



# MINUTES of the Customer Challenge Group

On 21 February 2025, 09:00am – 4:00pm, 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
Sarah Powell	Environment Agency	SP
Catherine Jones	CCW	CJ
Rob Scarrott	National Highways	RS
Jane MacBean	Buckinghamshire Council	JMB
Natalie Jakomis	Rightmove	NJ

## Thames Water:

Jonathan Hagan	Director of Economic Regulation	JH
Jonathan Read	Director of Regulatory Policy and Investigations	CM
Pete Cotton	Head of HH Customer Strategy	PC
Tess Fayers	Wastewater and Bioresources Director	TF
Mariana Simpson	Regulatory Engagement Manager	MS

## Apologies:

David Bird	Retail Director	DAB
Esther Sharples	Chief Operating Officer	ES

## External attendees:

Colm Gibson	GRB	GB
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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 meetings on 15 November 2024, 13 December 2024 and 17 January 2025 were approved.	
2.	<b>Chair update incl introduction of new members</b>	
	The Chair welcomed three new CCG members RS, NJ and JMB who joined the group this month. Following introductions, the Chair noted that next meeting will be in person to provide the group with opportunity to refresh the forward plan which drafted at the end of last year.	
3.	<b>Expert witness session</b>	

The Chair welcomed CG who shared with CCG his background and expertise in financial insights to legal disputes. Following introductions CG stepped through his presentation focusing first on price controls & totex - explaining how generic price control setting process work and how regulators determine the “right” level of totex for companies which ensures that customers are protected in respect of prices charged and regulated companies can finance its regulated activities.

The first part of discussion focused on the revenue collected from household customers versus from other sources – CG explained that companies may collect additional revenue from non-regulated business activities e.g. Homeserve, but this will vary from company to company.

Turning to the return on capital – CCG were interested in the different views which contribute to the ongoing debate. CG explained that while most experts will use capital asset pricing model, however, as some of the numbers used for the calculation are not clearly defined, it will always prompt different assumptions and views.

Further discussion focused on Regulatory Capital Value (RCV), with CCG questioning the level of RCV run off based on TW asset base. JR explained that the key point is whether the overall level of investment is at the right level. CG added that there would be a natural tension between investors and regulators and the way definition kept adjusting to Opex and Capex which consequently led the industry to the use of the Totex.

CCG were interested in how performance targets such as leakage or customer service are tied to the pricing process. CG explained that this is done through performance commitments targets and Outcomes Delivery Incentives which will lead to company rewards and penalties which ultimately result in bill adjustments.

Moving to how regulator set out the price determination, CCG questioned whether the system is sensitive enough to account for differences across the large regions such as London and Thames Valley – While CG recognised that this may not be the case, he thought that the overall allowances for each business area are set top down e.g. covering leakage reduction overall.

The next part of the session focused on efficiency, with CG explaining the economic efficiency is achieved when technical, allocative and cost efficiency criteria are all met. CG then explained the efficiency approach and how regulators determine efficient costs mostly by use of econometric analysis. There was an acknowledgment that the water industry is a little bit harder to analyse due to the companies being built in different times using different assets etc compared to for example the gas industry. The discussion focused on how the right level of efficiency can be determined using different approaches and trends over the time.

Moving to price control appeals, CG explained the process where companies have two months to decide whether they accept or reject Ofwat’s Final Determination. In the case that it is rejected, Ofwat is obliged to refer the matter to Competition and Markets Authority (CMA) for a complete redetermination. It was noted that six of the water companies have rejected their PR24 final Determinations.

Given current media interest in the water industry, CCG asked how public the CMA process may be. CG explained it will be to the CMA to decide what they want to do, although based on previous years, it is most likely that CCW will be invited to provide information. In relation to the CCG involvement, it was noted that in PR19, CMA invited views from interested stakeholders.

	<p>Final part of the discussion focused on key questions for CCG' further discussion with the TW team. CCG would like TW to present different possible outcomes for customers based on the different size of the final plan. Reflecting on the ongoing costs of restructuring and CMA appeal itself, CCG would welcome transparency regarding how these costs have been allocated.</p> <p>CCG would also like to understand why this CMA appeal is in the best interests of customers now, but also in the future.</p> <p>SKS thanked CG for his time and for sharing his extensive knowledge with the group, especially around framing of the price review by Ofwat and the processes for determining efficiencies.</p>	
<b>4.</b>	<b>PR24 – Final Determination – deep dives</b>	
	<p>JR and JH provided an update on the key focus areas identified by CCG at the January meeting alongside an update on the CMA appeal.</p> <p>JH briefly outlined the process for CMA appeal which may take 6 to 12 months, although exact timing will be confirmed. It was agreed that a follow up session to discuss TW Statement of Case will be scheduled for the focus group.</p> <p>JH reminded CCG of the Business Plan movement from the original submission back in October 2023, through the resubmission in April 2024 to the response to the Draft Determination (DD). Discussion focused on the key elements of proposed Delivery Mechanism.</p> <p>Moving to the concept of large gated schemes introduced through the DD, JH explained that these are schemes in excess of £100m which have more uncertainty. The gated process will allow companies to design solutions and confirm costs before at Gate 3 when Ofwat will determine what the efficient allowance is based on more detailed and accurate information. It was noted that the large gated schemes are largely statutory requirements so TW is required to deliver them. There was a recognition of associated risks due to the capacity of the supply chain – to mitigate TW they have been working on a Delivery Action plan and additional reporting requirements to demonstrate steps they are taking.</p> <p>Discussion turned to the deliverability of the proposed plan, with CCG reflecting on the fact that the original Business plan did not include all of the statutory requirements due to the deliverability concerns. JH explained that Ofwat agrees with the scope within the plan as it now includes the full statutory requirements, however the £4bn difference is due to the different views of efficient costs.</p> <p>Further discussion focused on the customer bill impact through the core funding and conditional allowances – it was agreed that this will be revisited in the upcoming months, once TW have more clarity.</p> <p>Moving to the mains renewal programme, JH explained the differences between TW's position and Ofwat's FD, covering the variation of the unit costs between London and TW as well price control deliverable and a clawback mechanism for every metre of pipe that company is not able to deliver. TW concerns are over the low per metre allowance but also that the set requirements to upgrade specific cohorts of assets drive inefficiency into the programme as may result in repeat work in the same area. Further challenges relate to work in central London where planning takes much longer. It was agreed to hold a follow up session as a deep dive.</p> <p>Further discussion focused on collaboration with local authorities and other utilities and challenges around planning permits, as well as customers' interest to avoid repeat work which causes</p>	

	<p>additional roadworks and potentially avoidable disruption. CCG suggested using other companies who serve big cities such as Manchester and Birmingham as potential case studies.</p> <p>Action: Follow up session on how TW drive efficiency in the mains replacements to be scheduled with a subset of members.</p> <p>The final part of the session focused on the CMA process. It was noted that there are overall six companies who have requested Ofwat refers their FD to the CMA. These companies represent more than 50% of the customer base in England and Wales. The current indicative timing suggests companies will need to submit their statement of case by 14 March, with the full process taking 6 to 12 months. It was agreed that follow up session will be held ahead of the 14 March.</p> <p>Action: Follow up session to discuss TW's statement of case to be planned before 14 March.</p>	
5.	<p><b>Q3 – Retail performance</b></p> <p>PC provided an update on Q3 retail performance based on material shared in advance. Key points of discussion included below.</p> <p>PC noted that since the end of Q3, customers have started receiving bills with the typical 40% increase which resulted in 20% increase in contact compare to the previous years. Foreseeing increase in contact, TW has increased resource by 20% which is in line with the demand.</p> <p><u>CSAT</u></p> <p>Performance remains below target, partly contributed by increase in new resources while they complete training. While initial contacts receive generally high scores, follow up scores see real polarisation depending on whether issues are resolved, PC recognised that CSAT is one of the key measures where TW need to improve. The aim is to retain the expansion of customer contact teams to allow for experienced agents to focus on 'Proactive Care' to identify and mitigate customer issues and keep them updated on resolution</p> <p><u>Metering</u></p> <p>Q3 seen over-delivery due to an increase in appointments for internal installs as a result of workshops with third party partners and a number of additional external properties being identified. Overall year performance remains below target due to delays in signing contracts related to complementary solutions.</p> <p><u>Complaints</u></p> <p>Performance remains strong with improvements in Billing and Operations and overall over 20% better than last year. Reduction in long-term unread meters, plus greater use of actual meter reads a key enabler. Focus remains on "Right First Time" Customer Contact Initiative with escalations team resolving 94% at first contact. Further focus continues on retraining, focussing on metering journeys.</p> <p><b>Action:</b> TW to share feedback/ insights from colleagues who have received the revised training and share impact on performance. (Update on the action shared with the minutes)</p> <p>Discussion focused on contact channels. Based on recent media article, CCG were concerned over removal of email as one of the contact channels. PC explained that TW aim to encourage more structured channels that enable a faster response and provide better customer experience.</p>	

	<p>While CCG acknowledged that emails may not be optimum contact channel for the company, it is widely used channel for most customers.</p> <p><b>Action:</b> TW to confirm whether email is one of the contact channels and provide rational if it has been removed (Update on the action shared with the minutes)</p> <p>Reflecting on companies leveraging AI in contact centres to enhance both operational efficiency and customer experience, CCG were interested in TW plans are to use AI.</p> <p><b>Action:</b> TW to share plans for AI and strategy deploying AI to serve customers. (Update on the action shared with the minutes)</p> <p>Discussion focused on the 20% increase in contacts which is mainly driven by the increase in bills. Reflecting on previous discussions, CCG were concerned that customers with smaller bills had a higher % increase compared to customers with higher bills overall. CCG thought this could create a disincentive over water efficiency. PC explained that this would be due to set standing charges rather than charges per the volume used.</p> <p>CCG</p> <p><b>Action:</b> TW to share more information regarding bills setting and how lower bills are impacted more by the fixed cost element of the bill.</p> <p>CCG noted a high increase of customers being transferred to the Extra support team and were interested to understand whether there are any specific communities which are more impacted or where may be potential gaps. PC thought that later in the year he will be able to share the level of support TW provide to customers and what sort of interventions they are making. PC shared findings from pilot in Wandsworth where they identified 8% of customers in arrears who will benefit from discounted tariff etc going forward.</p>	
6.	<b>CCW quarterly complaints report</b>	
	<p>CJ provided a short update on CCW activities. She noted that the complaints performance was covered at the previous session. As a part of the complaints review, CCW moved over the last 12 month to more collaborative approach and expanded their assessment to take into account company's culture e.g. does the company have a vulnerability strategy in place. It was noted that TW's vulnerability strategy is regarded as exemplary by Ofwat. CJ praised TW for their open and honest approach to the wider assessment through the pilot year. Furthermore, CJ acknowledged that TW put in place a number of their suggestions by the time the second assessment took place.</p> <p>Moving to the next financial year, from April CCW will be publishing their Complaints assessment on their website and CJ will share more at the next quarterly meeting.</p> <p>CJ shared an industry view complaints performance and noted that while TW receives the highest number of complaints, the performance have significantly improved and it is more in line with the rest of the industry.</p> <p>Discussion focused on complaints received through variety of channels, with CJ explaining that historically complaints have been only in writing while now they can be done via telephone and</p>	

	<p>digital channels as well. Looking back at previous year, CJ shared key findings from complaints report for 2023/24 to set out the context for TW improving position when the next report is published.</p> <p>Moving to affordability, CJ highlighted CCW's upcoming campaign which will be asking companies to have minimum 53% awareness of their additional support. CJ shared recent customer research and CCG members were interested in the sample and methods used. CJ reflected on the affordability and acceptability research completed as a part of the price review process.</p> <p>The session concluded with a brief overview of CCW's forward plan which CJ will share with the group.</p> <p><b>Action:</b> CJ to provide methodology and sample size for the customer research.</p> <p><b>Action:</b> CJ to share slides with CCG</p>	
7	<p><b>Q3 – Operational performance</b></p> <p>TF provided an update on Q3 operational performance based on material shared in advance. Key points of discussion included below.</p> <p><u>Leakage</u></p> <p>Current performance deteriorated towards the end of Q3 and remains behind the target despite being one of the lowest ever levels of leakage. CCG were interested whether the recent restructure had an impact on the performance. TF highlighted that the key issues were with Detection performance and considerable amount of leadership effort was focused on improving the situation. To drive accountability at local level for the end-to-end cycle, the water business function is implementing a new area model.</p> <p>CCG thought that to meter penetration will be a key attribute to understand and help manage the leakage level. They queried why TW's meter operability was low and was interested in root causes of the problems in specific areas such as Guildford and SWOX. TF highlighted there is an ongoing work to assess demand in large, detached properties to ensure the metering strategy was right for AMP8. If helpful, additional metering session could be added to the forward</p> <p>CCG were interested to know what innovative solutions TW use or planning to use to reduce leakage.</p> <p><u>Water quality</u></p> <p>The performance in this area and associated CRI measure continued to be strong. Following a number of challenge sessions and reviews, it has been confirmed that the target was met. TF highlighted the importance of this achievement, given the measure is always vulnerable to some of the challenges the company faces at the large water treatment works.</p> <p><u>Pollutions</u></p> <p>The level of pollutions remains high, despite the significant amount of work in this area. It was noted that 2024 was the 2<sup>nd</sup> wettest year on record which made it difficult for the industry, however TF stressed that while bad weather can be a reason it is not an excuse for bad performance. The final position for the year is deeply upsetting, given the effort which went into the turnaround plan. TF recognised that TW are major contributor to the overall industry level of pollutions and highlighted the scale of the plan for the next AMP which aim to address capital maintenance of the sewerage works and will improve asset resilience. CCG thought that with the weather pattern</p>	

	<p>becoming more frequent, TW need to move as quickly as they can to improve their resilience. The discussion focused on example of enhancement cases put forward to address it.</p> <p>Further discussion focused on self-reporting, the accuracy of the EDM map and cooperative work with local smarter water catchment projects which was regarded as a huge success. CCG were also interested in TW's work to manage and reduce any sewage discharges in dry weather. TF explained that dry weather discharge would typically occur where there is an asset integrity issue. To prevent this the operational team focus on operational maintenance. There is also a number of tools which include discharge alert monitor and sewer level alert monitor.</p> <p><b>Action:</b> CCG to share specific queries regarding the EDM map so TW can investigate and report back. (Update post meeting – example shared with the team, investigation completed and reported back for future discussion)</p> <p><b>Action:</b> Follow up session to be arranged to share more information on chalk catchments including pressures and solutions.</p> <p><u>Supply Interruption</u></p> <p>The performance at the end of Q3 with December having one of the best monthly performances. In response to CCG's question ahead of the meeting, TF provided an overall view of Incidents across AMP7, highlighting the large incidents (e.g. Netley Mills, Guildford) and actions taken as a result such as additional investment in the areas and / or lessons learned for future incidents. CCG reflected on the most recent incident in Crystal Palace and the negative media coverage, some which would suggest that the incident was not well handled, which was disappointing. CCG's main concern was that TW had only one bottled water station for such a large impacted area, where many residents don't have cars and are dependent on public transport. TF shared a number of steps which the team took to manage the incident, including proactive outbound engagement, which resulted in lower customer contact than previous incidents. However, TF noted that there were security issues around the bottled water station. It was agreed that CCG will be included in the review of the incident once lessons learnt are completed.</p> <p>Further discussion focused on the investment and plans to improve network's reliability and resilience, e.g. Thames Valley Home Counties hyper care plan which is suite of tactical maintenance interventions with focus on problem prone assets.</p> <p><b>Action:</b> Crystal Palace Incident to be added to the forward plan for 21 March meeting.</p> <p>The final part of the session focused on the recent announcement of Tideway Tunnel now being completed and fully operational, which is a fantastic achievement and will deliver huge environmental benefits.</p>	
8.	<b>Sector reviews</b>	
	<ul style="list-style-type: none"> <li>• Mayor's round table – event with key senior stakeholders linked to Mayor's pledge for cleaning London's waterways by 2034 take place on 13 March. CCG Chair and one former CCG member will be attending. Discussion focused on the proposed plans and its benefits. Update to be provided post event at the future meeting.</li> <li>• Single social tariff in Special measures bill – CCG were concerned that all companies would need to comply with the set single social tariff value but CCW confirmed that companies can choose to go higher.</li> <li>• Cunliffe review – CCG need to agree key points they wish to respond to the review on and to ensure their voice is heard in the process. To be discussed further at the March meeting.</li> <li>• Remuneration and governance review – it was noted that this has been through House of Lords</li> </ul>	

	<ul style="list-style-type: none"> <li>• CMA appeals – CCG focus group to be set up and go through the Statement of Case ahead of its submission. CCG are keen to understand what the CMA appeal mean for current and future customers, as well as much of the gap in the funding relates to efficiencies. The group discussed their potential submission as a part of the CMA support – it was noted that this would need to be considered by independent members.</li> <li>• Debt restructuring – It was noted that the judge in the TW’s court case about debt restructuring has been ruled in TW’s favour.</li> <li>• CSC feedback – Chair to circulate note which provide an update on how the cross-company teams working together to improve customer service (e.g. consolidation of customer side leakage teams – to be covered at the future CCG meeting when leakage is being reviewed)</li> <li>• Ofwat turning the tide event and forward plan – Chair will be attending. CCG members can register to attend.</li> <li>• Restoration fund – It was noted that decision was made that money raised through companies’ fines will not be any longer going into the restoration fund but will be going to the treasury. CCG agreed that if opportunity arose, they would support for the restoration fund to continue.</li> <li>• Response to Water Minister – Chair reminded the CCG about letter to the Water Minister regarding the role of CCG.</li> </ul>	
9.	AOB	
	Next CCG meeting on 21 February 2025	