

Commentary on Thames Water's Performance Commitments 2019

Prepared by the Thames Water
Customer Challenge Group



What is a Customer Challenge Group (CCG) and what does it do?

The Thames Water Customer Challenge Group (CCG) exists as a group which is independent of Thames Water. All water companies in England and Wales have similar groups. 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 then reports on its findings to Thames Water customers, the wider public and Ofwat.

Our mission

To represent the needs and interests of current and future customers in ensuring 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.

Our objectives

To be

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

As you will see from our membership, we are drawn from a cross section of customers, regulators and other groups who play an important part in the life of our region.

To find out more about the CCG terms of reference and our members list visit:
<https://www.thameswater.co.uk/sitecore/content/Corporate/Corporate/About-us/Customer-Challenge-Group/About-the-CCG>

What has the Thames Water CCG done this year?

The CCG met 11 times for its regular meetings including 4 quarterly reviews of performance. It had 13 conference calls, mostly associated with the PR19 process. There were also meetings throughout the year of two sub groups. The first, the Customer Engagement Sub Group, focused on Thames's engagement with customers. The sub group reviewed Thames's plans for research and engagement, including considering the methodologies to be employed and the materials to be used. It then reviewed the output and implications of the research and engagement undertaken. The second sub group, the Finance and Business Planning Sub Group, was set up to review Thames's business planning processes and associated areas such as risk. The Customer Engagement Sub Group met 6 times. Finance and Business Planning met 7 times. CCG members attended many research focus groups. During the year the CCG was visited by the Thames Water CEO, Steve Robertson and a representative from the Drinking Water Inspectorate. The Chair attended the Thames Water board on one occasion and met regularly with Dame Deirdre Hutton, a Thames Water board member. The newly appointed Independent Leakage Monitor has attended CCG meetings where leakage performance is discussed.

In August 2018, the CCG made its submission to Ofwat reviewing the content of Thames Water's draft business plan for 2020-25, using the framework of Ofwat's Aide Memoire. It also responded in March 2019 to Ofwat's initial assessment of Thames Water's draft business plan and Thames's response. The CCG made a submission regarding Thames Water's second draft Water Resources Management Plan in November 2018.

The Chair spoke at Thames' Annual Stakeholder Review and made a presentation to Thames Water's managers.

Key to performance tables

- Performance at, or favourable to, Thames Water's committed performance level for 2018/19
 - Performance adverse to committed performance level, but within some agreed ranges
 - Performance adverse to committed performance level and outside some agreed ranges
 - Performance information either not available, not applicable or not relevant
- A more detailed explanation is at Annex 1, page 15*

Introduction



Once again, the CCG needs to start its commentary on the previous year by noting that issues that are really important to customers on a day to day basis, as measured by metrics such as leakage, customer satisfaction and complaint levels, have either worsened or shown little sign of improvement. Thames can demonstrate that this deterioration is often due to exogenous factors, such as the weather, but the fact remains that what customers want and expect from Thames is not - in some important areas - yet being delivered.

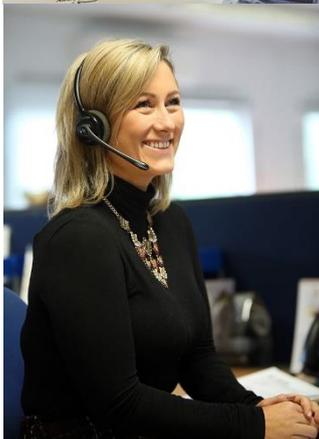
Leakage remains a challenge for Thames. The 2019/20 leakage target will require better performance than ever before, and any shortfall against this year's target will potentially have an impact on the next 5 years' performance. Against this background, the ability of Thames to deliver against the ambitious proposed targets for 2020-25 is questionable. The CCG remains concerned that customers have repeatedly said that they are unhappy funding future major developments when leakage remains at a high level. Supply interruptions were another significant issue and Thames has borne substantial penalties as a result. The extreme weather conditions were determined to have played a major part in this, but clearly Thames needs to plan differently in order to mitigate and, if possible, avoid such significant impacts.

During the last year there was a marked increase in complaints across all aspects of Thames's activity and customer satisfaction also fell. It is clear that customers are not happy with the way that they have been dealt by Thames and, in some instances, it is clear that their complaints have not been well handled either. While it may be understandable, it is not acceptable, and Thames's customers deserve better. The CCG understands that a number of customers are now using a new billing and customer relationship management system and hopes that the phased rollout of this critical system will continue successfully for the benefit of customers.

During 2018/19 there has been intense focus on first, the original draft business plan for 2020-25, and then its subsequent resubmission to Ofwat. In some senses, looking forward and setting out what customers want to see from Thames over the next 5 years highlights the urgent need for immediate investment, without waiting for the 2020-2025 period to begin. That said, in a few instances, Thames has been able to start making progress earlier. Its approach to vulnerable customers is one such instance, and the CCG would wish to commend Thames, first for the strategic approach it has taken to the issue and the fact that it is now seeking to make progress towards its 2020 - 2025 goals within the current timeframe.

Overall, the themes that the CCG has highlighted in past years remain. The fragility of the network, its lack of resilience, the problem of leakage, the disappointing experience customers receive are challenges which continue to appear to be hard for Thames to address and progress. The CCG recognises that Thames has sought to become a very different company in the last couple of years, with a real desire to listen to customers and to act on what they hear. The CCG hopes that the new leadership team will continue to do this and that they will be able to take these issues forward creating some real momentum in critical areas.

Progress against water performance measures



Once again, two linked issues which are of great importance to customers and which demonstrate to many how well Thames is stewarding its network – leakage and security of supply – have seen failures of performance in 2018-19.

For another year, the picture has been dominated by leakage and the consequences of leakage. As well as failing against the actual leakage target (WC2), other measures such as the Security of Supply target (WB6) and the amount of energy imported/exported (WD1) were also impacted. Despite the continued and visible management focus, including the response to Ofwat's enforcement action, leakage has remained stubbornly high.

While the CCG acknowledges that Thames has made many interventions in the area of leakage, and can demonstrate an increase in asset availability, volume of activity and speed of planning and repair, it is clear that Thames is struggling to reduce leakage to what would be its lowest ever level. The CCG is concerned that it will be hard, if not impossible, for Thames to reach its March 2020 target, making the likelihood of meeting its ambitions over the 2020-2025 period increasingly unlikely. The CCG has been particularly concerned by the turnover of senior executives who have been involved in the leakage programme and would urge that there is increased stability in this area in the coming year and in future.

Leakage played a part in Thames's failure to deliver the measure associated with the Security of Supply Index; other factors that potentially affect the index include water resources, demand management and transfers of water to other water companies. There was a marginal improvement in the measure but the combination of leakage issues due to the extreme cold weather and the summer 2018 heatwave meant that the target was not met. It is probably worth noting that London proved a particular problem, with most other zones being in surplus under both average and critical conditions. The CCG would suggest that Thames should consider thinking in a different way strategically around the very particular issues that London poses in its region both for security of supply and leakage.

As noted above, the leakage performance and the hot weather had an impact on Thames's target around energy imported less energy exported; the sustained hot weather drove the company to need to use more energy intensive options. The requirement to recover storage levels and sustain resilience while dealing with leakage exacerbated the situation.

One positive story around leakage was the increased use of the free repair service for customers with a customer side leak outside their property; it was pleasing to note that Thames delivered significantly more free repairs (7957) than the target of 900 properties and this should be commended.

The weather had a material impact on the number of Supply Interruptions greater than 4 hours (WB5) and as a result Thames will be returning more than £10m to its customers. The heatwave in July and August had a clear impact. During the year, Thames responded by deploying increased numbers of technicians and by increased monitoring. Thames also began to take action to offer better support to its vulnerable customers during periods of interruption.

Despite needing to trigger the use of one of its abstraction sites (designated locations from which water can be taken during times of shortage) for significant periods during the year, Thames was able to comply with the Abstraction Incentive Mechanism (AIM) during the year.

The CCG continues to be concerned that even greater focus is needed on Thames's infrastructure, as measured by WB1 – Asset Health Infrastructure (i.e. assets below ground). This is assessed using a basket of measures including unplanned interruptions to supply greater than 12 hours, mains bursts and low pressure. Again, the weather appears to have had a (disproportionate) impact on this target, with four major events contributing. Thames repaired more mains bursts and delivered a significant amount of planned network rehabilitation; however, the CCG is keen to ensure that the asset health investment in future years remains adequate to try and move this important measure forward for customers.

Thames has determined that it should restate its low-pressure measure; this was discussed with the CCG and it does seem to the CCG that the original measure did not fully reflect the actual picture, being very much a snapshot in time; it was important to the CCG that this did not impact other measures such as asset health and there is no such impact. However, the issue of low pressure and its wider implications (such as house values) is one which is rightly important to customers and Thames needs to continue to bear that in mind.

The quality of drinking water (WB3) is, of course, of critical importance to customers. Thames has seen improvement or a stable position across all measures and Thames would characterise this as an excellent year; however, the target is 100% and this was not met. The CCG has been made aware of a number of important performance improvement programmes on which Thames is working with the Drinking Water Inspectorate; these seem to have been carefully developed and are making appropriate progress. The related measure Asset health non-infrastructure (WB2) is green and stable.

The CCG takes considerable interest in Thames' progress in dealing with lead pipes in its customers' networks; its programme is now focused around removing pipes in schools. It is generally ahead of schedule, and more thoughtful planning is giving improved availability of access to school premises.



Water annual performance measures

	2017/18 Actual	2018/19 Actual
WA1: Improve handling of written complaints (%) [R]	96%	88% ▼
WA2: Minimise the number of written complaints [R] (No per 10k HH properties)	12.39	18.61 ▼
WA3: Improve customer satisfaction [R]	4.42	4.39 ▼
WA5: Customer side leakage free repair [R]	4,834	7,957 ▲
WB1: Asset health infrastructure [FP]	Marginal	Marginal
WB2*: Asset health non-infrastructure [FP]	Stable	Stable
WB3*: Drinking water quality supply [FP]	99.96	99.96

	2017/18 Actual	2018/19 Actual
WB4: Low pressure performance [R]	6	7 ▼
WB5: Supply interruptions >4hrs [FPR]	0.21	0.26 ▼
WB6: Security of supply index [FP]	97	98 ▲
WC2: Leakage [FRP]	695	690 ▲
WC3: Abstraction incentive mechanism [R]	-1676.29	-170.69 ▼
WC4: Customer education [R]	21,341	24,897 ▲

*Calendar year, [R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward

Water performance - 5-year measures

	2017/18 Actual	2018/19 Actual
WA4: Water efficiency [FP]	20.22	28.25
WB7: Security and emergency measures directive [FP]	39	42

	2017/18 Actual	2018/19 Actual
WB8: Flooding resilience [FPR]	4	747

Water performance - 5-year measures

Thames has continued its very good progress with water efficiency programmes, (WA4) and has already outperformed its 5-year target. This is to be commended. Thames is also well on track to deliver its end of AMP target for its compliance with environmental regulations (WC5). The delivery of eel screens and various surveys into the impact of abstractions have been undertaken in the year and further work is planned to ensure the target is met.

During 2018 Thames carried out a strategic review of its Security and Emergency Measures directive target (WB7, SB6). Thames has explained to the CCG that the scope and complexity of the work required to deliver the original inputs was too extensive and complex to be delivered in a single AMP. As a result, it now plans to deliver 326 outputs as against 591. Thames is not completely certain that even this can be delivered. The CCG cannot but be disappointed that such a retrenchment is necessary and is keen that Thames ensures that it is not so over optimistic in its plans for the coming AMP.

The measure for flooding resilience (WB8) is red. Thames delivered protection to a number of sites during the year but is now concerned that the cost of delivering the remaining sites is more than they originally estimated. Thames believes it is not cost beneficial to deliver the full plan and would therefore intend to give about £1m back to customers. The CCG have observed that customer research suggests that customers regard returning such a small sum as pointless and that they would prefer that Thames invested it appropriately elsewhere in improving the network. The CCG has been told it will be briefed on Thames's revised plans in due course.



Progress against waste performance measures



The CCG has been encouraged to see that, overall, wastewater performance measures (with two exceptions) are now green. It is especially pleasing to see that the internal sewerage flooding measure (SB4) is green for a second year, meaning that fewer customers had to experience the traumatic experience of sewage entering their homes and businesses. A return to average rainfall levels has helped, but Thames has also increased its use of data insight, customer education programmes, food service establishment visits and continued the tactical sewer cleaning programme. The target has been exceeded and Thames will receive a reward.

Customers are concerned about pollution incidents (SC2). While there has been a marginal increase in incidents recorded, the CCG are pleased that there have been no Category 1 (the most serious) pollution incidents for the first time in this business plan period. Thames tells the CCG that the overall numbers are in line with previous performance and well below the target. There were fewer serious incidents, but more incidents were recorded from sewage treatment works (SC3 - which is now red). There is apparently more focus on such occurrences and each breach is now reviewed by senior management. Thames believes that this will lead to overall process improvement - which is to be welcomed - and have given examples such as increased monitoring, better weather planning, updating of site operation manuals, better vegetation management in filter beds and increased communication between network and site teams. The CCG feels continued vigilance is needed and is minded that Thames had felt that these issues had been addressed after the various pollution incidents and its fines. It is worth noting that there have been no sewage treatment work discharge compliance failures in the second half of the year.



The two asset health measures (SB1 - Asset Health non-infrastructure and SB2 - Asset Health infrastructure) remain stable and green. The process improvement and management focus described above are a part of ensuring that this stability is maintained and improved upon.

Odour reduction continues to attract considerable comment from those affected, including situations where new build homes have been sited in odiferous areas. Thames has concluded its planned odour reduction programme, finding on occasion, that it no longer needed to take remedial action as the root cause was tackled and dealt with. However, it may well be that Thames needs to consider how to address "new" situations which arise during the course of the business plan period.

Sludge disposal (SC5) remained at 100% and on target.

The amount of energy imported less energy exported remains as red. There was a reduction from the previous year and Thames has explained that they are now making real progress with self-generation. However, the programme has not seen the progress with thermal hydrolysis plants that had been hoped for and there have been some operational issues also. Thames has recognised that these reasons and their high original starting point mean they will not meet their 2020 target.



Waste annual performance measures

	2017/18 Actual	2018/19 Actual
SB1*: Asset health non-infra [FP]	Stable	Stable
SB2: Asset health infra [FP]	Stable	Stable
SB4: Internal flooding incident other causes [FPR]	1,062	1,032
SC2*: Pollution incidents [FPR]	292	295
SC3*: STW discharge compliance [FP]	99.43	98.85

	2017/18 Actual	2018/19 Actual
SC5: Sludge disposal [R]	100%	100%
SC6: Customer education [R]	21,341	24,897
SC7: Odour reduction [FPR]	1,980	8,931
SA2: Minimise the number of written complaints [R] (No per 10k HH properties)	4.39	5.34
SA3: Improve customer satisfaction [R]	4.55	4.58



Waste performance - 5-year measures

	2017/18 Actual	2018/19 Actual		2017/18 Actual	2018/19 Actual
SB3: Properties protected from flooding due to rainfall	19	49	SC4: Water bodies improved or protected from deterioration as a result of Thames Water's activities	0	0
SB5: Contributing area disconnected from combined sewers by retrofitting sustainable drainage	0	0	SC8: Deliver 100% of measures to meet new environmental regulations	scheme delivered 2015/16	scheme delivered 2015/16
SB6: Compliance with SEMD advice notes	42	45	SC9: Reduce the amount of phosphorus entering rivers to help improve aquatic plant and wildlife	scheme delivered 2016/17	scheme delivered 2016/17
SB7: Population equivalent of sites made resilient to future extreme rainfall events	495,160	962,842			

*Calendar year, [R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward

Waste performance - 5-year measures

As part of its action to ensure properties are protected from flooding (SB3) Thames has submitted a proposal to Ofwat to readdress how properties are to be protected in the Counters Creek catchment, as it feels a strategic sewer is no longer needed. This discussion is continuing.

Thames has made progress with the population equivalent of sites made resilient to future extreme rainfall events (SB7). However, the costs of doing this were higher than anticipated and a further tranche of sites is unlikely to meet cost criteria meaning the 5-year target to 2020 may not be met. This is under review and is potentially of concern to the CCG,

Thames plans to report its progress fully against SB5 (Sustainable drainage) once its major work programme is finished, but its intention is to deliver the number required by the AMP.

Thames has assured the CCG that the target to reduce the amount of phosphorous entering rivers (SC9) will be delivered by the end of the AMP; the target has been restated in line with Environment Agency requirements. However, the measure relating to water bodies improved (SC4) will not be met as it stands; Thames will be seeking to amend the methodology to reflect the fact that action taken now can take up to 10 years to be measurable.

Thames has also assured the CCG that it will deliver compliance against environmental regulations (SC8) by 2020, although there has been some change within the programme.

Thames Tideway Tunnel

Thames have a number of operational and engagement targets relating to the Tideway Tunnel. The operational targets (T1B, T1C) are all green, although it is worth noting that Tideway are very much taking a lead in delivery at this point in the project life cycle and control the construction programme.

The measure relating to customer understanding of the Tunnel is now green, showing an improving trend. This is encouraging, not least as actual operation of the Tunnel remains some time away. It reflects the efforts of both Tideway and Thames to engage appropriately and enthusiastically with customers. A BBC documentary was both informative and enjoyable and active communications, especially through social media continue. The stakeholder measure (T2) shows there was "effective engagement".

The CCG would note, however, that the engagement currently inevitably is more focused on residents than bill payers and that this will need to evolve as the project gets nearer to completion. Recent comments by Tideway which suggested costs were rising means that this needs to be kept under close review so that appropriate communications can be made to bill payers if necessary.

Tideway Tunnel performance

	2017/18 Actual	2018/19 Actual		2017/18 Actual	2018/19 Actual
T1C: Completion of category 2-3 works [FP]	21	21	T2: Stakeholder and infrastructure provider engagement [R]	Yes	Yes

*Calendar year, [R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward

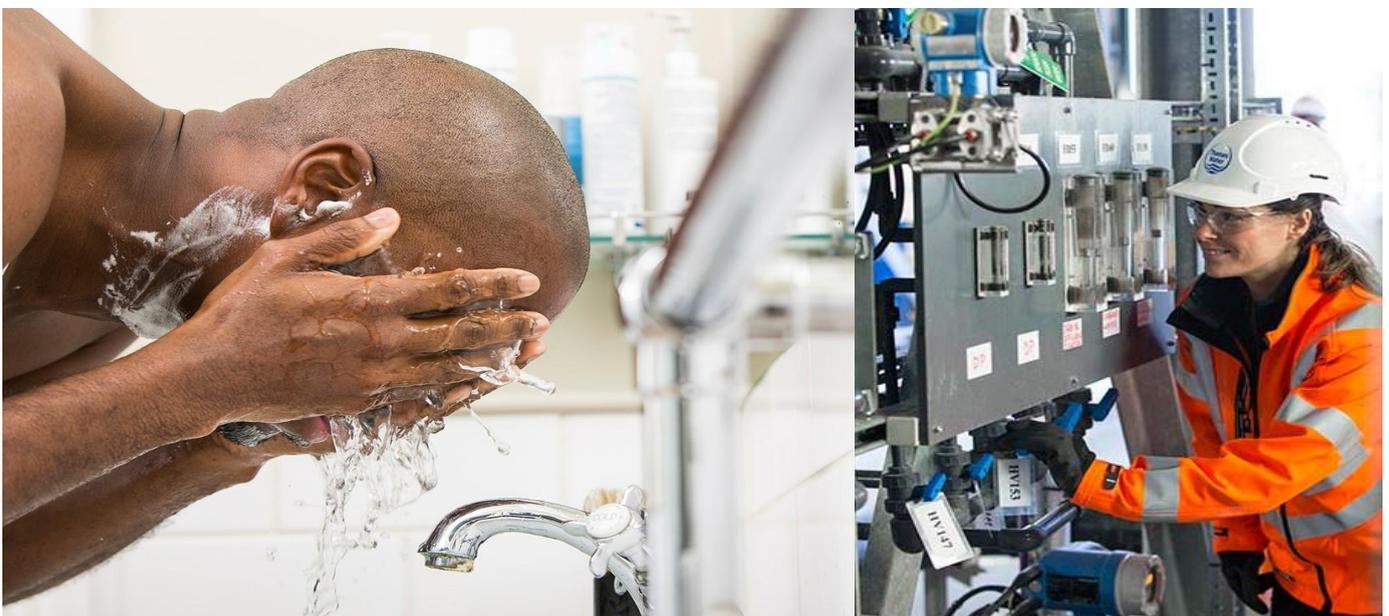


Progress against Retail performance measures

Given the importance to customers of effective contact with the company, the picture across written complaints is hugely disappointing overall. More specifically, written complaints from household customers relating to charging and billing (RA1), written complaints from customers relating to wastewater (SA2) and written complaints received from customers relating to water (WA2) have all increased, although those relating to wastewater are still green and ahead of target. The impact of the freeze thaw was marked, with an increase of relevant complaints of 94%; recovery from this was slow because of the need to deal with supply issues as a result of the dry summer. Thames has assured us that they have a new focus on complaints, tackling the root causes and seeking to improve processes; clearly there have been attempts to do this in previous years, but the CCG can only welcome this renewed focus. There is now even more management focus than before, and a complaints taskforce has been created. Trying to reduce supply interruptions and supporting customers through complex wastewater issues is at the heart of this effort. Unsurprisingly, given the volumes, handling performance of complaints also declined, with all the related measures (RA2, SA1 and WA1) now in the red. Reducing the number of complaints and turnaround time is where Thames has noted it is focusing.

Customer experience and satisfaction scores were also affected by the combination of the repercussions of the freeze thaw and the supply demand events. The overall SIM score (RA6) was red with an outturn of 75.03 against an internal target of 82.51. The new Billing and Customer Relationship Management system has now gone live with a limited number of customers now using it as part of a phased rollout. This is a significant milestone for Thames and the CCG understands that it will enable improvements to customer experience which the CCG looks forward to seeing. One specific measure relates to on-line account management supported by webchat (RB1) which is now green. All retail customer satisfaction scores relating to various aspects of the process were either red (RA4, WA3) or amber (SA3). There has been sustained effort to address performance, including more proactive communication with customers, changes to the website and better productivity and performance of technicians. However, the year end targets were not achieved.

The percentage of customers who have received a meter bill based on an actual meter read (RA5) is Green with performance exceeding target. There has been a marked increase in the number of customers who have chosen to switch to a metered account and as result this affected cash collection in year (RC2); the CCG is assured this will regularise as meters are read, customers are billed and make payment. The number of customers on a payment plan (RC1) has increased and is ahead of target, which is positive.



Retail annual performance measures

	2017/18 Actual	2018/19 Actual		2017/18 Actual	2018/19 Actual
RA1: Minimise the number of written complaints [R] (No per 10k HH properties)	17	18 ▼	RA6: SIM points performance relative to industry (/100) [FPR]	78.4	75.0 ▼
RA2: Improve handling of written complaints [R]	95%	88% ▼	RB1: Online account management supported by webchat [FP]	New online self-serve channel	Online Self-serve channel
RA3: Improved customer satisfaction (charging & billing) [R]	4.66	4.58 ▼	RC1: Increased number of customers on payment plan [R]	58%	58%
RA4: Improved customer satisfaction (Operations) [R]	4.43	4.44 ▲	RC2: Increased cash collection rates [R]	89.2%	87.9% ▼
RA5: Increase the number of bills based on actual meter readings [R]	97%	99% ▲			

[R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward

There are a number of measures which go across the various organisational boundaries.

Education

The CCG is pleased to note that significantly more students have been engaged than originally targeted as part of Thames's education programme (WC4 and SC6); the CCG is minded, however, that the programme remains somewhat reactive and that outcomes beyond attendance are not measured or recorded in any way. This is something that the CCG is looking for Thames to address in the coming business plan period, 2020-2025. Thames have tended to focus on students, but the CCG feel that more could be said and done with regard to current customers; some summary of what Thames's "Bin it don't block it" campaign has achieved would be welcome.

	2017/18 Actual	2018/19 Actual
SC6: we will educate our existing and future customers	21,341	24,897 ▲

[R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward



Innovation

The CCG received a presentation on Thames's approach to innovation during the year; the CCG continues to press Thames to share more case studies about innovation, as it is clear that much is being done, but little specific is highlighted on a regular basis.

Research and engagement with customers

Thames has continued to run an extensive and thorough research and engagement programme with its customers. It has consulted widely during the build up to its 2020-25 business plan (both submissions) and the draft Water Resources Management Plan process. The helpful document "What Customers Want" continued to play a key part in the internal Thames planning process, bringing customer views together in one place so that internal planners can take them fully into account.

Greenhouse Gases and Energy Imported

Finally, the greenhouse gas emissions from both wastewater and water operations continued to improve, largely due to Thames's switch to a green tariff in October 2016 but also due to reducing emissions from sludge incineration by switching to advance digestion – reducing the principal area of emissions for Thames from the sewage and sludge treatment process.

	2017/18 Actual**	2018/19 Actual		2017/18 Actual**	2018/19 Actual
SC1: Greenhouse gas emissions [R]	231.7	230.0 ▲	WC1: Greenhouse gas emissions [R]	46.2	45.7 ▲
SD1: Energy imported - energy exported [R]	431	396 ▲	WD1: Energy imported - energy exported [R]	510	520 ▼

[R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward

**2017/18 performance has been restated in 2018/2019 following incorrect volume data being provided by a third-party supplier. The restated figure is lower than previously reported.



Conclusion

Undoubtedly the weather conditions Thames faced in 2018/19 (a combination of the effects of March 2018's Beast from the East followed by the hot summer of 2018) presented real challenges to its service delivery to customers (in terms of network, operational response and customer service). The CCG appreciates these were difficult situations but feels Thames must equip and organise itself, so it can be resilient to such events - especially as extreme weather events are likely to be increasingly common due to climate change.

The CCG continues to urge Thames to put the customer at the heart of its thinking and where possible to accelerate what it seeks to do in the next business plan period (2020 - 2025) where it knows that would make a material difference to customers in the coming years.

Annex A

Key to performance tables

Performance at, or favourable to, Thames Water's committed performance level for 2018/19

	Performance at, or favourable to, Thames Water's committed performance level for 2018/19, or improving trend for T3
	Performance within the range allowed without a penalty (the 'deadband') if defined, or, if not, within 5% of our committed performance level, or marginal asset health or stable trend for T3
	Performance below the deadband (if defined), or more than 5% adverse to our committed performance level, or deteriorating asset health, or declining trend for T3
	Performance information either not available, not applicable or not relevant
	Improvement from 2017/18 to 2018/19
	No change year on year
	Declining performance from 2017/18 to 2018/19

