



# MINUTES of the Customer Challenge Group

On 17 January 2025, 09:00am – 2:00pm, via Ms Teams

## Present:

Sukhvinder Kaur-Stubbs	Chair of Customer Challenge Group	SK-S
Dr Charlotte Duke	London Economics	CD
David Brindle	Ambient Support	DB
Peter Daw	Greater London Authority	PD

## Thames Water:

Chris Weston	CEO	CW
Cathryn Ross	Strategy and External Affairs Director	CR
Jonathan Hagan	Director of Economic Regulation	JH
Caroline Murdoch	Director of Communications	CM
Pete Cotton	Head of HH Customer Strategy	PC
Mariana Simpson	Regulatory Engagement Manager	MS

## Apologies:

Jonathan Read	Director of Regulatory Policy and Investigations	JR
Sarah Powell	Environment Agency	SP
Catherine Jones	CCW	CJ

Agenda Item No.		Action
1.	<b>Apologies for absence / Declarations of interests / Minutes from previous meeting</b>	
	Apologies were noted and no additional declarations of interests have been recorded. The minutes from the meeting on 15 November and 13 December will be circulated outside of the meeting for review and approval.	
2.	<b>CCG closed session</b>	
	<p>The Chair thanked to members whose terms came to an end in December: Baroness Tanni Grey-Thompson, Jeremy Crook, Nisha Arora and Monica Wilson. SKS is grateful to them for their service and their contribution over the term of their appointment.</p> <p>Recruitment for new members is in progress with high quality applicants with background and experience across water, utilities and digital transformation. Interviews are taking place until the end of January.</p> <p>The group discussed the upcoming agenda points and confirmed key questions and leads for discussion.</p>	

	<p>Turning to the forward plan, the chair noted that she would like to invite an investor expert and non-household representative to a future meeting – time tbc.</p> <p><b>Action:</b> Forward plan to include overview of Non-Household market to provide explanation of what companies and responsible for vs retailer etc.</p> <p><b>Action:</b> Forward plan to include session on misconnections</p> <p><b>Action:</b> Forward plan to include session with Business representative and Investor Expert</p>	
3.	<b>CEO session</b>	
	<p>The session started with CW providing a short overview of current operational performance. Although now on a strongly improving trajectory, performance on leakage and pollutions needs to continue to improve to get to where it needs to be. On other metrics, such as supply interruptions, water quality, reduction in complaints and Health and Safety performance is tracking against the plan. TWUL is delivering all these improvements while keeping within budget.</p> <p>Moving to the PR24 Final Determination (FD), CW emphasised that the company was continuing to evaluate Ofwat’s proposals. It was clear though that the FD represented a shift from Ofwat’s position at the draft determination (DD). However, a significant Totex gap between Ofwat’s allowances and the costs of running the company and delivering the investment programme TW had put forward, mainly on the wastewater side of the business. On the financial restructuring, CW noted the next court hearing will be on 3<sup>rd</sup> February.</p> <p>The first part of the discussion focused on the implications of the FD on customers, with CCG members interested whether TW are likely to request a referral to the CMA. CW explained that given the complexity of the FD and the ongoing analysis, a decision will not be made until mid-February. Set against any potential upside, the company needed to consider the potential implications of a CMA appeal on the equity process and the company’s creditors, as well as the impact on the turnaround. CCG pointed out there would be additional implications for customer and media perception.</p> <p>Recognising the potential AMP8 totex funding gap and liquidity challenges, CCG was of the view that that communication with customers and staff will remain hugely important. It queried how customers’ expectations can be managed given the complexity of regulation, investment and performance: would TW deliver the plan as promised, or a smaller version of this? CW acknowledged that the company’s situation will evolve over time but to meet the expectations and required performance, TW will need to invest the requested amount of money as planned, which reflects its best view of the realistic costs of running the business and addressing the challenges it faces in AMP8 and beyond. As a part of the plan, the company made significant allowance to support customers who were less able to play.</p> <p>CW highlighted the commitment of those working in the company who continue to provide one of the most essential services to the customers and agreed with CCG the importance of ensuring strong internal communications through the company.</p> <p>Moving to the financial restructuring, CCG queried whether TW should consider alternative refinancing options emerging from other creditor groupings. It was noted that some of the propositions have come too late in the process, and they may not have enough evidence to support them to be considered. However, the decision will be made by the court to decide on all the evidence provided by all parties including independent experts. CCG noted that according to the media, part of the proposals for financial restructuring include measures on executive pay and retention. CCG appreciate that TW staff need to be appropriately remunerated and would like to emphasise the need for transparency in how the parameters are set and agreed.</p>	

	<p>The discussion concluded with reflections on media coverage and communications. The CCG challenged CW on communications to customers on the reasons their bills are increasing. CW said that increases would not be used for executive bonuses unless TW performance meets expectations. CCG asked for clarity on the definition of 'expectations'. CW highlighted that while the media interest will continue over the coming months, he was happy with his team work on both external and internal communication.</p> <p>The Chair thanked CW for his time and openness.</p>	
4.	<p><b>PR24 – Final Determination – initial analysis</b></p>	
	<p>CR set out the context for the session, highlighting the complexity of the Price Control which includes different types of regulation from outcome based delivery linked to performance commitments and incentives to parallel delivery to specific projects based on outputs. Moving on to the Final Determination (FD), CR noted that while the overall value went up from the Draft Determination (DD), there is remaining gap of £4bn which gets bigger when you look into the details of the FD, mainly due to the gated process and Outcome Delivery Incentives (ODIs) linked to the performance.</p> <p>JH shared key headlines from the FD noting that Ofwat continues to judge the plan as “inadequate” which results in equivalent of £141m penalty and unfavourable cost sharing. This is largely due to the company’s current financial resilience and the turnaround oversight. Key points included Totex position, Asset health improvement allowance increase, Strategic Resource Options funding, Outcomes, Risk and Return and Aggregate Sharing mechanism. Stepping through the key emerging themes, JH highlighted key points and TW’s implications. JH also outlined key movements between the Draft and Final Determination.</p> <p>The discussion focused on implications of the funding and delivery on customer priorities. It was noted that most of the investment delivery is driven by statutory compliance, such as WINEP delivery. Ofwat set out tough challenges around delivery of performance commitments which are high on the customers priorities such as leakage, Supply Interruption and Flooding. There was a recognition that there are dependencies between various performance commitments such as leakage and main replacements which can have counterproductive impact. The ODI process would mean that not meeting the performance target will reduce the available funding.</p> <p>Turning to examples of specific challenges, discussion focused on growth at sewerage treatment works and mains replacement. JH explained the complexity of the multiple funding strands for growth at sewerage treatment works which, when aggregated, remains below required level. On the main replacements, JH explained that the cost efficiency applied means that the company is expected to deliver well below the market cost, especially when it comes to central London with additional complexity related to the asset conditions etc. Additional challenges come from the set cumulative percentage which needs to be delivered each year, and company to be required to return money for any non-delivery. There was a recognition that replacing just a certain part of the network rather than zone replacement may result in an increase in bursts and leakage.</p> <p><b>Action:</b> February session to include deep dive on main replacement.</p> <p>The next part of the discussion turned to financeability and deliverability, with CCG interested to understand whether the supply chain is able to respond to the challenge. It was noted that there were ongoing concerns around the physical deliverability across the industry, given the proposed investment programme is four times higher than previously and the activity is centred around the same issues.</p>	

	<p>Given the overall complexity, CCG were concerned how this can be translated to customers and to the wider world. CR thought that some of this can be achieved by explaining what customers are expected to see in their broad area (e.g. London or Cotswolds) and then how the regulator holds companies to account on the actual delivery. However, there was a recognition it would be difficult to explain to customers the complexity of the FD and its implications.</p> <p>The final part of the discussion focused on the gated process. There was a recognition that both Ofwat and companies have learned through AMP7. CCG thought it will be helpful to have a more detailed review of the gated process and how TW will manage the capacity and delivery of the supply chain to meet the outputs at the future session.</p> <p><b>Action:</b> February session to include gated process and capacity and delivery capacity of the supply chain.</p>	
5.	<b>Customer comms – impact on bill</b>	
	<p>CM set out context for the session, noting that a detailed pack was circulated ahead of the session and the aim is to focus on key points and audiences. CM highlighted that the bill rises arrive in a very difficult time for customers and for the company. While the bills will rise across the industry and there will be a coordinated comms via WaterUK, who will be setting an overarching narrative about the need for investment which will unlock growth, housing and jobs, TW will most likely continue to be a key focus of media coverage, as it will also be in the news for its restructuring process.</p> <p>CM outlined overarching objectives to deliver a clear and consistent set of messages to all audiences about bill rises and the improvements they will deliver; improve awareness of the support TW offer to those customers who are less able to pay, particularly targeting those customer who may be struggling, while build trust and confidence in TW and ensure the bill narrative is aligned with wider comms strategy.</p> <p>Focusing on the key audiences, CM noted that all messaging will be based on consistent content but tailored to specific audiences (e.g. emails / letters, website updates, social media posts &amp; digital flyers to explain price increases to customers).</p> <p>Reflecting on the importance of supporting customers who need the most, TW is reaching out to working with all the key stakeholders such as CCW, Citizens Advice Bureau and Water UK to ensure everyone is aligned. TW also offers a webinar for advice workers to make sure they are aware of what support is available for their constituencies. PC explained that all the affordability campaign material has been designed with help from the Behaviour Economist to make sure they have a strong and clear call to action and help to increase awareness of support available.</p> <p>The discussion focused on the anticipated customers’ reaction to the bill increase. There was a recognition that while the affordability and acceptability research completed over the last few years showed that customers were content with bill increase, the view may have changed largely due to negative media coverage, therefore the historical research from 2023 may be of limited use for the current climate. Notwithstanding this, CCG recommended the comms team return to the previous research to assist with their messaging.</p> <p>Looking at the overall messaging and bill profiles, CCG thought that it would be helpful to include more messages to explain the steep bill rises at the start of the period and the benefits customers</p>	

	<p>will get as well as reordering some of the messaging around challenges. It was noted there was a potentially confusing discrepancy between the overall percentage increase for TW customers cited by Ofwat (based on average bills) and that being used by the company (based on typical bills), Typical bills are more representative of what the majority of customers will experience, which included cross-subsidy for social tariff.</p> <p>The discussion then focused on regional and stakeholders' comms including variation of messages between London and Thames Valley, such as challenges and key investments in the area. CCG welcomed the recruitment of comms expertise to work on 'very local' messaging via media such as Facebook.</p> <p><b>Action:</b> SKS and CM to follow up on list of key stakeholders</p> <p>CCG praised TW for the comprehensive and impressive campaign, particularly the support for people who may find themselves in difficulties and they will be interested to hear how successful the campaign was.</p> <p>There was a recognition that further messaging will need to be developed on the back of the decision regarding FD and potential CMA appeal, however this will not change bill rises for the next year.</p> <p>CCG chair thanked CM and PC for their time.</p>	
6.	<b>CCG closed session</b>	
	No minutes recorded	
7.	<b>AOB</b>	
	Next CCG meeting on 21 February 2025	