCG without the Thames Water team may be held as frequently as required and at the request of any CCG member to the Chair/Secretary.
- The frequency of meetings of any Subgroup will be as agreed by the Subgroup.

## Quorum

The Quorum necessary for the transaction of business at main CCG meetings is four CCG members.

## Sub - Groups

The CCG may establish ad hoc sub-groups in addition to the above-mentioned panel to consider specific topics where it thought by the membership to be beneficial to fulfilling the purpose of the group. Sub-groups will appoint a chair from amongst themselves.

The terms of reference of each sub-group will be agreed by the sub-group and ratified by the CCG. Sub-groups will provide feedback to CCG meeting, to demonstrate that they are effectively contributing to the purpose of the CCG.

## Administration

- Thames Water will provide independent secretariat services to the CCG
- The agenda and papers for each meeting will be emailed to members or uploaded to a website hosted by Thames Water, not less than five working days before each meeting
- Members of the group will be provided with access to the website
- Minutes of the meeting will be taken and a draft distributed no later than three weeks after each meeting
- Confidential items will be duly marked in the Minutes for member's information and redaction.

## Agendas

Whilst it will be for the Chair, in consultation with Thames Water, to determine agendas for the meetings, the following will normally be included:

- Minutes and matters arising from previous meetings 3
- Quarterly update on the delivery of performance commitments
- Update of ongoing customer research / engagement
- Feedback from sub-groups

## 4 Governance

### Chair and Vice-Chair

The Chair will be appointed through an open interview process and the Vice-chair will be appointed from the general membership of the group.

- The role of the Chair and Vice-Chair is to oversee the group in an objective manner, encourage full, frank and inclusive debate, identify areas of consensus, summarise differences and distil possible solutions emerging or needing to be investigated further.

- The roles should be sufficiently independent from the company to be able to ensure they can challenge effectively, to give proportionate assurance to both Ofwat and Thames Water customers.
- The Chair and Vice-Chair will have regular meetings with an independent non-executive member of the Thames Water Board to provide feedback and assurance.

#### Members

- All members will be required to sign a confidentiality agreement.
- Members will be required to formally approve the Group's Terms of Reference.
- Members will be required to formally endorse appointment of the Chair and Vice-Chair.
- If at any time a member/members have concerns around confidence in either the Chair or Vice Chair they may contact the secretary for escalation to an independent non-executive member of the Thames Water Board.
- A work programme and modus operandi (approach) will be agreed with members of the group. This will be discussed and adjusted with agreement from the group as requirements are further understood.
- Agendas, materials and minutes will be provided in a timely and accessible way by the group's secretariat.

#### 5 Outputs

The principal outputs of the CCG will be:  
 Minutes of all meetings  
 Annual report on the delivery of Thames Water's commitments to its customers  
 Independent report to Ofwat and/or the public to accompany Thames Water's Water 2020 Plan.  
 Reports/responses to other Consultations as needed.

#### 6 Review of the CCGs Terms of Reference

The Terms of Reference for the CCG shall be reviewed and agreed by the membership from time to time, including a formal review in light of guidance from CCWater and in June 2017, in light of any further information supplied by Ofwat for the purpose of Water 2020 preparation.

## Appendix 1

Ofwat's customer engagement policy statement and expectations for PR19 (25 May 2016) states that:

- 1). The CCG Report should discuss; 1.Outcomes, 2. Performance commitments, 3. ODIs, 4. affordability and 5.bill profiling
- 2). The CCG Report should address the following key questions:
  - a. Has company developed a genuine understanding of customers' priorities, needs and requirements?
  - b. Where appropriate, has company engaged with its customers on a genuine and realistic range of options (including co-creation and co-delivery)?
  - c. Has customer engagement been on-going?
  - d. Has company effectively engaged with and understood the needs and requirements of different customers?
  - e. Has company effectively engaged on longer term issues including resilience, affordability, future customers?
  - f. Has company effectively informed and engaged customers on its current performance?
  - g. Has evidence from customers (including day-to-day contact) genuinely driven the business plan?

## Annex C

# Detailed challenges

PCs and ODIs where there is an issue or where customer feedback does not seem to have been noted

The CCG thanks Thames Water for its responses to its concerns on PCs and ODIs, the CCG will study these with interest in the coming weeks and will welcome the chance to discuss them in more detail.

PC	Description	CCG comment	Thames Water response
AR04	Household customers on the Priority Services Register	The CCG is keen to understand what the customer experience will be; there is a concern that other utilities are supporting more customers, but the CCG recognises it is probably more important to execute well. Customers found it hard to say if this was a stretching target, but tended to agree.	The experience customers receive from inclusion on the PSR will be measured and reported as part of measure AR05 that gathers the Net Promoter Score of those on the PSR.  See above.
BW03	Interruptions to supply	<p>1) This was felt by customers to not be stretching.</p> <p>2) The CCG was also concerned that by focussing on lots of small outages Thames could get a reward which was not intended.</p> <p>3) However, the CCG was concerned that not all water companies measure this the same way.</p>	<p>1) Whilst acknowledging our research showed customers don't universally think the target is stretching, customers felt our current performance was relatively good compared to the industry.</p> <p>In addition, some customers were unsure whether it would be worth investing large amounts of money to reduce interruptions if it only resulted in small improvements.</p> <p>This is an area where it is not cost beneficial to go further in the current plan and we are working on ways to innovate to reduce costs further to allow us to deliver greater benefits for a better cost.</p> <p>2) The majority of interruption events are for low durations. So whilst our programme modelling and optimisation focuses on longer duration events, in order to improve our overall performance on</p>

PC	Description	CCG comment	Thames Water response
			<p>this measure for all customers we do need to reduce interruptions of all periods.</p> <p>Recognising this, the customer benefit which is used to calculate the penalties and outperformance payments is calibrated against the full distribution of interruption events and durations. This means our reward rate does align with customers preferences for avoiding interruptions of different durations.</p> <p>3) The measure is a common one, which includes interruptions greater than three hours.</p> <p>Although this is a common measure, it became clear from Ofwat’s horizontal audit that companies do measure the start time, stop time and number of properties impacted differently.</p> <p>We are confident that the methodology we employ to measure this is comprehensive and we will continue to work with the industry on best practice in this regard.</p>
BW05	Per Capita Consumption	The CCG felt that this measure was not going far enough in comparison with other companies and also that the number of new builds meant that it was not as challenging as it might appear. WRMP responses also suggested this was seen as important.	<p>Companies have different challenges with regard to this measure in terms population growth, volatility in growth, transient populations, climate change, regional weather variations, demographics and customer consumption patterns.</p> <p>Thames Water, with an average customer consumption of 129l/h/d against a national average of 141l/h/d (2017/18 performance Discoverwater website) has already successfully influenced customer’s consumption</p>

PC	Description	CCG comment	Thames Water response
			<p>habits and plans to continue influence this downwards.</p> <p>“New builds” We are planning for population growth and associated housebuilding to continue in the Southeast throughout the period of our plan. Whilst undeniably more water efficient than the existing housing stock, the number of new build properties planned for our region and the percentage of our customer base living in them is not significant enough to make our consumption targets less challenging.</p>
BW06	Compliance Risk Index	The narrative does not fully reflect the customer research.	<p>Supplying high quality drinking water to our customers is our most important service.</p> <p>Our target is for 100% compliance with all drinking water standards at all times.</p> <p>Customers are happy that this is an appropriate target for Thames Water to be aiming for</p>
BW07	Properties at risk of receiving low pressure	The CCG does not feel that this measure is a helpful one given it is a snapshot; customers also only wanted underperformance only but the measure has both.	<p>We agree that this measure is a snapshot. We are working to put in place a measure more reflective of the service our customers receive (based upon the average time a customer is on the register) during this AMP with a view of moving to it as a PC in next AMP</p> <p>However the current measure does reflect that all customers that have been on the low pressure register will have received a sustainable solution and therefore shouldn't experience low pressure again in the future.</p> <p>Customer views were mixed and not clear cut for this measure.</p>

PC	Description	CCG comment	Thames Water response
			<p>Whilst some customers feel that is this a legal obligation and Thames Water should therefore not be protected from the consequences of underperformance, customers did feel the target is ambitious, with some questioning whether Thames Water will be able to achieve this target - but are happy for us to try.</p> <p>Others feel that as this target is very stretching a small buffer zone is appropriate.</p>
BW08	Acceptability of water to customers	Customers wanted underperformance only but is both. This is a very important measure for customers; it is also potentially a localised issue.	<p>Supplying high quality drinking water to our customers is of critical importance to us and we are proud of our good performance on this measure when compared to the industry.</p> <p>We have included outperformance payments as a means to recover some of the money we will need to invest in order to reduce instances of customer contacts for water acceptability still further.</p> <p>We feel that this is fair, as we would only receive any outperformance payment should the investment in our programmes be proven as successful through demonstrable improvements in service.</p>
BW09	Water quality events	Customers only tended to agree that this was stretching; there is a risk that it does not fully reflect the numbers of customers impacted or the severity.	<p>Supplying high quality drinking water to our customers is of critical importance to us and we work hard to prevent any events at all.</p> <p>However should an event take place, this measure recognises the severity of that event using the DWI's five recognised categories.</p>

PC	Description	CCG comment	Thames Water response
			<p>The incentive rate for this measure reflects our historic performance and both the number and severity of individual events that actually occur.</p>
<p>BW11</p>	<p>Response and recovery</p>	<p>This is a new measure; customers were not sure they understood the point of it and had mixed views. Deciding if it was stretching was therefore difficult.</p>	<p>We strive to make sure our network supplies water to our customers 100% of the time. However despite our best endeavours, sometimes things go wrong. When this happens, how we protect our customers and recover their service is the most important thing.</p> <p>This measure reports on how we achieve that recovery of service for a serious category of failure – an interruption caused by a failure on a large diameter ‘trunk’ main.</p> <p>The final report on the Customer research on Performance Commitments and Outcome Delivery Incentives prepared by Britain Thinks concluded:          Customers generally felt the definition of Response and Recovery is clear and easy to understand. However, understanding of how the measure is actually calculated was low.</p> <p>There was no majority view amongst customers about whether this target is stretching.</p> <ul style="list-style-type: none"> <li>■ Some feel it is stretching as it represents an improvement on historic performance</li> <li>■ Those who were unsure felt that the information available to them was insufficient to make a judgement</li> <li>■ Some feel that the target does not represent significant improvement and therefore consider it not stretching</li> </ul>

PC	Description	CCG comment	Thames Water response
BW12	Named resilience schemes	<p>The final measure was not related to the showcard and did not match the Balance research.</p> <p>There were mixed views from customers as to whether the measure was stretching.</p>	<p>We do acknowledge that the detailed final definition of this measure was not finalised at the time of balance research. However the scope of the measure was the same and therefore we feel able to draw conclusions from it.</p> <p>We have renamed this measure to better reflect its contents.</p> <p>Whilst customers had mixed views we believe the programme timescale and milestones ensure that it is stretching, whilst delivering the optimum benefit for customers in the long term. We will consult customers on any specific resilience schemes which we propose to introduce above the plan.</p>
CS02	Asset health – sewer collapses	<p>Customers tended to disagree that this was a stretching target and it was essentially a flat target.</p> <p>Customers had wanted a dead band but this is not in the PC.</p>	<p>Our customer research recorded that some customers were impressed by Thames Water’s performance on this measure, saying that it was doing as well as it could. They were happy with the target and wanted Thames Water to put resources into others areas where it is not performing as well.</p> <p>These customers were happy that Thames Water wanted to stay in the top 25% of companies.</p> <p>However, others believe that Thames Water should be trying to improve in this area rather than maintain current levels of performance, as they saw it.</p> <p>We have 109,000 km of sewers, of which 40,000km have been recently adopted. With the limited asset condition data available to us on these recent adoptions, we feel maintaining our pre-</p>

PC	Description	CCG comment	Thames Water response
			adoption performance levels for our expanded network will be a stretching target.
CS03	Internal sewer flooding	Given the importance of this measure to customers, the CCG does not feel this is an aspirational target – this could be remedied by using the AMP6 target not forecast outturn.	<p>It is the worst possible failure of our sewerage system that causes sewage to enter a customer's home.</p> <p>We have listened to CCG feedback on this measure and have made the suggested adjustment. The target of 1052 by the end of the AMP uses the AMP6 target.</p>
CS04	Clearance of blockages	The CCG would observe that this still puts TW in the bottom quartile. Customers wanted dead bands but there isn't one. Finally there may be the potential to clear more.	<p>Blockages in our sewerage network can cause sewage to leave our system and have either an impact on the environment or, in the worst case, enter a customer's garden or property.</p> <p>Therefore our planning targets blockages in locations which can have such service impacts for customers, whilst we evaluate innovative techniques to reduce blockages.</p> <p>Without innovation it is not cost beneficial to go beyond this current target.</p>
CS05	Sewage pumping station availability	Difficult for customers to judge as no historic or other comparators. Customers wanted underperformance only. Risk of "double recovery" when looked at with eg sewer flooding.	<p>This is a new measure we have proposed, as a measure of the health of our sewerage network. As a new measure there is not much comparative data we can show our customers.</p> <p>There are interrelationships between a number of our measures, as they reflect the performance of our system as a whole. However we have been very careful to scale service benefits between such measures, which eliminates the potential for "double recovery".</p>

PC	Description	CCG comment	Thames Water response
DS02	Surface water management	Hard for customers as no historic or other comparators, but considered a good idea. Customers wanted underperformance only. Hard to tell if stretching.	<p>It is the worst possible failure of our sewerage system that causes sewage to enter a customer's home. This measure recognises that keeping storm water out of our sewer network in the first place will make the likelihood of it failing lower.</p> <p>Customers believed this was a good idea and most felt that as the target represented a large increase in percentage terms it represents a stretching target.</p> <p>We have retained outperformance payments to maintain a consistent approach with other measures where customers have supported us to do more.</p>
DW01	Risk of severe restrictions in a drought	Hard to tell what customers thought although possibly tended to agree – showcard not clear.	<p>When discussing this measure with customers we found it necessary to refine our approach to some of the terminology and in particular in how we explained the 1:200 year return period.</p> <p>We believe we were successful with our adjustments as the final report on the Customer research on Performance Commitments and Outcome Delivery Incentives Prepared by Britain Thinks concluded:</p> <p>“Most customers felt the target for Security of Supply in a Drought is stretching. These customers felt that improving from 1-in-125 years to 1-in-200 years is a significant increase and to get there by 2031 will be stretching. And that Thames Water will be matching the best in industry in order to do so.”</p>

PC	Description	CCG comment	Thames Water response
DW02	Security of Supply Index	Metric not clear (100 or 100% - customers may have understood 100%). Not clear that this was stretching, links with leakage target not clear.	<p>When initially discussing this measure with customers we found it necessary to refine our terminology and description.</p> <p>We believe we were successful with our adjustments as the final report on the Customer research on Performance Commitments and Outcome Delivery Incentives</p> <p>Prepared by Britain Thinks concluded:                      "The definition and measure clearly understood" and customers "Tend to agree that as it is 100 this target could not be higher."</p> <p>In order to reach 100 we must deliver, in combination, our stretching leakage targets and our ambitious demand management performance targets, as well as investing in our treatment works to offset any erosion of treatment capacity due to environmental and climatic changes.</p> <p>Therefore our target of reaching 100 by the first year of AMP7 and maintaining that position throughout the period is a stretching one.</p>
DWS01	Power resilience	At the end of the period not all sites will be protected; not clear whether customers felt ALL sites should be protected and therefore whether this is a stretching target. Risk of double recovery with other measures.	<p>In response to feedback from initial rounds of customer engagement this measure has been renamed to better describe its purpose and is now called "Ensuring Sites are Resilient to Electricity Supply Problems"</p> <p>Research confirmed "customers understood this as meaning that all key sites would be upgraded. They therefore feel this could not be any higher and this target is therefore stretching."</p>

PC	Description	CCG comment	Thames Water response
			There are interrelationships between a number of our measures as they reflect the performance of the system as a whole. However we have been very careful to scale service benefits between such measures, which eliminates the potential for "double recovery".
DWS02	Securing our sites	Customers wanted reputational only	We have chosen to retain this incentive as financial. This decision ensures that security funding is ring fenced and customers are compensated for the benefits lost if schemes are not delivered.
ER03	The CCG has yet to see information on the detailed operation of the social tariff scheme	The CCG has yet to see information on the detailed operation of the social tariff scheme.	<p>This measure captures the number of low income customers benefitting from our new tiered social tariff.</p> <p>The final report on the Customer research on Performance Commitments and Outcome Delivery Incentives prepared by Britain Thinks concluded: that the "Definition and measure were clearly understood"</p>
ES01	Wastewater pollution incidents	See above	<p>This measure captures the number of pollution incidents that result from our assets.</p> <p>The final report on the Customer research on Performance Commitments and Outcome Delivery Incentives Prepared by Britain Thinks concluded: that the "Definition and measure were clearly understood"</p>
ES02	Environmental measures delivered (wastewater)	Customer wanted underperformance only, but both included. Mixed views on caps and collars. Not reflective of customers.	<p>Our business has a direct link to the environment, which we rely on for our raw water and which receives our treated water.</p> <p>We take our responsibility for the environment very seriously and recognise our role in</p>

PC	Description	CCG comment	Thames Water response
			<p>maintaining it whilst taking opportunities to enhance it where possible.</p> <p>This measure acts primarily as a mechanism to manage the uncertainty resulting from the timing of the Water Industry National Environment programme (WINEP).</p> <p>We have worked hard to try to understand our environmental obligations in advance of our plan and ensure there is sufficient money available in the plan to deliver them. However, should the programme be smaller than we have anticipated, this measure ensures we return money to our customers.</p> <p>Should the programme prove larger this measure provides a mechanism to recover some of our investment costs after they have proved their effectiveness.</p>
ES03	Sludge treated before disposal	Hard to judge if this is stretching.	<p>The target for this measure has been set to incentivise us to consistently improve upon the best level of performance that we have historically ever achieved across the AMP period. We feel this will be stretching for us.</p> <p>The final report on the Customer research on Performance Commitments and Outcome Delivery Incentives prepared by Britain Thinks concluded: "Customers feel that as the target is 99% there is little more that Thames Water could be aiming to do." whilst acknowledging "a small number of others feel that this only represents a small improvement each year and may not be fully stretching as a consequence"</p>

PC	Description	CCG comment	Thames Water response
ES04	Delivery of environmental permitting regulations programme for bioresources	Appeared that could be rewarded for what doing anyway. Customers had wanted underperformance only but both included. Mixed customer views as to whether is stretching.	<p>When initially discussing this measure with customers we found it necessary to refine our terminology and description.</p> <p>For clarity, the programme behind this measure would be reviewed in advance by the regulator and there would only be an outperformance payment for going beyond that programme.</p> <p>This would be going beyond the minimum regulatory requirements.</p>
ET03, ET02, ET04, E01	TTT measures – various	Customers were lukewarm and ambivalent as to whether these were stretching or even appropriate measures rather than BAU	<p>When initially discussing this basket of measures with customers we found it necessary to refine our terminology and description.</p> <p>The final report on the Customer research on Performance Commitments and Outcome Delivery Incentives prepared by Britain Thinks concluded:  “Most [customers] are content for this measure to be included, however a minority strongly feel it should not be”</p> <p>Those who felt strongly the measures should not be included mostly made the point they expected the outcomes to have been planned for by Thames as part of the Thames Tideway Tunnel project and not subject to incentive.</p> <p>We feel the measures signal our strong commitment to the project and close working relationship with our partners to ensure the success of this this nationally important infrastructure project.</p>

PC	Description	CCG comment	Thames Water response
EWS01	Enhancing biodiversity	Customers (and CCG) unsure if this is stretching. Units not clear. Not sure of rewards or penalties.	<p>We take our responsibility to the environment very seriously and recognise our role in maintaining it, whilst taking opportunities to enhance it wherever possible.</p> <p>This measure recognises our intention to improve the biodiversity found on our sites.</p> <p>As a new measure we have spent time to establishing a baseline and As a result we were unable to present historic data or case studies to customers (or the CCG) at the time of the research.</p> <p>However customers told us they believe there is a wider societal benefit to improving biodiversity and would like us to be incentivised to do as much as we can.</p>
EWS02	Smarter Water Catchments	Welcomed by CCG. Customers not sure what catchments were, and not sure if stretching or not.	<p>When initially discussing this measure with customers we found it necessary to refine our terminology and description for them to understand our proposals for this measure.</p> <p>This is a new measure for us. We are proposing delivering three catchment projects in order to provide sufficient evidence to decide whether to roll the approach out across the entire region.</p> <p>Most customers feel the target is appropriate. However, some queried whether the sizes of these catchments was important in determining whether this target was actually stretching.</p> <p>We have chosen three catchments representative of different land use and scale in order to make sure</p>

PC	Description	CCG comment	Thames Water response
EWS03	Renewable energy produced	Hard for customers as no historic or other comparator. Some were unsure if stretching. CCG concerned may be double counting with other measures.	<p>we get the data we need. As a new delivery approach to us we consider this to be a stretching target.</p> <p>Our research revealed that customers want a strong incentive for us to outperform our target for producing renewable energy, given the broader societal value of renewable energy production.</p> <p>With some further explanation, the target was generally seen as stretching. However, as a new measure we were unable to provide comprehensive comparative information, which meant some customers were unsure.</p> <p>We believe our target to produce an extra 24 Gigawatt hours of electricity from our sites represents a significant and stretching target.</p> <p>There are interrelationships, with benefits to the business, between a number of our measures as they reflect the performance of the system as a whole. However we have been very careful to scale service benefits between such measures, which eliminates the potential for “double recovery”.</p>
EWS04	Natural Capital Accounting	CCG pleased to see measure. But not clear how ambitious this measure is.	<p>When initially discussing this measure with customers we found it necessary to refine our terminology and description.</p> <p>We intend to use a UK Government supported methodology in order to provide us a framework to allow us to start to assess the impact of our decisions in terms of positive or negative impacts on natural resources.</p>

PC	Description	CCG comment	Thames Water response
			<p>As a completely new methodology and new input to our decision making processes we feel this measure is stretching for us.</p>
EWS05	Financial transparency	CCG feels needs qualitative measure eg Plain English Crystal Mark. Also possibly link with EWS07	<p>Conclusions from our research confirmed that Customers understood the measure as proposed, but had mixed views as to whether it should be included as a formal performance measure.</p> <p>We have already committed to publish an annual explanation of “our finances explained” and “our financial resilience” for customers. To ensure these are easy for customers to understand, we will:</p> <ul style="list-style-type: none"> <li>■ test these documents in draft with a representative group of customers, and act on their feedback to improve the documents clarity and accessibility</li> <li>■ seek feedback on the revised drafts of these documents (following the customer feedback) with the CCG prior to publishing</li> <li>■ follow this approach each year when publishing these documents</li> </ul> <p>We feel very strongly that this measure is an important step in our delivering upon our ambition to drive a new culture of openness that will improve trust.</p>
EWS07	Financial resilience	As EWS05	
EWS08	Empty business properties	CCG suggests linking with house hold measure	<p>We have respectfully noted the CCG’s suggestion to link this measure to the household measure and understand their reason behind the suggestion.</p> <p>However regulatory guidance is requiring us to maintain the two measures, differentiating between the household and retail markets.</p>

PC	Description	CCG comment	Thames Water response
AWS02	Customer engagement	The CCG believes this measure should have some element of behavioural change in it. Customers did not see it as stretching.	<p>This measure is reinforcing our commitment to how we will seek to influence behavioural change in our customers - such as reducing consumption or managing private leaks. That being through proactive customer engagement rather than passive means.</p> <p>The benefits from the behavioural change elicited by this approach will be realised in other performance measures such as leakage and per capita consumption.</p> <p>Our research concluded that customers find it hard to gauge whether the target is stretching.</p> <p>However, the target represents a significant increase in this type of activity for the business and as such we consider it stretching.</p>
AWS03	Business retailers	CCG not sure if this is a stretching target reflecting findings in WCW but welcomes better understanding of retailers and NHH customers.	<p>This has been included to reflect our commitment to improving service for business retailers and is in response to their feedback.</p> <p>The approach to this new industry measure will mature over time.</p>
BW01	Asset health	Customers wanted reduced bursts but found this hard to understand especially linkages and interdependencies. Customers had mixed views on whether this was stretching.	<p>When initially discussing this measure with customers we found it necessary to refine our terminology and description. Specifically, the links between proactive and reactive repairs, and the relationship with leakage, were not immediately clear to customers.</p> <p>The report detailing the findings of our customer research concluded the "Definition and measure relatively clearly understood"</p>

PC	Description	CCG comment	Thames Water response
			<p>In addition it concluded that some customers thought it was stretching when reading about the proactive programme of work that Thames Water is implementing. However, other participants thought that Thames Water should not be satisfied with its position at the bottom of the ladder, and should be aiming to do better.</p> <p>We are not satisfied with our industry position, but with the scale of the proactive repair programme planned for our leakage reduction plan, maintaining the current performance level of total bursts throughout the AMP period represents a significant reduction in reactive repairs - which will be challenging to deliver.</p>
BW02	Unplanned outages	Customers unsure if this is stretching given there are no comparators.	<p>The water industry is working to develop a common methodology and approach to this new common measure.</p> <p>Whilst we were therefore unable to engage customers with comparable or historic data for that reason, we believe the ambition we have set reflects a stretching target to meet and maintain.</p>

## Annex D

# CESG and BFPSG Terms of Reference

### *Terms of Reference for the Customer Engagement Sub Group of the Thames Water Customer Challenge Group.*

#### Section A - Role

**A1:** The Customer Engagement Sub Group shall receive reports/presentations from Thames Water and others where appropriate in relation to such customer engagement matters the Sub Group consider pertinent to the overall remit of the main Customer Challenge Group and in regard to Ofwat's guidance on customer involvement in the regulatory process.

**A2:** The Customer Engagement Sub Group will:

- review the company's engagement process and the evidence emerging from it to ensure customer's views are considered as the company develops its business plan
- examine the effectiveness of the company's strategy and process for engagement and the acceptability to customers or otherwise of its overall business plan and bill impacts
- examine how well evidenced the company's understanding of customers' views is and how effectively the company has balanced and reflected those views in its plan
- examine the company's proposed outcomes to determine whether the company will deliver for customers

**A3:** The Customer Engagement Sub Group shall report and where appropriate recommend in writing, by way of Minutes to the Main Customer Challenge Group at its monthly meetings, giving a concise overview of the areas covered along with challenges and findings..

**A4:** The findings of the Customer Engagement Sub Group, once approved by the main Group, will ultimately help to inform the Chair's report to Ofwat on the company's engagement process, and the company's strategy and business plan with particular reference to:

- the level and effectiveness, or any concerns with, the company's engagement with its customers.
- whether the company has explored the range of cost-effective solutions and phased delivery of its various outcomes to maximise the acceptability to customers.
- whether, in so far as it is able, the company has adequately responded to the results of customer engagement in selecting its solutions to meet statutory requirements.

- whether the company's business plan appears likely to be acceptable to a majority of customers, highlighting any areas of concern.

**A5:** The Customer Engagement Sub Group may seek information about how Thames Water engages with other stakeholders who are not members of the Group through bilateral discussions as appropriate, with the outputs fed into the main Group.

#### Section B - Membership

**B1:** The Customer Engagement Sub Group shall consist of the following members (or their one alternate nominated representative) from the Main Group:

**Anne Heal (Chair)** - Independent  
**Helen Charlton** - Independent  
**Steve Bloomfield** - Independent  
**Gill Tishler** - Independent  
**Suki Westmore** - Mind  
**Kay Lacey** - Chair Pang Valley Flood Forum  
**Anthony Redmond (Vice Chair)** - to be invited but may not attend

**B2:** In addition to the members listed in B1, Thames Water attendees (who will not formally be members of the Group) will include the secretariat and Head of Stakeholder Engagement.

**B3** Where agreed by both the Chair and Thames Water, additional organisations and/or individuals may be invited to become members of the Group.

#### Section C - Governance

**C1:** The Customer Engagement Sub Group shall plan to meet when needed and in advance of the main CCG meetings.

**C2:** The quorum at each meeting will be 3 Customer Engagement Sub Group members.

**C3:** Thames Water will provide secretariat and administrative support and costs.

**C4:** Minutes of all meetings will be written and made available to members following approval of drafts by the Chair.

**C5:** The Customer Engagement Sub Group will at all times recognise and foster close working relationships with any other sub groups and the main Customer Challenge Group.

### **Terms of Reference for the Business Plan and Finance Sub Group of the Thames Water Customer Challenge Group.**

#### **Section A - Role**

**A1** The Business Plan and Finance Sub Group shall receive reports/presentations from Thames Water and others in relation to such financial matters the Sub Group consider pertinent to the overall remit of the main Customer Challenge Group and in regard to Ofwat's guidance on finance/business planning.

**A2** The Finance Sub Group will:

- construct a timeline in accordance with Thames Water's planning process regarding production of a strategy, business plan and budget
- have a line of sight to be able to provide assurance on the principles and assumptions contained in Thames Water's strategy, business plans and budgets
- report on the Cost of Capital, RCV and any implications for customer bills.
- consider and comment on the elements of the Capital Investment Programme and any material Totex and Retail activities.
- examine the content of the budget, the calculations and the forecasting methodology (to be undertaken by the Chair and reported back to the sub group)
- interrogate the basis and assumptions relating to Thames Water's tariff pricing policy, including social tariffs
- examine the impact on customer charges of the Thames Tideway Tunnel project
- seek further information from Thames Water as appropriate
- examine any risks to the customer of the TW management approach to risk, including understanding the detail of the ODIs
- examine policy and enforcement procedures around bad debt including how it is written off.

Examine the ratios/balance between customers and shareholders, and the transparency of delivery on customer commitments

**A3** The Business Plan and Finance Sub Group shall recommend in writing, by way of Minutes to the Main Customer Challenge Group at its monthly meetings, giving a concise overview of the areas covered along with challenge and findings.

**A4** The findings of the Finance sub Group, once approved by the main Group, will help to inform the Chair's report to Ofwat on the company's engagement process and the company's strategy and business plan with particular reference to:

- whether the company has explored the range of cost-effective solutions and phased delivery of its various outcomes to maximise the acceptability to customers; and
- whether the company's overall final business plan appears likely to be acceptable to a majority of customers surveyed, highlighting any areas of concern.

**A5** The Finance Sub Group may seek information about how Thames Water engages with other stakeholders who are not members of the Group through bilateral discussions as appropriate, with the outputs fed into the main Group.

#### **Section B - Membership**

**B1** The Finance Sub Group shall consist of the following members (or their one alternate nominated representative) from the Main Group:

**Tony Redmond (Chair)** - Independent member  
**Anne Heal** - Independent member  
**Harry Hodgson** - Federation of Small Businesses  
**Jeremy Gould** - Greenwich Leisure Ltd

**B2** In addition to the members listed in B1, Thames Water attendees (who will not formally be members of the Group) will include the secretariat.

**B3** Where agreed by both the Chair and Thames Water, additional organisations and/or individuals may be invited to become members of the Group.

#### **Section C - Governance**

**C1** The Business Plan and Finance Sub Group shall initially meet monthly, ideally - at least 10 working days in advance of the main CCG meetings.

**C2** The quorum at each meeting will be 3 Business Plan and Finance Sub Group members.

**C3** Thames Water will provide secretariat and administrative support and costs.

**C4** Minutes of all meetings will be written and made available to members following approval of draft by Chair.

**C5** The Business Plan and Finance Sub Group will at all time recognise and foster close working relationships with any other sub groups and the main Customer Challenge Group.

## Annex E

# Thames Water Business Plan 2020-25 – Environment Agency concerns

The **Environment Agency (EA)** is a non-departmental public body, established in 1995 and sponsored by the United Kingdom government's Department for Environment, Food and Rural Affairs (DEFRA), with responsibilities relating to the protection and enhancement of the environment in England.

The EA is carrying out a separate process to ensure that water companies plan to meet the statutory environmental obligations in their Business Plans 2020-25. Following this exercise the EA will be reporting its findings to Defra and Ofwat. Thames Water's interpretation of their customer research on the environment includes the following 'customers have told us rivers are critical assets that we abstract water from to treat and supply to customers. They must be protected to ensure that we can continue to deliver safe and dependable water and wastewater services. Rivers and the groundwaters that support them are the lifeblood of many communities and national assets that must be looked after for current and future generations'.

In recent months senior representatives of the company have set out some very laudable environmental objectives, including:

- Ceasing abstraction from chalk streams
- Halving leakage by 2050
- Zero pollution incidents

The Environment Agency wants to see a Business Plan that reflects the importance attached to the environment by its customers and stakeholders, and one that is clearly setting the direction for the longer term environmental objectives.

Thames Water's Business Plan has much to commend it from an environmental standpoint, reflected in the number and range of its bespoke performance commitments geared to achieving environmental outcomes, for example:

- The Smarter Catchments Initiative
- Sludge treated before disposal
- Delivery of Environmental Permitting Regulations Programme for Bioresources
- Clearance of sewer blockages
- Enhancing biodiversity
- Sustainable drainage (disconnection of hectares from the sewer network)
- Renewable energy produced
- Sewer blockages
- Natural Capital Accounting

At this juncture, in line with the CCG aide-memoire the EA has been asked to highlight any potential concerns that it has with Thames Water's Business Plan.

### Environment Agency Areas of Concern

#### 1. Pollution Incidents

The EA and NE's WISER document sets out a statutory obligation of reducing category 1-3 pollution incidents by 40% from the number experienced in 2016, by the end of AMP7. In 2016 Thames Water were responsible for 366 pollution incidents, normalised as 33 per 10,000km of sewer. A 40% reduction from 2016 would be less than 20 per 10,000km of sewer. Instead the company is proposing a reduction of 30% to 23 per 10,000km of sewer, on the grounds of customer Willingness to Pay (WTP). For the meeting of statutory obligations customer WTP is not relevant. Pollution incidents are illegal activities. Customers consider reducing pollution important and want to see a reduction in pollution incidents during the AMP period (2019/20-2024/25). Thames Water propose to deliver this reduction from 28 pollution incidents/10,000km to 23/10,000km over that five year period. But 28 pollution incidents/10,000km represents current (2017) performance so the company is not proposing to reduce pollution incidents over the next 2 years. The Environment Agency cannot support part of a company's Business Plan that is non-compliant with meeting its statutory environmental obligations.

#### 2. Abstraction Incentive Mechanism (AIM)

Ofwat guidance states: It is for companies to propose their AIM incentives following engagement with their local stakeholders, and assurance from the CCG. Companies should identify suitable sites in liaison with the Environment Agency and provide evidence of their engagement. Thames Water's AIM proposals in this Business Plan are a continuation of the PR14 proposals. The company has not pro-actively engaged with the Environment Agency in a review of the existing schemes or proposals for additional AIM schemes. That said the EA supports the continuation of the existing schemes and recognises that some informal conversations have taken place. The opportunities for further schemes may be limited but none have been formally explored with the EA in a more formal and structured collaborative approach.

#### 3. Leakage and Security of Supply

We are pleased that the company is proposing a 15%

reduction in leakage over AMP7, even though the company's customers would like to see a greater reduction. The starting point for this reduction is 606 Ml/day (calculated by the pre-Water UK reporting methodology – i.e. in 2020 it will be adjusted in line with this methodology in 2019/20). Our concern is the company's ability to achieve this level of leakage reduction. During AMP6 the company has missed its leakage targets for 2016/17 and 2017/18. The missed target in 2016/17 resulted in the company drawing up a leakage recovery plan. In August 2018 the company has reported that for the end of year 2018/19 it has 're-forecast' its leakage to be 694 Ml/day, 22 Ml/day above the recovery plan target (18/19) of 672 Ml/day. A failure to achieve leakage targets will compromise the company's security of supply.

#### 4. Amber P schemes not included in Business Plan

Thames Water has gone against our advice by not including phosphorus schemes with an amber uncertainty rating in its Water Industry National Environment Programme (WINEP). The company has only included schemes that it considers cost-beneficial at an individual site level. The driver for these P schemes is the WFD, to achieve good ecological status (GES). Achieving GES will only be

possible by considering the cost-benefit of multiple schemes across catchments. The company has developed an ODI to generate the funding for these schemes if the River Basin Management Plan (RBMP3) is signed off in 2021 and the schemes become statutory environmental obligations. Such an approach is subject to approval of a revenue generating ODI and associated bill impact by Ofwat. We expect the company to deliver its statutory obligations whether there is an ODI in place or not.

#### 5. Re-consultation on WRMP

The company is submitting its final Business Plan in advance of a final Water Resources Management Plan (WRMP) as the WRMP is undergoing a re-consultation exercise. This introduces an element of risk should the re-consultation result in a changed plan with a cost exceeding the estimate the company made in its Business Plan. We accept that this risk is low because the first five years of the WRMP are dominated by demand management options and are unlikely to change as a result of the re-consultation.

David Howarth

River Basin Account Manager (SE)

## Annex F

# Comments from Natural England

## Thames Water's Business Plan 2020-2025

**Water Industry Act 1991 as amended by the Water Act 2003; Wildlife and Countryside Act 1981 (as amended); Conservation of Habitats and Species Regulations 2017; National Parks and Access to the Countryside Act 1949 (as amended); Countryside and Rights of Way Act 2000; Natural Environment and Rural Communities Act 2006; Marine and Coastal Access Act 2009.**

Natural England is a non-departmental public body. Our statutory purpose is to ensure that the natural environment is conserved, enhanced, and managed for the benefit of present and future generations, thereby contributing to sustainable development. More information on our role in advice to the water sector can be found attached. We have highlighted areas of concern and areas that we feel are worthy of note in line with OfWat CCG Aide Memoire document.

Customer engagement has highlighted the high value that customers put on river quality. Customers have said that they expect Thames Water to protect and enhance the environment, addressing river quality issues, avoiding pollution and planning for the future. Their public statement of seeking to cease chalk stream abstractions is indicative of a positive intent in this regard.

We are therefore disappointed and concerned that the company's target for pollution incidents shows a 30% reduction figure when a 40% target was highlighted within the WISER guidance. This in our opinion conflicts with customer feedback and any ambition to produce a stretching target.

Thames Water have made progress in acting upon the advice issued within the WISER publication earlier this year as demonstrated through their business plan proposals. Natural England have confidence around Thames Water delivering their statutory obligations in regard to SSSIs and welcome delivery of WINEP actions in relation to SSSIs. We also note additional commitments to a net gain in biodiversity units across their sites which should help to deliver their biodiversity duty. We would encourage a net gain approach across all their activities in the future.

Thames are delivering a Smarter Catchments programme in both urban and rural settings. To make their plan truly stretching in this regard, we encourage them in continuing to build their catchment based approaches to further deliver

against their biodiversity and protected landscape duties in the wider landscape. Such approaches can improve water quality by reducing diffuse pollution, and can improve the resilience of surface and groundwater sources by storing and retaining water and improving groundwater infiltration rates, and can help ecosystems become more resilient to climate change. We believe this work should receive more focus and investment to drive it forward more quickly than currently planned.

We note the company is also committing to a natural capital accounting approach. The expectation is that this work will allow the organisation to grow their investment in natural capital through full recognition of it in future decision making. This area is however not linked to incentives and is instead a reputational Performance Commitment. We feel there is a risk that as a result this commitment may not be perceived as a priority when in fact it is a fundamental and underpinning area of work that is in our opinion key to future delivery of WISER guidance.

Natural England notes Thames Water WISER delivery to date does contribute towards the company demonstrating improved environmental leadership albeit with the areas of concern and areas for potential improvement noted above. Their work in this regard continues to be supported by customer feedback which highlights the environment as an area where company investment to secure positive environmental outcomes is seen as important.

### Supporting Information

#### Role of Natural England in Advice to the Water Sector

Natural England was established under the Natural Environment and Rural Communities Act 2006 (NERC Act). It is a non-departmental public body. Our statutory purpose is to ensure that the natural environment is conserved, enhanced, and managed for the benefit of present and future generations, thereby contributing to sustainable development.

Natural England has responsibility for ensuring that landowners and public bodies deliver objectives for European protected sites (Natura 2000 sites), Ramsar Sites (internationally important wetland sites) and the requirements for achieving and managing favourable or recovering condition for Sites of Special Scientific Interest (SSSIs). Of particular note to water

companies are the objectives introduced through the Water Framework Directive for Natura 2000 protected areas, to achieve compliance with the standards and objectives (conservation objectives) of the water dependent features of those sites by December 2015 (Article 4.2 WFD).

Natural England is also charged with helping to deliver both the Government's Biodiversity 2020 strategy and 25 year Environment Plan. The former sets out a bold ambition to "halt overall biodiversity loss, support healthy well-functioning ecosystems and establish coherent ecological networks, with more and better places for nature for the benefit of wildlife and people. The latter seeks a wide range of long term approaches to deliver environmental improvements. Of particular relevance is the ambition to deliver net environmental gain in England and to seek to build natural capital into decision making across the public and private sector.

Natural England continues to aim to work with the water sector to ensure that requirements for the protection and enhancement of the natural environment are met and that there is adequate opportunity for the development of more sustainable solutions. Protection and enhancement of the natural environment including biodiversity depend critically on delivering improved, integrated and sustainable land and water management.

#### **Key water company duties with regards landscape and biodiversity**

The following is a summary of some of water company key duties with regards to landscape and biodiversity. This is not comprehensive and is to illustrate the key areas on which Natural England has engaged with the water company.

#### **1. European Sites and Species**

Regulation 9 of the Conservation of Habitats and Species Regulations 2017 requires every competent authority, in the exercise of any of its functions, to have regard to the requirements of the Habitats Directive. Regulation 10 places a duty on a competent authority in exercising any function, to use all reasonable endeavours to avoid any pollution or deterioration of habitats of wild birds. In addition, regulation 61 places obligations on competent authorities in respect of plans or projects likely to have a significant effect on a protected site.

Water Companies have a statutory duty to prepare WRMPs and so they are the Competent Authority for Habitats Regulations Assessment (HRA) of the WRMP. A HRA should assess the potential for a plan or project to have an adverse effect on the integrity of Special

Areas of Conservation (SACs) or Special Protection Areas (SPAs). In England, as a matter of policy, sites listed or proposed under the "Ramsar Convention on Wetlands of International Importance" receive the same level of protection as SACs and SPAs. The business plan, as a financial plan is exempt from an HRA. However the options and actions within the plan must be compliant with the general duty to have regard to the purposes of the Directive.

#### **2. Sites of Special Scientific Interest (SSSIs)**

Section 28G of the Wildlife and Countryside Act 1981, as inserted by section 75 of and Schedule 9 to the Countryside and Rights of Way Act 2000, places a duty on public authorities, including water companies, to take reasonable steps consistent with the proper exercise of their functions to further the conservation and enhancement of SSSIs. These duties are mirrored in the general recreational and environmental duties placed on relevant undertakers in the Water Industry Act (1991) as amended.

The Water Industry Strategic Environmental Requirements (WISER, page 29) sets out the expectations for delivery of these obligations. Companies are expected "to contribute to maintaining or achieving SSSI favourable condition both on [companies'] own land and in the catchments [companies] manage or impact on". The rate of improvement going forwards is set out in the Defra 25 Year Environment Plan which aims to restore "75% of our one million hectares of terrestrial and freshwater protected sites to favourable condition, securing their wildlife value for the long term".

#### **3. Protected Landscapes**

Relevant Authorities (including water companies as a Statutory Undertaker) are to have regard to the purposes of National Parks (Section 11A (2) of the 1949 Act) and the similar duties towards Areas of Outstanding Natural Beauty (AONBs) (Section 85 of the Countryside and Rights of Way Act 2000) and the Broads (Section 17A of the Norfolk and Suffolk Broads Act 1988). Duties to further the natural beauty and rural amenity are also included within the general recreational and environmental duties placed on relevant undertakers in the Water Industry Act (1991) (as amended). Protected landscapes are central to the delivery of aspirations in the Defra 25 Year Environment Plan to enhance the beauty, heritage and engagement with the natural environment.

#### **Marine Conservation Zones**

Section 125 of the Marine and Coastal Access Act (MCAA) (2009) applies a general duty to public authorities to exercise their functions in a way that best furthers the conservation objectives of a

Marine Conservation Zone (MCZ) or, where that is not possible, least hinders them. There is also an obligation to notify Natural England where a public authority's function might significantly hinder the MCZ's conservation objectives or significantly affect an MCZ. The relevant public authorities must take account of this duty in the assessment of the water company statutory plans.

The Defra 25 Year Environment Plan states "We will achieve a growing and resilient network of land, water and sea that is richer in plants and wildlife this includes[...]"

- All Reversing the loss of marine biodiversity and, where practicable, restoring it, [...]
- All Increasing the proportion of protected and well-managed seas, and better managing existing protected sites."

#### 4. Biodiversity

Under Section 40 of the Natural Environment and Rural Communities Act 2006 every public authority, including water companies, must in the exercise of its functions have regard so far as is consistent with the proper exercise of those functions to the purpose of conserving biodiversity. Conserving biodiversity in this context includes restoring or enhancing a population or habitat.

WISER (page 30) states water companies are expected "to develop measures during the price review to contribute to biodiversity priorities and obligations on [companies'] own land or in the catchments [companies] influence and operate in". The Defra 25 Year Environment Plan states "We will achieve a growing and resilient network of land, water and sea that is richer in plants and wildlife this includes:

- [...] Creating or restoring 500,000 hectares of wildlife-rich habitat outside the protected site network, focusing on priority habitats as part of a wider set of land management changes providing extensive benefits and
- [...] Taking action to recover threatened, iconic or economically important species of animals, plants and fungi, and where possible to prevent human-induced extinction or loss of known threatened species in England and the Overseas Territories.

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1. Water Industry Strategic Environmental Requirements (WISER) was published in 2018 which replaced the Defra statement of obligations. It sets out the statutory environmental delivery objectives for water companies in the price review and through their statutory plans including the drought plans.

## Annex G

# Drinking Water Inspectorate statement for Thames Water Utilities Ltd Customer Challenge Group report to Ofwat

### Introduction

The Drinking Water Inspectorate (DWI) is the independent regulator of drinking water quality in England and Wales. We protect public health and maintain confidence in public water supplies by ensuring water companies supply safe clean drinking water that is wholesome, and that they meet all related statutory requirements. Where standards or other requirements are not met, we have statutory powers to require water supply arrangements to be improved.

We publish information about drinking water quality and provide technical advice to the Secretary of State for the Environment, Food & Rural Affairs, and to Welsh Ministers.

For PR19, water companies are expected to ensure that their business plans make provision to meet all their statutory obligations, including the need for public water supplies to be safe, clean and wholesome, and that provision is made for a sustainable level of asset maintenance to maintain public confidence in drinking water quality in the long-term. Ministers summarised these requirements in "The government's strategic priorities and objectives for Ofwat<sup>1</sup> (Sept 2017)".

In addition, the Inspectorate set out in our "Guidance Note: Long term planning for the quality of drinking water supplies (September 2017)<sup>2</sup>". This includes guidance to companies on the regulatory framework for drinking water quality, statutory requirements, the Inspectorate's role in the Price Review process and our requirements for companies seeking technical support.

It is worth noting the particular emphasis that Ministers placed in their Guidance on the resilience of supply systems, and that the Inspectorate placed on existing duties to manage the introduction of new sources and to plan supply arrangements to protect consumers and ensure no deterioration in the quality of their supplies.

The Inspectorate have supported the Company's CCG process throughout the PR19 process being available to discuss any matters relating to drinking water quality.

### Formal drinking water proposals requiring DWI technical support

As with previous periodic reviews, water companies seeking technical support from the Inspectorate must demonstrate the need for each proposal. The case for justification must be accompanied by evidence of the company's options appraisal process to identify the most robust, sustainable and cost-effective solution, with evidence that the preferred solution will adequately address the risk and deliver the required outcome within an appropriate timescale.

Thames Water Utilities Ltd submitted 2 formal proposals for drinking water quality to the Inspectorate, listed in the table in Annex A.

The Company submitted its proposals to the Inspectorate by the published deadline of 31 December 2017. Some further follow up information was requested from the Company and responses received as required.

The Inspectorate has formally supported one of the Company's proposals and we will put legal instruments in place to make the proposals legally binding programmes of work. The Company also submitted proposals building on current catchment management options to facilitate compliance with metaldehyde. Our final decision letter was sent to the Company on 30 May 2018.

The Company's proposal relates to facilitating compliance with the lead standard. The Inspectorate expects that the Company will have a strategy in place for managing lead in drinking water that should form part of a risk-based programme of work that includes a range of measures to address lead in identified high risk areas, and target high risk properties and vulnerable consumers. In AMP7 the Company proposes to continue implementation of the current strategy including an extensive programme of lead pipe replacement/refurbishment, dosing/optimisation of orthophosphate dosing and continued refinement of hot spot analysis.

With regard to metaldehyde, we are currently awaiting Ministerial guidance about future use restriction for metaldehyde and will look to revise the existing undertakings once this guidance has been received.

It should be noted that these improvement schemes will make only a small contribution to enabling the Company to meet its legal obligations in respect of drinking water quality. These obligations are met overwhelmingly by the Company making sufficient provision for operational and maintenance requirements in its business plan, and by its use of those resources. These are matters for the Company to determine and deliver. For its part, the Inspectorate will continue to keep under review, and report on, the performance of the Company in meeting its legal obligations.

The summary of improvement schemes above reflects the position at the time of writing this note. Further discussions are needed with the Company

to finalise details. We will advise the Customer Challenge Group of any material changes.

This note will be copied to Dr Sarah McMath of Thames Water Utilities Ltd. Any queries arising should be directed to Sue Pennison, Principal Inspector, Drinking Water Inspectorate, at Sue.Pennison@defra.gsi.gov.uk.

**Milo Purcell**  
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**29 June 2018**

1 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/661803/sps-Ofwat-2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/661803/sps-Ofwat-2017.pdf)  
 2 <http://www.dwi.gov.uk/stakeholders/guidance-and-codes-of-practice/ltpg.pdf>

PR19 DWI ref	Scheme Name	Quality parameter	Scheme type	Preferred option	DWI final decision
TMS 1	Lead strategy	Lead	Treatment/ Distribution	Implement lead strategy	Support - Regulation 28 notice