



Appendix 2

Engaging and delivering for our customers

Section 1

Introduction

A Purpose of this document

- 1.1 Not only do we serve our customers, they are also part of the water cycle. Engaging them in a well-informed discussion as part of the process of building our plan and as an integral part of the on-going operation of our business is therefore critical to ensuring they are truly at the heart of everything we do.
- 1.2 The purpose of this document is to set out the process we have developed to build our plan to meet the diverse needs of our customer base. As part of our engagement all of our **15 million** customers had the opportunity to shape our plan and **984,000**¹ have actively participated in the engagement process.
- 1.3 We have challenged and adapted our customer engagement approach, learning from other companies and agencies, and creating a dedicated engagement tool to inform our planning process. As a result, we have completed what we believe to be a sector leading, innovative research programme, endorsed by our Customer Challenge Group (CCG).
- 1.4 Our objective has been to understand what our customers want, to build a comprehensive business plan to reflect their needs and priorities, and to distil these into a set of Performance Commitments for our customers to hold us to account. This process has encompassed multiple methods of engagement over a significant period of time to ensure we have built an accurate and comprehensive view, taking into account the diversity of our customer base and the unique local perspectives of the communities we serve. Figure 2 highlights our engagement opportunity and challenge in terms of the range of customer preferences and priorities across our region.
- 1.5 We will continue to evolve the delivery of our business plan in line with the rich customer data and insight we collect day in day out, to ensure we are meeting our commitments in the eyes of our customers and have a process to recognise and address their evolving needs.
- 1.6 The multiple sources of insight from our customer engagement process are summarised in 42 specific 'wants and preferences' within our What Customers Want (WCW) publication.² This document is the foundation of our business planning process and has been a rich and regularly updated evidence base for our planning teams and our CCG. We organised these into five customer outcomes using this insight to carefully construct 53 Performance

¹ Thames Water, CSD017-PR19-What Customers Want triangulation methodology, page 51

² Thames Water, CSD002-PR19-What Customers Want – consolidated report, page 7

Commitments (PCs),³ which link directly back to what customers want. To deliver these commitments we have developed five strategic priorities, which when delivered successfully, will be a major step forward towards achieving our vision of being 'Here for You'.

Figure 1: Our line of sight to what customers want in our business planning process



Source: Thames Water, Customer experience team

1.7 At a high level customers have told us that they want us to:

- Hold bills flat on average in real terms for the duration of AMP7;⁴
- Provide significantly more support for customers in vulnerable circumstances – as well as increasing our priority services register to 400,000 households, we will also increase the number of households receiving financial support to 200,000⁵ in AMP7,
- Invest significantly in improving outcomes and delivering a more resilient service – we propose to invest £2.1bn in AMP7 to improve the resilience of our infrastructure;⁶ and
- Make a meaningful improvement in financial resilience and reduction in gearing – we propose to reduce gearing by 5% and increase our equity buffer by more than £2bn.⁷

³ Thames Water, CSD005-PR19-Detailed Performance Commitments

⁴ Thames Water, CSD002-PR19-What Customers Want – consolidated report. Be a responsible company, page 73

⁵ Thames Water, CSD002-PR19-What Customers Want – consolidated report. Be a responsible company, page 75

⁶ Thames Water, Appendix 4-PR19-Resilience, Section 4, Section B, What our plan will deliver



- 1.8 The results of our engagement process showed that 67% of household customers found our 2020-25 plan acceptable and 68% found it affordable.⁸ We asked customers what majority percentage was reasonable for us to go ahead with our plans and they told us we should reach 63% acceptability and 62% affordability,⁹ so we are satisfied and confident that our plan reflects what our customers want.
- 1.9 Throughout this process, we have worked with a very active CCG from 2015 to 2018, having met 70 times through 40 main groups, 16 Customer Engagement sub-groups and 14 Finance and Business Planning sub-groups.¹⁰ Members have also attended numerous 'deep dives' on particular topics outside the main meetings (for example, vulnerability and our priority services strategy) and at least one CCG member has attended a session or event for each engagement project. We have endeavoured to ensure a thorough level of CCG engagement, meeting their challenges head-on and working closely with them to ensure a robust business plan which meets our customers' needs, is stretching, ensures value for money and explains our trade-offs (for example in challenging our leakage performance improvement, we have had to balance deliverability and customer preferences). More details of engagement with our CCG and their challenges can be found in TSD017¹¹ and in the CCG's independent report, ¹² which is published alongside our plans.

⁷ Thames Water, Appendix 6-PR19-Risk and Return, Section 1, Capital Structure

⁸ Thames Water, TSD019-CR50b-PR19-Final Acceptability Test Stage 2, page 4

⁹ Thames Water, TSD019-CR50b-PR19-Final Acceptability Test Stage 2, page 4

¹⁰ Thames Water, CSD004-PR19-CCG Report

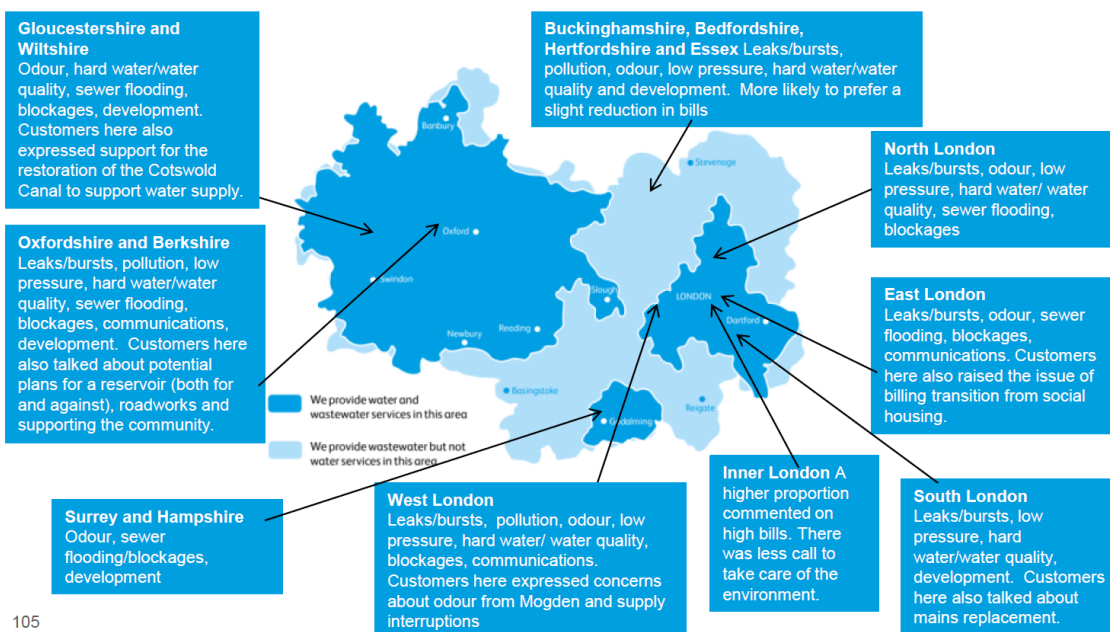
¹¹ Thames Water, TSD017-PR19-CCG challenge log

¹² Thames Water, CSD004-PR19-CCG Report

Figure 2: What Customers Want - the diversity of customer needs and preferences across our region.

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.



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Source: Thames Water, CSD002¹³

¹³ Thames Water, CSD002 – PR19 What Customers Want – Consolidated report, page 105

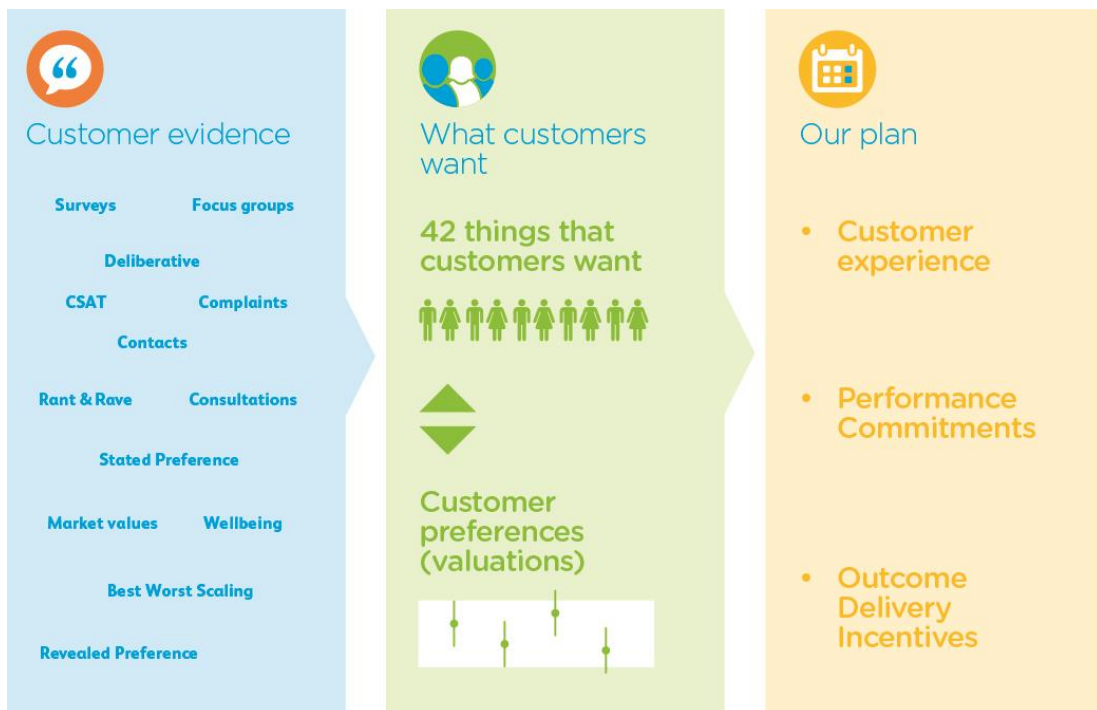
Section 2

Understanding what our customers want

A An extensive and innovative customer research and engagement approach

- 2.1 This section sets out how we engaged our customers, collected customer evidence, and combined and cross-checked (or 'triangulated') this into robust insights which are addressed in our business plan. This approach ensures our plan has a compelling and direct line of sight to what customers want.

Figure 3: Customer line of sight methodology



Source: Thames Water, Customer experience team

- 2.2 The evidence from our engagement has been triangulated into a number of key documents summarised below. By triangulating this data we have been able to create customer valuations which determine investment priorities, the level of service in each area of the business, and the overall balance of our Business Plan:



- The first, 'What Customers Want' (WCW) takes the qualitative and quantitative research we have conducted plus the insight from our day-to-day engagement and summarises it into 42 key messages¹⁴ which have been used to inform business planning. Each piece of evidence was reviewed taking a number of criteria into account (purpose, method, scope, area, age and sample size) and a qualitative assessment made of its overall contribution to the evidence base.
 - The 'Customer Preferences Research Summary' report¹⁵ helps us to assess the value of our services to customers, wider society and the environment. We use this evidence to determine investment priorities and appropriate trade-offs, the level of service in each area of the business, and the overall balance of the business plan. It ensures that our Performance Commitments reflect customers' relative priorities for maintaining and improving services. It also informs the design of our Outcome Delivery Incentives (ODIs), so that the rewards and penalties associated with our performance levels reflect the value of outcomes delivered for customers, society and the environment.
 - The triangulation report¹⁶ documents the PR19 customer and societal values evidence base which is set around the Risk Framework Operational Performance Measures (OPMs) and the approach for triangulating customer valuation evidence which underpins our investment prioritisation processes.
- 2.3 These insights and values were the inputs to the design of our Performance Commitments, ensuring they reflected customer priorities of maintaining and improving service (PR19 Performance Commitment Values Report¹⁷).
- 2.4 They are also embedded in our business planning process, and inform the real-time decision making which takes place within our business in our asset planning decision support tools and systems, including APS (Asset Planning System).

¹⁴ Thames Water, CSD002-PR19-What Customers Want – Consolidated report, page 7

¹⁵ Thames Water, CSD018-PR19-Customer Preferences Research Summary

¹⁶ Eftec and ICS Consulting, CSD019-Triangulation Report – Customer and Societal Valuations

¹⁷ Eftec and ICS Consulting, CSD020-PR19-Performance Commitment values

Section 3

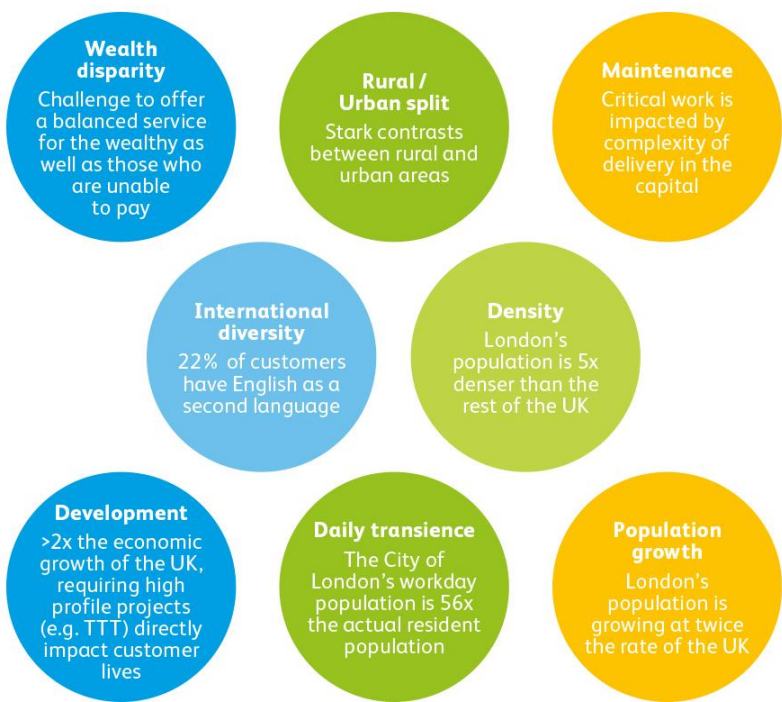
Engaging our customers

A Our customer base

- 3.1 We have one of the most diverse customer bases in the UK. Providing services in a global capital means we have customers with high expectations, who expect a highly tailored service. In contrast, we also have highly localised deprivation, with large numbers of people who do not have English as a first language, and significant levels of customers who move home on a regular basis. This reinforced the importance of ensuring we have captured the views of all customers through our engagement.

Figure 4: A unique set of circumstances¹⁸

Thames Water delivers services in a unique set of circumstances



Source: Customer engagement presentation to Ofwat, February 2018 (amended)

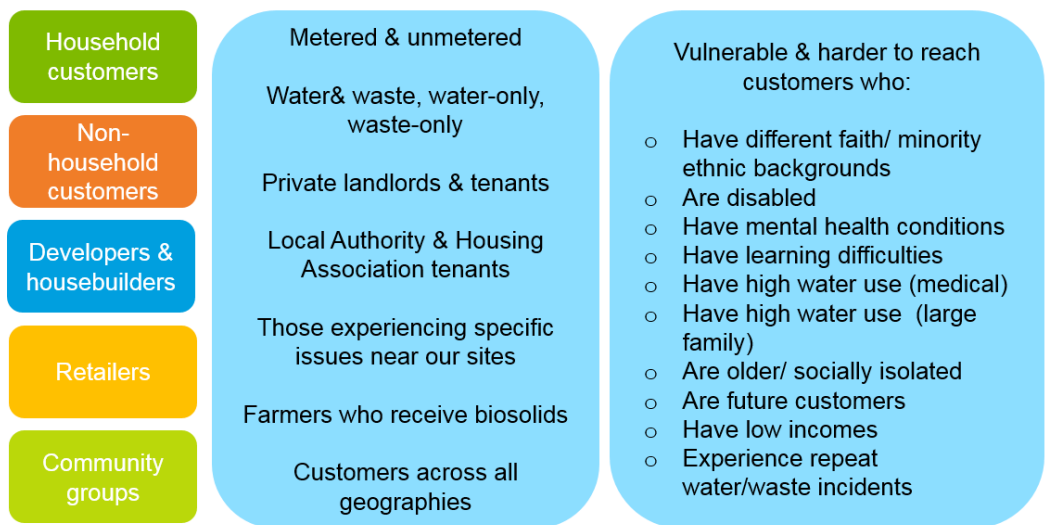
¹⁸ Please note that the international diversity statistic of 22% of customers with English as a second language is based solely on our London-based customers



3.2 We have gathered insight from all segments of our customer base. TSD018 describes this sampling strategy in detail, and demonstrates how we set quotas to ensure we had a diversity of views in both household and non-household segments.¹⁹ This includes those customers who have never made contact with us, those who have experienced a failure in the service we provide, those who have particular needs due to illness or disability, as well as those who will be customers of the future. This has enabled us to ensure that our plans reflect the diverse needs of our customers. The following sections describe how we have engaged with some segments in more detail – and how their views differed.

Figure 5: Customer Segments we have engaged with

We’ve spoken to customers from many segments



Source: Thames Water, Customer experience team

B Engaging harder to reach customers and customers in vulnerable circumstances

3.3 Customers in vulnerable circumstances have been engaged throughout, from more generic engagement about our overall plans through to specific research on priority services and social tariffs. CSD002²⁰ highlights the details of what we have learned.

3.4 We know that some audiences, often vulnerable customers, are more difficult to engage through traditional approaches, perhaps because they find it difficult to attend a workshop in person. Throughout our gathering of insight we conducted tailored ‘overlays’ to ensure their views have been heard in our planning process.

¹⁹ Thames Water, TSD018-PR19-PR19 customer research and sampling approach

²⁰ Thames Water, CSD002-PR19-What customers want – consolidated report, pages 75-76



- 3.5 The results were valuable, as although customers from our overlays typically had very similar views to our core customers, there were a few notable differences. For example customers with disabilities and health conditions said it would be more difficult for them to adapt in the event of a water shortage and wanted us to prioritise them in an emergency, whilst older and socially isolated customers were particularly concerned about leakage and the impact on bills.²¹
- 3.6 We used these views, and those gathered through customer immersions, to produce our draft affordability and vulnerability strategy. This strategy was then tested through interviews with experts and partner organisations to ensure we use best practice from across multiple industries.

C Engaging our future customers

- 3.7 Engaging our future customers is vitally important to enable us to deliver the outcomes they want for their future. Although not bill payers yet, the long-term investment decisions that we make today will impact the service that they will receive, and what they pay in the future. These younger customers, who have grown up in a digital world, will set the standards for customer experience of the future and act as a key source of innovation to challenge the status quo. Details of their views can be found in CSD002.²²
- 3.8 It was important, therefore, to engage future customers when we were exploring topics such as intergenerational fairness and water resources, where their views on providing long-term resilience were key.²³
- 3.9 In addition to our extensive education programme, engaging with our future customers gives us the opportunity to embed key messages about the value of water and the importance of being water efficient from a young age.
- 3.10 To foster innovation we work very closely with two University Technical Colleges (UTCs) in Reading and London to help encourage and support future engineers and scientists. We also support events which encourage debate and discussion of water-related issues. For example, we sponsored three water based debates at the 'Battle of Ideas' in the Barbican in London in 2016 and a regional debating contest, 'Debating Matters', where sixth form students debated about the future of water resources.
- 3.11 In 2018 we held our first annual innovation event, 'H2InnOvate', where we worked with University-age students, to engage and inform them about the water industry, while exploring real industry issues.²⁴ These events are a vital opportunity to give future

²¹ Thames Water, CSD002-PR19-What customers want – consolidated report, page 75

²² Thames Water, CSD002-PR19-What customers want – consolidated report, page 98

²³ Thames Water, TSD019-CR19-PR19-Intergenerational fairness

²⁴ Thames Water TSD031-PR19-H2InnOvate Promotional Video and TSD030-PR19-H2InnOvate Post Event Video

customers the time to consider the key challenges that the water sector faces and discuss potential solutions to these problems with water industry experts.

Figure 6: Students problem solving at our H2Inn0vate event 2018



Source: Thames Water, Stakeholder relationship team

- 3.12 As well as talking directly to our future customers we have been looking at ‘futurolgy’ – to stress test our assumptions, and challenge our frame of reference using a futurolgy lens, which looks forward to predict what trends and important issues are likely to feature in the future.²⁵

D Engaging retailers and developers

- 3.13 Through our engagement we have collected the views of our non-household end-consumers for whom we set quotas for in our sampling strategy,²⁶ but our approach to engaging the 21 non-household retailers and developers²⁷ who operate in our area has been built on our current working relationships established with them. We hold an annual retailer forum and an annual developer day as well as regular service reviews, and we have utilised these sessions to engage the groups on their views about our plans and what they

²⁵ Thames Water, TSD019-CR20-PR19-Future Trends Outputs for Planning, page 5

²⁶ Thames Water, TSD018-PR19-PR19 Customer research and sampling approach, page 13

²⁷ Thames Water, CSD002-PR19-What Customers Want – consolidated report, page 14

need from us as a company. We have then supplemented these forums with some specific surveys, a deep dive with retailers and several deep dives/ polls with developers.²⁸

- 3.14 The deep dive with retailers involved in-depth telephone interviews and an online survey, which showed that non-household retailers are particularly concerned with any issues which impact billing of their non-household end-consumers. They prioritise an improved method for submitting forms, with the ability to track the status of services, as well as prioritising the improvement of data accuracy, particularly that which impacts the charges they pass on to their customers. They would like to receive better routine communications and be treated more like the end customer. This should include proactive notifications about planned and emergency work and personal interactions with key contacts at Thames Water. For this reason we have invested £1.5m in a Retailer portal which we will continue to develop over AMP7 in response to customer requirements.
- 3.15 Our deep dive work with developers included 34 in-depth interviews and feedback gathered during our annual developer day events. The findings from this work showed that all Developer Services customers would like some form of consistent/named one-to-one open dialogue relationship with Thames Water, which would help in overcoming problems and delays across different processes. It also showed that specific needs for different developer segments could be met with a mix of improved communication, centralisation and collaboration with us.
- 3.16 Retailers would like to see better routine communication with them and their customers, personal interactions with named contacts, improved methods of working and improved data accuracy.²⁹ Building on the work we are currently undertaking within the current period, we have planned to continue with the necessary resourcing in AMP7 to meet our retailers and customers' expectations of delivering an effective market experience.
- 3.17 Developers would like increased collaboration on future plans, more data sharing and greater collaboration to resolve issues quickly.³⁰ Our plans for PR19 include continuing the well-established quarterly 'ask the expert' sessions to support developers on future sites; developing a new pre-planning service to support developers with any network capacity issues; and continuing to develop our Customer Relationship Managers for developers who need a quick resolution or to escalate issues. We are also planning on introducing a dedicated team for Self-lay providers who lay mains on behalf of developers, which we adopt back. This will include account executives and a dedicated field team to provide support to key processes and service delivery. We have started customer journey mapping as part of our future transformation plans, highlighting the key customer touchpoints so we can focus on the right areas. We are planning to deploy more resources to work

²⁸ Thames Water, TSD019-CR64a-PR19-PR19 Non-Household Retailers, TSD019-CR56b-PR19-Developer Services Deep Dive and TSD019-CR56c-PR19-Developer Day Pre-survey

²⁹ Thames Water, CSD002-PR19-What customers want – consolidated report, page 94

³⁰ Thames Water, CSD002-PR19-What customers want – consolidated report, page 96

collaboratively with the code for adoption programme team, in order to shape the new levels of service which are right for our customers.

- 3.18 Our Retailer customers have told us that current market performance measures do not fully reflect their priorities, for example, they indicated in a CCWater survey that wholesale service failures could be attributed to 23% of written complaints. It is critical for our end customers and the successful operation of the market that we understand and address the root causes of this dissatisfaction. It is for this reason we have proposed a new PC for R-MeX. We have also challenged ourselves to enrich and improve our data accuracy since we have seen a doubling of empty properties since market opening in April 2017. In response to this we have also proposed a Non-Household (NHH) voids Performance Commitment³¹ to enable us to work collaboratively with Retailers.
- 3.19 The results of this extensive spectrum of engagement with different customer segments have been broadly consistent in their expectations of our company but there are differences in views. We have summarised some of these differences in CSD002³² helping our teams to understand what our plans may mean for any given group such as developers, retailers or tenants and to tailor our services appropriately. TSD035³³ is a video we have developed to inform our customers how we have been engaging with them to build our business plan and to explain the story so far.

E Engaging on a range of issues

- 3.20 To assure the integrity of the customer research and engagement process there was a need to ensure we understood what customers think about the services that are often invisible to them, such as the sewage treatment process. We therefore instigated a large programme of studies³⁴ to gather insight to supplement the data we collect continually from our customers, which is primarily about service interactions. These additional studies allowed us to explore specific services and topics in detail with our customers, providing insightful context and a detailed understanding of their views.
- 3.21 We ensured that customers were given the opportunity to engage in issues which may not be visible to them but remain critical areas of our business. To do this, we made sure our customers were well informed and engaged about a broad range of topics.
- 3.22 In much of the deliberative work conducted we often started with a wider explanation of the water cycle, what a water company is, what we do and **how we compare** against our counterparts. If relevant, we also covered other industries. This allowed the customer to

³¹ Thames Water, CSD005-EWS08-PR19-Empty Business Properties

³² Thames Water, CSD002-PR19-What customers Want – consolidated report, pages 85-92

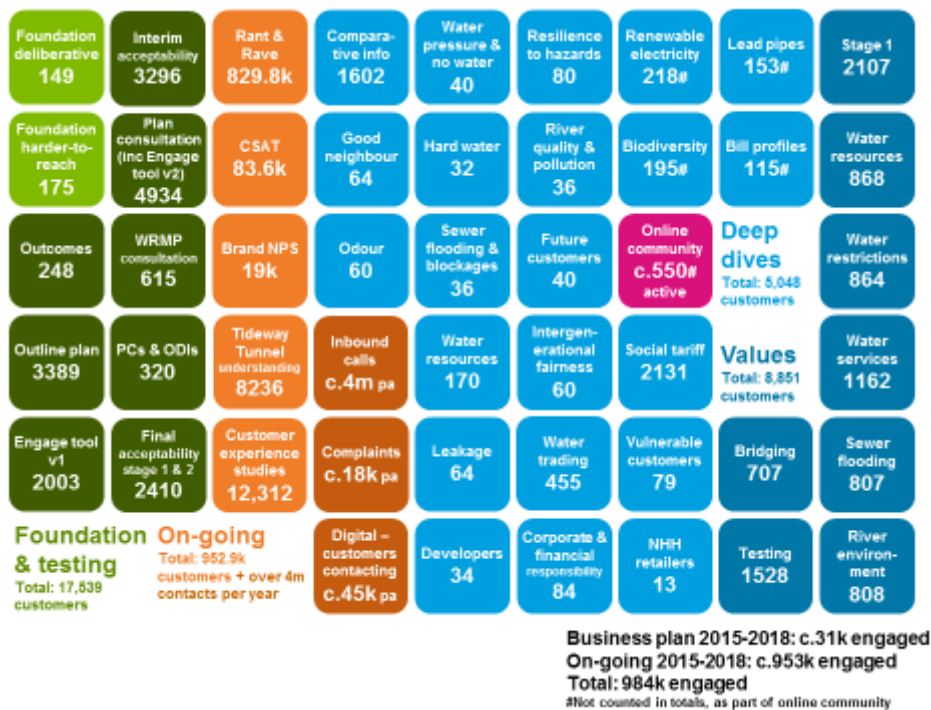
³³ Thames Water, TSD035-PR19-Story So Far video

³⁴ Thames Water, TSD019-PR19-Customer research, Consultation & Operational analysis reports

explore and improve their understanding of the issues and enabled a more informed discussion.

- 3.23 As we have progressed in our engagement, we have been guided by our customers as to the areas to focus on. For example, the PR19 foundation deliberative research (TSD019-CR07³⁵) informed both the topics discussed in our deep dives (e.g. TSD019-CR26³⁶) and the first stage of our customer preferences research (TSD019-CR41³⁷). We also used knowledge from each piece of research to improve the language and explanations in our subsequent studies.
- 3.24 Figure 7 provides a summary of the areas explored with customers through direct PR19 engagement and the number of customers involved in each piece of research. The topics were driven by our customer engagement, with our early deliberative work highlighting the areas customers had raised as important. We subsequently built our programme of deep dive engagement based on these early conversations and expanded on topics as we gained more understanding of what mattered to our customers.

Figure 7: Summary of engagement showing numbers of customers involved



Source: Customer engagement presentation to Ofwat February 2018 (updated Aug 2018)

³⁵ Thames Water, TSD019-CR07-PR19-Thames Water PR19 Deliberative Research

³⁶ Thames Water, TSD019-CR26-PR19-Deep dives

³⁷ Efec and ICS consulting, TSD019-CR41-PR19-Customer Preferences Research Programme Stage 1 Study



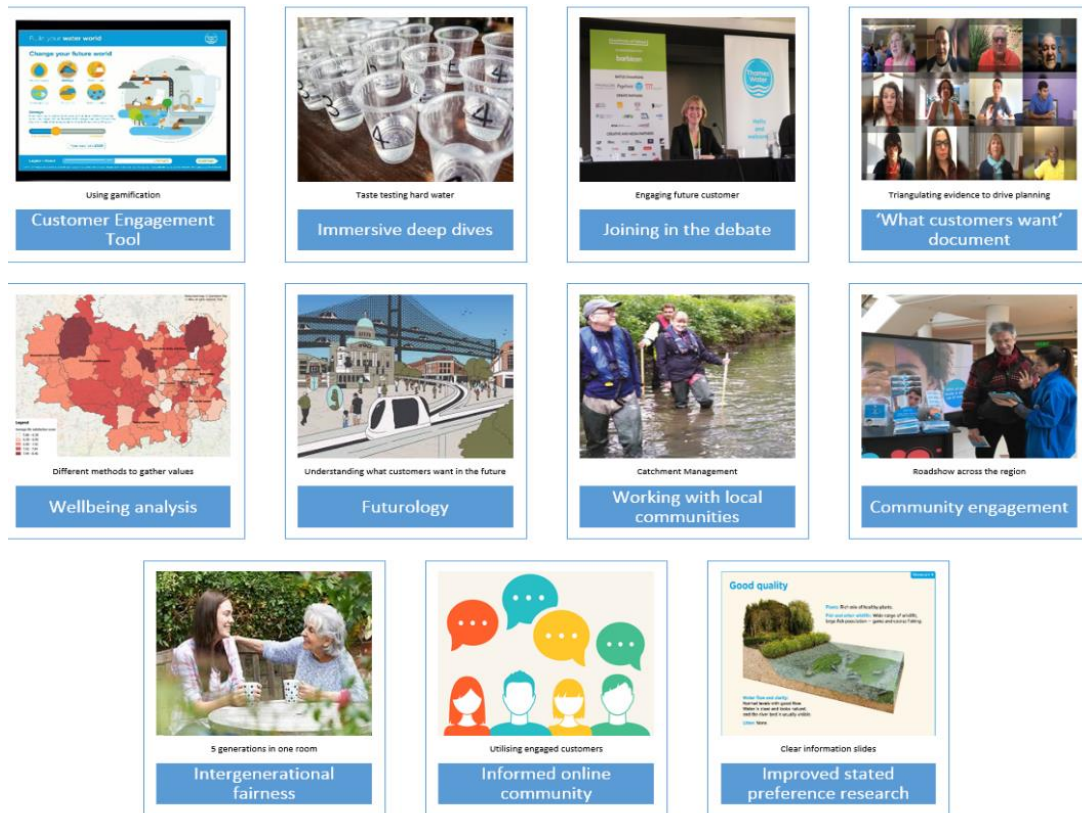
- 3.25 Some topics have been so fundamental to our underlying strategy that we have covered them across all engagement activities. One such area is resilience where we have introduced the topic with customers across multiple engagement activities since it is multifaceted and we needed to explore customer views on the operational, asset-related and financial aspects of resilience. The triangulated view of what our customers expect in terms of resilience can be found in message 23 in CSD002.³⁸

F Engaging customers in an innovative way

- 3.26 Figure 8 provides some examples of the ways in which we have sought to continually innovate our approach to ensure our plan is built upon a rich, robust dialogue with our customers. For example; adopting new techniques such as **subjective wellbeing** to get behind customer preferences about our services; expanding our breath of engagement by exploring **intergenerational fairness** with a room full of customers from every generation and looking to the future through **futurology workshops** to push the boundaries of 'traditional' engagement.

³⁸ Thames Water, CSD002-PR19-What customers want – consolidated report, page 60

Figure 8: Examples of how we have sought to continually innovate in our approach to customer engagement



Source: Thames Water, Stakeholder Relationship Team

- 3.27 We have also worked to improve how we have engaged customers and to share our knowledge through UK Water Industry Research (UKWIR) groups and research conferences. In November 2016, we hosted an industry event with CCWater and Water UK which was attended by Ofwat to encourage collaboration in this area, and to help inform and showcase new and innovative methods to the water industry as a whole. This event encouraged discussions about areas such as triangulation and preferences research (which has proven insightful and influential in our research), and shared knowledge and best practice across the industry.
- 3.28 In addition to this, we have analysed customer satisfaction feedback, operational key performance indicators (KPIs), social media interactions and sentiment, and complaints. We have completed over 100 immersion sessions with customers where we visit them in their home to get feedback. Most recently we completed this exercise to understand the impact of a trunk mains burst in Hammersmith (January 2018) and the Freeze Thaw event which impacted the water industry (March 2018). We also worked with expert organisations in specific fields, such as those who work with customers in vulnerable circumstances, to draw on their expertise so we could gain deeper insight into particular segments. The result of combining new engagement and research tools and techniques with our own customer and operational insight has provided a rich and robust evidence base.

Figure 9: Case study – Customer engagement community

- As part of our ongoing engagement we considered that, at points in our research for PR19, we would benefit from maintaining a panel of customer research participants.
- Some members of our online community had already taken part in one of our previous qualitative research activities, and were originally recruited to be broadly representative of our customer base. Although a wide range of different customer types completed the online community activities, some participants were more knowledgeable about Thames Water than others due to participating in previous research – so they were more readily able to share their views on certain topics than typical customers.
- In very practical terms, cultivating and maintaining our customer engagement community also provided us with a way of quickly and cost-effectively gathering views.
- We provided them with regular updates and engagement tasks to complete which kept them as a key part of our journey. By the submission of our business plan, our community included 889 customers, of which 550 were actively completing tasks and they had looked at 23 topics, ranging from the layout of our annual bill to gathering views on lead pipe

Source: Thames Water, Customer Experience Team

Section 4

Our customer research process and timeline

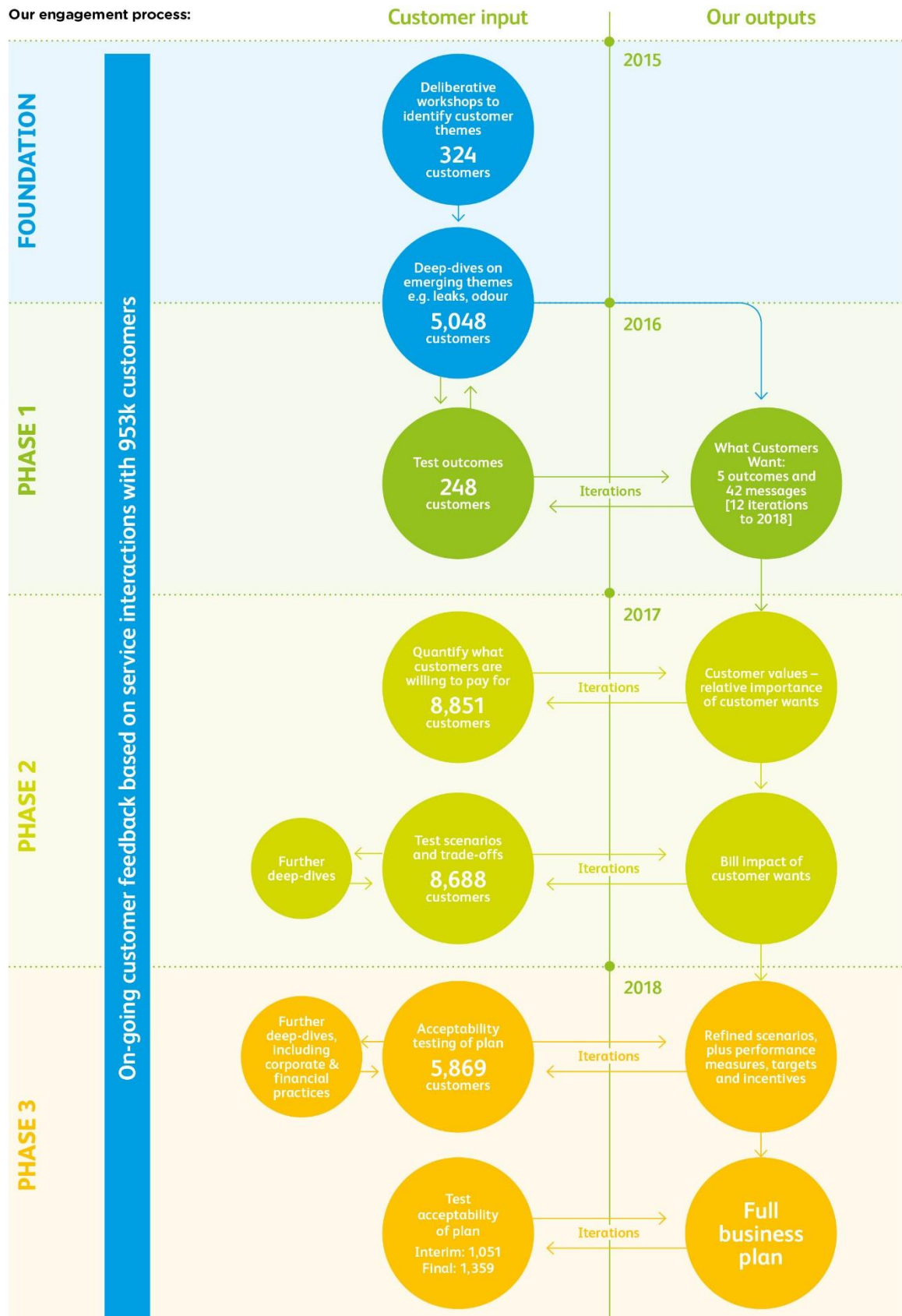
A Customer research timeline

- 4.1 Our customer research programme has been iterative and designed to build a robust understanding of what our customers need and expect from us as a company. Figure 10 sets out at a high level the end-to-end process and core activities which informed each cycle (TSD019 contains research reports and day to day insights which have informed the plan).³⁹ We initially started by in 2015 by collecting our customers' views on their wider priorities, and since then we have collected 954,000 pieces of customer feedback,⁴⁰ which have been explored in more depth via a series of deep dives, and tested through wider engagement activities. This process was repeated between 2015 to August 2018, continually gathering insights driven by what our customers had told us and then testing back with a wider audience of customers through our 'conversations'.

³⁹ Thames Water, TSD019-PR19-Customer research, consultation and operational analysis report

⁴⁰ Thames Water, CSD017-PR19-What customers want triangulation methodology, page 50

Figure 10: Engagement timeline



Source: Thames Water, Customer experience team

- 4.2 **Foundation stage – understanding what customers want:** We started a conversation to understand customers' key priorities, using deliberative techniques to explore their perspectives on the services we provide and the language they use to describe them. We used this stage to define our 'outcomes' and provide a customer-centric framework for further insight gathering and triangulation.
- 4.3 **Phase 1 – testing and confirming 'What Customers Want':** We collated the ongoing insight received from customers through each cycle, from NPS surveys, 'rant and rave', complaints analysis and journey development; providing an up-to-date view of 'what customers want' from this rich data source. We used a mix of quantitative, qualitative and co-creation techniques in these areas, which included deep dives directly with our customers **on specific topic areas**. Dependent on the complexity of the topic, we also used more deliberative methods for areas such as intergenerational fairness and online panels for simple subjects such as lead piping.
- 4.4 **Phase 2 – testing and confirming Performance Commitments, ODIs, trade-offs:** This extensive work enabled us to understand the value customers place on our services and involved revisiting previous materials to make them more appealing and relevant, starting afresh and testing different ways of survey presentation through cognitive, focus groups and hall testing. It involved triangulating **Willingness to Pay** values against a variety of other techniques including **revealed preference**, **market data** and **value transfer**, and more innovative areas such as **subjective wellbeing**. Customer valuations were then rigorously tested against wider sources such as **operational data** and **customer contacts** (see CSD018⁴¹ and CSD019⁴²).
- 4.5 **Phase 3 – acceptability testing and finalisation of plan:** At regular points across the programme, our integrated planning process took these customer wants, to inform our planning prioritisation⁴³ - sharing it with our customers, teams, our Board and our CCG so that it could be reviewed, challenged and built into our business plan. During customer testing we explored whether we had accurately reflected customer feedback in our planning outputs with our customers and stakeholders. This included three significant customer consultations as well as a number of testing phases. We replayed what we had heard so far and the decisions we had made as a result, enabling a transparent, two-way dialogue about our emerging plan.

⁴¹ Thames Water, CSD018-PR19-customer preferences research summary: strategy, implementation and application

⁴² Eftec and ICS Consulting, CSD019-PR19-Triangulation Report - Customer and Societal Valuations

⁴³ Thames Water, CSD017-PR19-What customers want triangulation methodology



B Foundation stage – understanding what customers want

- 4.6 During the foundation stage, much of the deliberative work we conducted started with a wider explanation of the water cycle, what a water company is, what we do and **how we compare** against our counterparts. If relevant, we also covered other industries. This allowed our customers to explore and improve their understanding of the issues and enabled a more informed discussion. The output was the first iteration of our WCW document.⁴⁴

⁴⁴ Thames Water, CSD002-PR19-What customers want – consolidated report

Figure 11: Mapping what customers want to outcomes



Source: Thames Water, Customer experience team

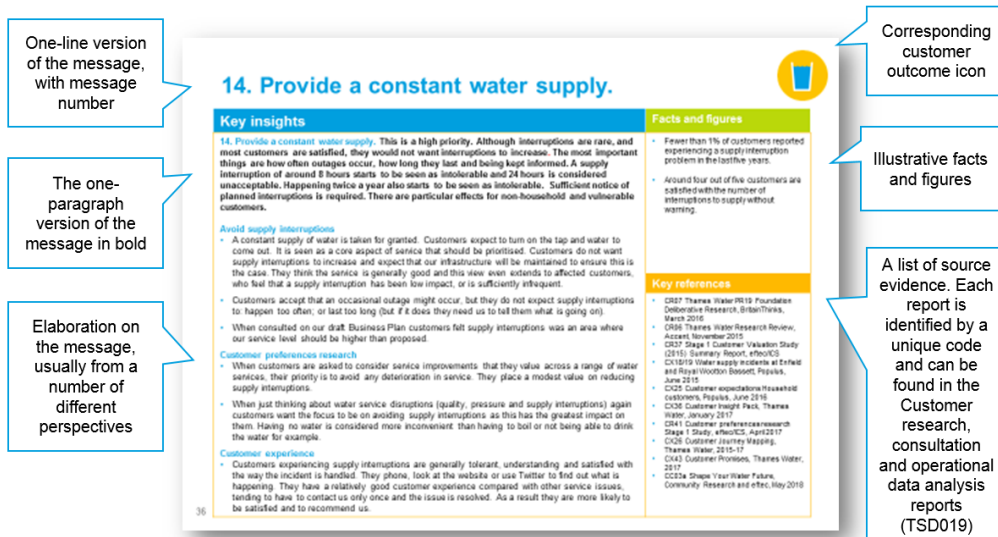
- 4.7 Our WCW document summarises our customers' views by distilling this down into 42 key messages⁴⁵ - we began this process with a blank sheet, using what our customers told us, to inform its structure.

⁴⁵ Thames Water, CSD002-PR19-What customers want – consolidated report, page 7

Figure 12: How 'What Customers Want' is structured

How the customer messages work.

Each of the 42 customer messages is covered in more detail in the main body of the report, arranged around the 5 customer outcomes.



Source: Thames Water, CSD002-What customers want – consolidated report⁴⁶

- 4.8 The aim of WCW was to provide an easy-to-use summary of all our insight. It was structured around five Customer Outcomes, which were developed as an output of our original deliberative events.⁴⁷ The messages under each Outcome expanded as we gathered more insight, with some messages evolving as we explored them in more detail with customers (such as lead pipes), and in other cases, new areas were identified as we prompted customers with new information, for example, financial transparency. This process was reviewed and robustly challenged by our CCG to ensure our plans reflect genuine customer needs and priorities.⁴⁸
- 4.9 Some messages such as 'reduce leakage' and 'provide a constant supply of water' were areas we had expected our customers to focus on, but other areas such as 'provide long-term resilience' and 'contribute to the local community' were areas we hadn't previously heard such depth of insight from our customers as to how and why they valued this.

⁴⁶ Thames Water, CSD002-PR19-What customers want – consolidated report., page 4

⁴⁷ Thames Water, TSD019-CR07-PR19-PR19 Deliberative research

⁴⁸ Thames Water, CSD017-PR19-What customers want triangulation methodology

C Phase 1 – Testing What Customers Want

- 4.10 As we progressed our engagement, we were guided by our customers as to the areas to focus on. For example, the PR19 foundation deliberative research (TSD019-CR07⁴⁹) informed both the topics discussed in our deep dives (e.g. TSD019-CR26⁵⁰) and the customer preferences research (TSD019-CR41⁵¹). We also used knowledge from each piece of research to improve language and explanations for all subsequent studies.
- 4.11 At this stage we also ensure sought to ensure we understood what customers thought about the services that are often invisible to them, such as sewage treatment process. We therefore instigated a large programme of studies⁵² to gather insight and to supplement the data we collect continually from our customers, which is mainly about service interactions. These additional studies allowed us to explore specific services and topics in detail with our customers, providing insightful context and allowing us to obtain a detailed understanding of their views.
- 4.12 We ensured that customers were given the opportunity to engage in issues which may not be visible to them but remain critical areas of our business. To do this, we made sure our customers were well informed and engaged about a broad range of topics. The tables below summarises our engagement breadth and depth. The output from this formed the key input to our Performance Commitment design.

D Phase 2 – Testing Performance Commitments, ODIs, and trade-offs (turning insight into action)

Creating our Performance Commitments

- 4.13 We developed our final suite of 53 Performance Commitments (PCs) in direct response to what customers want alongside those Ofwat directed us to conclude resulting in 14 common PCs and 39 bespoke PCs. Together these encompass all parts of our business and activities, from wholesale to retail, and wastewater to water. CSD005 provides a full summary for each PC, demonstrating how our PCs and associated ODIs are well-evidenced, and are supported by customers.⁵³
- 4.14 We undertook a full review of the PCs we implemented in AMP6 and mapped them to the commitments we are proposing in PR19 for AMP7. We propose to continue the majority of

⁴⁹ Thames Water, TSD019-CR07-PR19-Thames Water PR19 Deliberative Research

⁵⁰ Thames Water, TSD019-CR26-PR19 Deep dives

⁵¹ Eftic and ICS consulting, TSD019-CR41-PR19-Customer Preferences Research Programme Stage 1 Study

⁵² Thames Water, TSD019-PR19-Customer research, consultation & operational analysis reports

⁵³ Thames Water, CSD005-PR19-Detailed Performance Commitments

our AMP6 PCs, although we have chosen to discontinue 17 PCs, as discussed in the annex to this document. Our principal reasons for doing so are as follows:

- Some PCs were removed due to significant overlap with new PCs, including new common PCs, which adopt standardised definitions and reporting mechanisms, for example C-MeX, which encompasses a number of our AMP6 PCs;
- New or redefined environmental measures with substantial overlap with previous measures, e.g. the introduction of CRI (the “Compliance Risk Index”); and
- PCs related to specific schemes which have now ended.

4.15 The table below summarises how our Performance Commitments reflect our customer priorities.

Figure 13: Summary of our Performance Commitments

Key Customer Outcomes	Deliver an effortless customer experience	Deliver a safe and dependable water service	Deliver a safe and dependable wastewater service	Be a responsible company	
Plan for the future					
Measures	AR01 C-MeX (customer experience)	BW01 Mains Bursts (no.) per 1000km	CS01 Treatment works compliance	ES01 Wastewater pollution incidents	ER01 Unregistered household properties
	AWS01 D-MeX (developer experience)	BW02 Unplanned Outage	CS02 Sewer Collapses (no. per 1000m)	ES02 Environmental measures delivered – Wastewater	ER02 Empty household properties
	AR02 Households on a payment plan	BW03 Interruptions to supply	CS03 Internal sewer flooding incidents	ES03 Sludge treated before disposal	ER03 Households on the Thames Water social tariff
	AR03 Household accounts on our new billing system	BW04 Leakage	CS04 Clearance of blockages	ES04 Compliance with bioresources environmental permits	ET01 Readiness to receive tunnel flow at Beckton STW
	AR04 Number of customers on the Priority Service Register	BW05 Per Capita Consumption	CS05 Sewage pumping station availability	EWS01 Enhancing biodiversity	ET02 Effective stakeholder engagement
	AR05 Customers recommending Priority Services	BW06 Water Quality - CRI	DS01 Risk of sewer flooding in a storm	EWS02 Smarter Water Catchment Initiatives	ET03 Timely return to customers from land sales
	AW01 Improving engagement on leaks on customers' pipes	BW07 Properties at risk of receiving low pressure	DS02 Surface water management	EW03 Renewable energy produced	ET04 Establish an effective system operator for LTT
	AW02 Proactive customer engagement	BW08 Acceptability of water to consumers		EW04 Natural capital accounting	EW01 Abstraction incentive mechanism (AIM)
	AW03 R-MeX (business retailer experience)	BW09 Water quality events		EW05 Financial transparency	EW02 Environmental measures delivered (water)
		BW10 Reducing risk of lead		EW06 Driving cultural change through employee engagement	
		BW11 Responding to major trunk mains bursts		EW07 Financial resilience	
		BW12 Improving system resilience of North East London water supply			
		DW01 Risk of severe interruptions in a drought			
		DW02 Security of supply index (SOSI)			
		DWS01 Power resilience		EW08 Empty business properties	Key
		DWS02 SEMD - Securing our sites			<div><div>Common</div><div>Bespoke</div><div>Regulatory</div><div>Financial</div></div>

Common	Regulatory
Bespoke	Financial

Source: Thames Water, CSD005 – Detailed Performance Commitments⁵⁴

4.16 In order to provide our customers and stakeholders with transparency in what they are paying, we have calculated what it costs to deliver each Performance Commitment. We can tie this back to ‘what customers want’ to define how much we will spend to deliver each of

⁵⁴ Thames Water, CSD005-PR19-Detailed Performance Commitments



the customer outcomes. Please see our ODI approach and principles report⁵⁵ for a full description of our approach to allocating costs and benefits to each PC.

- 4.17 Across all of our PCs, we have avoided definitions related to outputs wherever possible, and for this reason, we have refined some AMP6 PCs where more outcome-focused measures can be used. However, for some outcomes, it is not possible to create an objective, quantifiable measure that is not associated with the volume/quantity of an output delivered. Where customers strongly value the delivery of these outputs, but a less output-focused metric is not available, we have still included these PCs, for example, our two PCs for “environmental measures delivered” (across our water network - EW02⁵⁶ and our wastewater network - ES02⁵⁷).
- 4.18 The most important part of customer engagement is ensuring we use our understanding of what customers want to shape the future of the service we provide. Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs) are the principal mechanisms for ensuring that we create transparency in delivering the outcomes which customers’ value during the next five years and beyond.
- 4.19 The initial candidate set of Performance Commitments included over 100 potential measures. Without compromising coverage, this was reduced to 53.⁵⁸ We did this by creating a set of ‘value trees’ to map how the processes we operate contribute to delivering a tangible customer outcome. Our aim was to identify the critical success factors for delivery and make this measure our Performance Commitment. The factors taken into consideration included: our ability to accurately measure, whether the commitments were duplicative of each other, the strength of their line of sight to our customer ‘wants and preferences’, and the guidance given to us by Ofwat.
- 4.20 Finalising the list involved in-depth challenge from our customers and the Board, both in terms of scope and ambition and for some areas, e.g. leakage, we had to balance between what our customers had told us (customers in our Business Plan Consultation wanted us to be more ambitious⁵⁹) verses overall deliverability and affordability.⁶⁰ More widely we needed to trade-off customer preferences, challenges and views on specific areas against an overall challenge from customers to keep their bills flat.⁶¹

⁵⁵ Thames Water, CSD025-PR19-ODI approach and principles report

⁵⁶ Thames Water, CSD005-EW02-PR19-Environment measures delivered

⁵⁷ Thames Water, CSD005-ES02-PR19-Environment measures delivered

⁵⁸ Thames Water, CSD005-PR19-Detailed Performance Commitments

⁵⁹ Thames Water, TSD019-CC03a-PR19-Business Plan consultation

⁶⁰ Thames Water, CSD005-BW04-PR19-Leakage

⁶¹ Thames Water, CSD002-PR19-What Customers Want – consolidated report. Be a responsible company, page 73

Testing our Performance Commitments

- 4.21 The process we ran to test our proposed Performance Commitments involved replaying to customers the status of the plan's development so far, and we gained some understanding of where customers would trade off the service they receive with the amount they pay. It also explained the plan in terms of how service failures may impact them and their daily lives rather than in asset terms.
- 4.22 We wanted to visit our communities, talk to our customers face-to-face and gain a clear understanding of their real, local issues. We attended local events, formed 'Local Engagement Forums' aimed at stakeholders/interested customers and launched our innovative 'Shape your water future' tool to maximise engagement with customers by helping explain the impact of the services we provide in relatable, real life scenarios. We built a user-friendly console of this interactive tool to take on the road to our customers as well as providing access to it on our website.
- 4.23 Figure 14 is a high level summary of some of the conversation outcomes, for example 95% of customers thought our customer promises looked reasonable and 76% of customers preferred the option presented which showed bills staying the same while we delivered some improvements in service.⁶²

Figure 14: Summary of May- June conversation



Source: Thames Water, CSD002-PR19-What Customers Want – consolidated report

⁶² Thames Water, CSD002-PR19-What Customers Want – consolidated report

Figure 15: Case study – Shape your water future (Customer engagement tool)

- We wanted to encourage as many of our customers as possible to participate in shaping our business plan. We conceived and designed the 'Shape your water future tool' with the aim of enabling customers to do this in an engaging way. The purpose of the tool was to determine what levels of service they expected from us by bringing this to life with some scenarios and trade-offs. Our vision was to make it personal by creating 'My Water World' and 'Your Water Future', with the aim of putting our customers in control of their water future. Accessibility and an easy user experience were key to its success. We wanted our customers to be able to understand what we were planning and how it impacted them.
- Using the tool helped us understand what our customers prioritised in terms of a service expectation. We know more informed customers make different decisions and so being able to present customers with real life trade-offs (such as the level of investment to reduce pollutions vs bill impact) was a step change for us. Our 'tool' was built with the theory of gamification in mind while ensuring the data that sat behind a fun and interactive front end was both robust and informative (for example, our second version of the tool showed current performance vs proposed performance and bill impact). As we moved to our Business Plan Consultation, we used this data as part of the triangulation for customer preferences research. This was a ground breaking achievement in that we were able to utilise a new and reliable source of customer research data to inform future decisions.
- The tool went beyond the typical methods of customer engagement we have used in the past. Customers were given the power to alter our service levels, determining how much they would be willing to spend. Using novel graphics, gamification and a simple user interface, our customers were able to easily record their results. We were transparent in our service-level costs, so our customers could understand our charges and how they related to their annual or monthly bill. This was indicative of the personalisation that the tool enabled so customers could engage with our business plan in an interactive and easy to understand way.
- Awareness of the tool has enabled us to reach customers we may not have been able to reach previously, and has widened our demographic range. We used a variety of channels including digital marketing, social media and roadshows to drive awareness of the tool - methods we did not use in the previous PR14 consultations.



Source: Thames Water, Customer Engagement Team, photos captured Summer 2017

Conclusions on Performance Commitments

- 4.24 There is a careful balance to be struck between having a smaller set of Performance Commitments, which are potentially easier for customers to understand, and a more comprehensive set of commitments which cover all customer 'wants and preferences'. To ensure we fully reflect our 42 customer needs,⁶³ we believe this set of Performance Commitments is required.
- 4.25 We recognise, however, that no measure is perfect and although we will report our results against all 53 Performance Commitments,⁶⁴ we will also produce a simplified and easy to interpret performance report, which focuses on our five customer outcomes. This will be based on a composite results index along with easy to understand commentary. The purpose and intent of our Performance Commitment suite of measures is to provide clear line of sight to customers' wants and preferences.
- 4.26 For each Performance Commitment we identified the appropriate baseline and set an initial target, proposing whether financial incentives should be attached or whether they should be reputational, and the options for dead bands, caps and collars.
- 4.27 It is not appropriate for all customer outcomes to be associated with a PC under the formal PC regime, as recognised by Ofwat's guidance. We will explain in this section why PCs cannot be created for all outcomes, but how we will ensure we still deliver these outcomes for our customers.
- 4.28 Firstly, a PC must be measurable. For an outcome to be measured against a PC, we must be able to calculate our performance using an objective unit. Secondly, a PC must be comparable. For a performance level to have any meaning to customers, stakeholders and Ofwat, it must be possible to compare performance against historic trends or our peers.
- 4.29 The basis of our outcomes programme is the overarching commitment we have made to our customers: to improve the way we operate so that they are at the heart of our decision making. The new C-MeX PC incentivises us to ensure we deliver across all of the outcomes that customers value. Due to the broad nature of C-MeX, we have taken the view that it is not appropriate for us to set other measures of customer experience as formal PCs. To measure our progress towards this, our focus until we have certainty about the new C-MeX measure will be on improving customer advocacy of all customers in our region – bill payers and consumers as measured by NPS and reducing written complaints.⁶⁵
- 4.30 Full details of the new C-MeX measure are still in development and the pilot results issued at the end of July have identified a number of issues which require further consideration and attention as part of the second pilot which will start shortly. Details on the actual reward and penalty mechanism are still to be shared and there are open questions as to how the

⁶³ Thames Water, CSD002-PR19-What Customers Want – consolidated report, page 7

⁶⁴ Thames Water, CSD005-PR19-Detailed Performance Commitments

⁶⁵ Note C-MeX and D-MeX are currently in development industry wide and we will adopt the measures once finalised

additional reward will work and apply including definition of the complaints gate. We are committed to working with Ofwat and the rest of the industry to implement these new metrics and to iron out these complex issues, particularly those relating to sample size so we have a fair, robust and transparent basket of measures for customer experience.

- 4.31 Given the level of uncertainty surrounding the construct of the new measure set, we have assumed that for C-MeX and D-MeX we will achieve a neutral reward and penalty across the AMP. Our plan aims to achieve the following step-change in customer experience performance by the end of AMP7 in line with our customers' priorities:

Figure 16: Step change in customer experience

Metric	Base Line	AMP7 Target
Company Net Promoter Score	Establish baseline in 2019/20	Year on year improvement
Written complaints	32 per 10k connected properties	25 per 10k connected properties

Source: Thames Water, PCD1 – Retail price control⁶⁶

- 4.32 To drive real cultural change to improve customer outcomes we have proposed an employee Net Promoter System measure.⁶⁷ Net Promoter score is a cross-industry leading robust measure of satisfaction. By implementing an internal net promotor system we will ensure every employee has line of sight to how they impact customer outcomes. This system and measure is designed to facilitate a cultural change with teams working differently and being encouraged and incentivised to discuss and act on customer feedback on a daily basis to drive continuous improvement. This approach is already in place in our customer contact centres where customer feedback is discussed at the start and end of each day in team huddles.
- 4.33 To facilitate a step change in the way we engage customers, we have also proposed an innovative customer side leakage proposition.⁶⁸ In the Thames Water region, approximately 30% of unaccounted for water is thought to be on pipework owned by customers, known as customer side leakage (CSL). CSL is the wastage of water that occurs from pipes which belong to customers (i.e. the supply pipe and internal fixtures and fittings). Research has shown that many customers are not aware of our industry-leading free repair policy, and think more should be done to tell them.

⁶⁶ Thames Water, PCD1-PR19-Retail, and Table 3 – Our core customer metrics

⁶⁷ Thames Water, CSD005-EWS06-PR19-Driving cultural change through employee engagement: Customer Net Promoter System

⁶⁸ Thames Water, CSD005-AW01-PR19-Improving customer engagement concerning leaks on customers' pipes



- 4.34 To improve our understanding of our natural capital (which includes stocks of species, ecological communities, soils, freshwaters, land, and minerals), we will measure and report the amount of natural capital we have at our sites.⁶⁹ We are proposing to produce and publish Natural Capital Accounts for all landholdings. Natural Capital Accounting will give us an enhanced insight into our impact and dependencies on the natural environment and we intend to integrate this insight into our decision-making frameworks.
- 4.35 We propose to deliver a net gain in biodiversity on over 253 Sites of Biodiversity Interest ("SBI") that we look after.⁷⁰ By standardising the methods for calculating biodiversity units, Thames Water will ensure a consistent, open and transparent approach by all that use it. This will allow us to report our results to our customers, stakeholders and regulators, and demonstrate our commitment to the environment. This goes hand in hand with our PC for natural capital accounting.⁷¹
- 4.36 Whilst many of these PCs are exactly the commitments that would be expected to arise from a customer focused approach, there are also a number of PCs where we believe we have shown an innovative and forward-thinking approach to meet changing customer expectations, environmental challenges, resilience and transparency. We are proposing to develop and implement the industry's first System Operator for the various London Tideway Tunnels ("LTT"). The system operator will operate assets owned by different undertakers (Thames Water and Bazalgette Tunnel Ltd) as a holistic integrated system.
- 4.37 We have not included a PC to measure our investment in innovation, as innovation is embedded throughout our plan rather than being a discrete component. In addition to the common PCs, our bespoke PCs have a robust coverage of Ofwat's key areas, as shown in the Figure 17;

⁶⁹ Thames Water, CSD005-EWS04-PR19-Natural Capital Accounting

⁷⁰ Thames Water, CSD0022-PR19-Delivering for Environment, Delivering for communities

⁷¹ Thames Water, CSD005-EWS04-PR19-Natural Capital Accounting

**Figure 17: Our Bespoke PCs provide good coverage of key areas as directed by Ofwat**

Key area	Performance Commitment
Environmental challenges	Abstraction Incentive Mechanism (AIM) (EW01); Clearance of blockages (CS04); Environmental measures delivered (Water) (EW02); Environmental measures delivered (wastewater) (ES02); Renewable energy produced (EWS03); Surface water management (DS02); Enhancing biodiversity (EWS01); Smarter Water Catchment Initiatives (EWS02); Natural Capital Accounting (EWS04); Compliance with bio-resource environmental permits (ES04).
Resilience challenges	SEMD - Securing our sites (DWS02); Power resilience (DWS01); Surface water management (DS02); Security of supply index SoSI (DW02); Financial Resilience (EWS07); Financial Transparency (EWS05). ⁷²
Each Price Control	All Performance Commitments.
Vulnerability	Households on the Thames Water social tariff (ER03); Number of customers on the priority services register (AR04); Customers recommending Priority Services (AR05); Households on a payment plan (AR02).
Gap sites & void properties	Unregistered Household Properties (ER01); Empty household properties (ER02); Empty business properties (EWS08).
Asset health	Water quality events (BW09); Clearance of blockages (CS04); Properties at risk of receiving low pressure (BW07); Readiness to receive tunnel flow at Beckton STW (ET01); Sewage pumping station availability (CS05); Acceptability of water to consumers (BW08); Responding to major trunk mains bursts (BW11).
Special factors and/or major enhancement projects	Timely return to customers from land sales (ET03); Readiness to receive tunnel flow at Beckton STW (ET01); Establish an effective system operator for the London Tideway Tunnels (LTT) (ET04); Effective stakeholder engagement (ET02); Household accounts on our new billing system (AR03); Improving customer engagement concerning leaks on customers' pipes (AW01).
Participation and working with others	Proactive customer engagement (AWS02); Smarter Water Catchment Initiatives (EWS02); Environmental measures delivered (Water) (EW02); Environmental measures delivered (wastewater) (es02); Surface water management (DS02); Improving customer engagement concerning leaks on customers' pipes (AW01).
Innovative asset health measure	Sewage pumping station availability (CS05); Acceptability of water to consumers (BW08).
Captures customer preferences	All Performance Commitments.
Encouraging improvement in operating practices	Water Quality Compliance: CRI (BW06); Abstraction Incentive Mechanism (AIM) (EW01); Establish an effective system operator for the London Tideway Tunnels (LTT) (ET04); Enhancing biodiversity (EWS01); Smarter Water Catchment Initiatives (EWS02); Natural Capital Accounting (EWS04).
New approaches to Catchment management	Surface water management (DS02); Smarter Water Catchment Initiatives (EWS02).

Source: Strategy & Regulation team, Thames Water

⁷² More details of our resilience challenges can be found in Appendix 4-PR19-Resilience

Customer engagement on the level of stretch

- 4.38 We have thoroughly tested our Performance Commitments with our customers via a series of focus groups exploring:
- the role of PCs and ODIs and their potential impact on the customer;
 - reasoning for discarding any AMP6 PCs;
 - our proposed definition for each PC;
 - advantages and disadvantages of financial and reputational versus reputational-only in relation to each PC definition;
 - resilience and inter-generational equity;
 - an initial view of the performance target to help customers decide on PC type preference (pre-3 May 2018 groups);
 - a detailed view of performance target (post-3 May 2018 groups);
 - our approach to setting the initial service level and stretching performance; and
 - The rationale behind the proposed initial service level, and the level of stretch throughout the price control period.
- 4.39 Full details of the testing of our PCs with customers can be found in TSD019–CR27⁷³ with the results of the engagement summarised in CSD002.⁷⁴ The complexity of the subject matter and customers’ unfamiliarity with it meant a deliberative methodology, yielding qualitative findings rather than quantitative statistics, was the right approach. We observed that customers understood the majority of our proposed measures and agreed to their inclusion in the business plan – they cover all of the important areas and leave no gaps. Customers tended to agree that targets were stretching for some measures. For a large minority of targets customers had mixed views and, for a few, they questioned if the target could be more ambitious, particularly in cases of flat profiles. There is moderate support for the principle of incentives, though mixed views on the type – it depends on the measure and how important it is. For financial incentives most customers support some limits to financial exposure.⁷⁵
- 4.40 Figure 18 gives a high level summary of what our customers thought in terms of whether our performance measures were stretching. This includes results from our PC and ODI research as well as our wider engagement.

⁷³ Thames Water, TSD019-CR27-PR19-PCs and ODIs

⁷⁴ Thames Water, CSD002-PR19-What Customers Want – consolidated report, page 110

⁷⁵ Thames Water, TSD019-CR27-PR19-PCs and ODIs

**Figure 18: Customer views on stretching targets**

Considered stretching by customers	Customers do not consider stretching – but it is stretching based on other evidence, e.g. customer valuations through CBA	Customers often unsure if stretching – but stretching as new or innovative
ER02 Empty household properties AR02 Households on a payment plan AR04 Number of customers on the priority services register BW06 Water Quality CRI BW07 Properties at risk of receiving low pressure BW09 Water Quality events BW10 Reducing the risk of lead CS01 Asset Health: Treatment Works Compliance CS03 Internal Sewer Flooding (including severe weather) CS04 Clearance of blockages CS05 Sewage Pumping Station Availability DS02 Surface Water Management DW01 Risk of severe interruptions in a drought DW02 Security of supply index DWS01 Power resilience DWS02 SEMD – Securing our sites ER01 Unregistered household properties ER03 Households on the Thames Water social tariff ES03 Sludge treated before disposal EW01 Abstraction Incentive Mechanism (AIM) - surface and ground water abstractions under the AIM threshold EWS02 Smarter water catchment initiatives EWS03 Renewable energy produced EWS04 Natural capital accounting	BW01 Mains Bursts BW03 Interruptions to supply BW04 Leakage BW05 Per capita consumption BW08 Acceptability of water to consumers BW12 Improving system resilience of NE London Water Supply CS02 Asset health sewer collapses (no.) per 1,000km of sewer ES01 Wastewater pollution incidents: Total Category 1-3 incidents from sewage related premises per 10,000km ES02 Environmental measures delivered – wastewater ES04 Compliance with bioresources environmental permits ET01 Readiness to receive tunnel flow at Beckton ET02 Effective Stakeholder Engagement ET03 Timely return to customers from land sales ET04 Establish an effective system operator for the London Tideway Tunnels (LTT) EW02 Environmental Measures Delivered (Water)	AW01 Improving customer engagement concerning leaks on customers' pipes AR03 Household accounts on our new billing system AR05 Customers recommending Priority Services AWS02 Proactive customer engagement BW02 Unplanned outage BW11 Responding to major trunk mains bursts DS01 Risk of sewer flooding in a storm: 1 in 50 year storm EWS01 Enhancing biodiversity EWS05 Financial transparency AWS06 Driving cultural change through employee engagement EWS07 Financial Resilience

Source: Thames Water, CSD005 Detailed Performance Commitments

4.41 We explain our approach at a PC level in each of our PC summary documents (CSD005),⁷⁶ and Figure 19 provides a high level summary of our overall research:

⁷⁶ Thames Water, CSD005-PR19-Detailed Performance Commitments

Figure 19 – Summary of results from customer research on PCs and ODIs⁷⁷

PC	Description	Customer support of level of stretch
AW01	Improving customer engagement concerning leaks on customer's pipes	<ul style="list-style-type: none"> Some customers thought this sounds like a relatively small project, and wondered if it should be more ambitious.
ER02	Empty Household Properties	<ul style="list-style-type: none"> When we tested the levels with customers as part of our engagement for PR19, they agreed that these targets were stretching.
AR02	Households on a Payment Plan	<ul style="list-style-type: none"> When we tested our target with customers, they felt it to be ambitious, particularly as it is partially out of Thames Water's control.
AR04	Number of customers on the priority services register	<ul style="list-style-type: none"> When we presented our targets to customers, they agreed they were stretching. A small number of participants in the research undertaken on this topic felt it might even be over-ambitious given the proposed level of growth, which we take to be a positive reflection on the level of stretch.
AR05	Customers recommending Priority Services	<ul style="list-style-type: none"> Whilst they viewed this measure positively, customers felt that (in the absence of information about current performance) the potential level of improvement required to achieve the target may be minimal and the target is therefore not stretching. However, by committing to a NPS improvement in each year of the AMP, we are aiming to continually improve services offered to priority services customers alongside committing to grow the register seven-fold. In addition, our NPS score will include those who have had experience of a supply interruption incident.

⁷⁷ Thames Water ,TSD019-CR27-PR19-PCs and ODIs



PC	Description	Customer support of level of stretch
AWS02	Proactive Customer Engagement	<ul style="list-style-type: none"> In our customer engagement, there were mixed views, with some customers needing more information to decide whether the targets were stretching or not.
AWS03	Business Retailer Measure of Experience (R-MeX)	<ul style="list-style-type: none"> We have decided to adopt an industry-developed R-MeX measure. We recognise that this introduces some uncertainty for us as the measure has not yet been designed, but we strongly believe that this is the right thing to do as it meets the key service needs of our retailer customers, including feedback that wholesalers should adopt common approaches rather than wholesaler-specific approaches to reduce complexity for retailers.
BW01	Mains Bursts	<ul style="list-style-type: none"> Customers had mixed views on whether the target was stretching. They found it challenging to differentiate between specific asset health and service delivery measures where they are closely related. Most continued to point to service consequences as being more important to them.
BW02	Unplanned Outages	<ul style="list-style-type: none"> Customers had mixed views as to whether this target is stretching. The definition was not clear to customers and they found it difficult to judge without comparative and historical data. However delivery of this committed level of performance is completely consistent with the views expressed by our customers that they want us to ensure long term resilience and to invest now to maintain the system, sharing the cost with future generations.
BW03	Interruptions to Supply	<ul style="list-style-type: none"> Customers tended to disagree that it was stretching. However, some were unsure whether it would be worth investing large amounts of money in this if it only resulted in small improvements. However through the 'Shape Your Water Future' online tool, the average service level improvement wanted was 5.5% to 5.8%, in line with the target.
BW04	Leakage	<ul style="list-style-type: none"> Customers tended to agree that the target was stretching but would still like us to do more. WTP valuations research – we are at the limit of what is cost beneficial for customers. 'Shape Your Water Future' online tool – 52% of customers opted for an accelerate leakage reduction programme (but indicative bill impact not shown).
BW05	Per Capita Consumption	<ul style="list-style-type: none"> Customers had mixed views on whether the target was stretching. WTP valuations research - we are near the limit of what is cost beneficial for customers.



PC	Description	Customer support of level of stretch
BW06	Water Quality CRI	<ul style="list-style-type: none"> Customers agreed that the target could not be more stretching.
BW07	Properties at risk of receiving low pressure	<ul style="list-style-type: none"> Customers felt that the target is ambitious, with some questioning whether Thames Water will be able to achieve this target, but are happy for them to try.
BW08	Acceptability of water to consumers	<ul style="list-style-type: none"> Customers tended to disagree that the target is stretching.
BW09	Water Quality events	Customers tended to agree that this is a stretching target as it represents a clear improvement over current performance.
BW10	Reducing the risk of lead	<ul style="list-style-type: none"> Customers tended to agree that this is a stretching target.
BW11	Responding to major trunk mains bursts	<ul style="list-style-type: none"> PC/ODI Research – customers had mixed views on whether the target is stretching.
BW12	Improving system resilience of NE London Water Supply	<ul style="list-style-type: none"> Customers had mixed views on whether the target is stretching.
CS01	Asset Health: Treatment Works Compliance	<ul style="list-style-type: none"> Customers tended to agree as it is 100% and therefore could not be higher.
CS02	Asset health sewer collapses (no.) per 1,000km of sewer	<ul style="list-style-type: none"> Customers felt that a stable performance with no improvement was not stretching. However, they felt this was not that important as we are in the upper quartile of industry performance and felt money was needed for improvement in other areas.
CS03	Internal Sewer Flooding (including severe weather)	<ul style="list-style-type: none"> Customers showed support for our upper quartile target and agree that it is stretching.



PC	Description	Customer support of level of stretch
CS04	Clearance of Blockages	<ul style="list-style-type: none"> Customers tended to agree that this is a stretching target. Some customers thought it was very challenging and might not be achievable. Additionally, customers thought it was particularly stretching as they felt blockages were due to factors outside our direct control.
CS05	Sewage Pumping Station Availability	<ul style="list-style-type: none"> Customers tended to agree. Whilst improvement is generally seen to be marginal, customers understand that improvements are difficult to make at so close to 100%.
DS01	Risk of sewer flooding in a storm: 1 in 50 year storm	<ul style="list-style-type: none"> Mixed customer views. Some customers felt that an improvement of 0.45% points is insufficiently large to be considered stretching. Others felt unsure of the level of investment and effort required to improve this amount and therefore unsure as to whether this target is stretching or not.
DS02	Surface Water Management	<ul style="list-style-type: none"> We discussed this commitment with our customers and their view was, "The target is seen to be a large increase in percentage terms of what has been done in the past and therefore they thought it was stretching."
DW01	Risk of severe interruptions in a drought	<ul style="list-style-type: none"> Customers tended to agree that target is stretching.
DW02	Security of Supply Index	<ul style="list-style-type: none"> Customers tended to agree that target is stretching.
DWS01	Power Resilience	<ul style="list-style-type: none"> Customers believe the target is stretching (this could be because they understood that all remaining key power dependent sites would be made resilient in AMP8). Customers want us to have a strong incentive to increase resilience. They believe that it is within our control to do this. They understand that power supplies are not 100% reliable and want the company to plan for the future.
DWS02	SEMD – Securing our sites	<ul style="list-style-type: none"> Customers tended to agree that target is stretching.
ER01	Unregistered Household Properties	<ul style="list-style-type: none"> When asked about whether they considered this target to be stretching, our customers tended to agree that this was the case, as it represents best practice.



PC	Description	Customer support of level of stretch
ER03	Households on the Thames Water social tariff	<ul style="list-style-type: none"> When we presented our targets to customers, they agreed that it was stretching. A small number of participants in the research we undertook on this topic in fact felt it might be over-ambitious.
ES01	Wastewater pollution incidents: Total Category 1-3 incidents from sewage related premises per 10,000km	<ul style="list-style-type: none"> Customers had mixed views of whether the original target of 25 incidents per 10,000km was stretching or not. Some felt that this target represented only a marginal improvement over 5 years and is therefore not stretching. Others felt that as Thames Water is already one of the top performing companies, this improvement (although small) was acceptable. 'Shape your water future' online tool - In our online tool, carried out as part of 'Your Water Future', approximately 70% of customers chose a service level within the range of 24 to 26 pollution incidents per 10,000km sewer, so our target of 23 exceeds these customer expectations.
ES02	Environmental measures delivered - wastewater	<ul style="list-style-type: none"> Customers were content for this Performance Commitment to be included in Thames Water's plan, although they expressed a wish to better understand the details behind the proposed environmental measures and were unsure on the associated benefits. Initially many customers felt this target seemed stretching. However, a lack of clarity around the size and impact of schemes led many to query whether they had sufficient information to understand if this target was stretching or not. Good neighbour research – customers support the improvement and protection of the quality of rivers to avoid pollution; They want us to ensure there is enough water available in the future and hence protect the river sources we use.
ES03	Sludge treated before disposal	<ul style="list-style-type: none"> Customers saw the target as stretching and recognised that there is little more that we can do.
ES04	Compliance with bioresources environmental permits	<ul style="list-style-type: none"> Mixed views. Some think that Thames Water should be doing this anyway. Others like that Thames Water is getting ahead of the game and going further in protecting the environment than it strictly needs to.



PC	Description	Customer support of level of stretch
ET01	Readiness to receive tunnel flow at Beckton	<ul style="list-style-type: none"> Customers generally believe this Performance Commitment should already have been planned for in the TTT planning stage. They do not expect TW to be rewarded for performance on this. Failure for the system to work would be penalty enough, in their eyes. However the delivery of this committed level of performance is consistent with the views expressed by our customers that they want us to ensure there is a resilient sewerage service into the future to meet increased demand.
ET02	Effective Stakeholder Engagement	<ul style="list-style-type: none"> Customers generally believe this PC should not be included, as they think TW should be doing this type of activity anyway. However our customer research has told us that customers want us to ensure the sewerage system can cope in the future. Customers want us to ensure there is a resilient sewerage service into the future and to meet increased demand.
ET03	Timely return to customers from land sales	<ul style="list-style-type: none"> Customers readily understood this commitment and are generally content for this measure to be included in Thames Water's plan.
ET04	Establish an effective system operator for the London Tideway Tunnels (LTT)	<ul style="list-style-type: none"> Customers struggled with the concept of needing an operator for the LTT, once the assets have been commissioned. They felt that there were sufficient incentives already in place to protect customers if the LTT failed to deliver the required level of service. Hence failure for the system to work would be penalty enough in their eyes. However the delivery of this committed level of performance is completely consistent with the views expressed by our customers that they want us to ensure there is a resilient sewerage service into the future and to meet increased demand.
EW01	Abstraction Incentive Mechanism (AIM) - surface and ground water abstractions under the AIM threshold	<ul style="list-style-type: none"> Customers tended to agree. Target is 0 so cannot be any more stretching, and customers strongly felt they would not accept any other target.
EW02	Environmental Measures Delivered (Water).	<ul style="list-style-type: none"> Initially many customers felt this target seemed stretching due to the figures involved being seen as large. However, a lack of clarity around the size and impact of schemes led many to query whether they had sufficient information to understand if this target was stretching or not. Customers felt



PC	Description	Customer support of level of stretch
		<p>historic information and reassure as to the size of schemes would help them to judge whether this target is stretching.</p> <ul style="list-style-type: none"> • However the majority of this investment area is statutory and for environmental obligations where the legal requirement is only confirmed if the measures are not disproportionately costly, we use customer preferences and valuations to determine the value for money of the measures. This allows our customers to indirectly shape the size of this programme.
EWS01	Enhancing biodiversity	<ul style="list-style-type: none"> • Customers were unsure whether our target is adequately stretching, as they had difficulty understanding how material a biodiversity unit is.
EWS02	Smarter water catchment initiatives	<ul style="list-style-type: none"> • Customers tend to agree that the target is stretching.
EWS03	Renewable energy produced	<ul style="list-style-type: none"> • Customers were unsure whether the target is stretching but tended to agree when provided with further information.
EWS04	Natural capital accounting	<ul style="list-style-type: none"> • Customers tended to agree that this is a stretching target.
EWS05	Financial transparency	<ul style="list-style-type: none"> • Customers in general did not think the target was stretching and this Performance Commitment was something that we should be doing anyway However we believe this is new and industry leading.
AWS06	Driving cultural change through employee engagement	<ul style="list-style-type: none"> • Mixed views on whether this is stretching, mostly seen as stretching as innovative.
EWS07	Financial Resilience	<ul style="list-style-type: none"> • Customers did not come to a consensus on whether the target set for this Performance Commitment was stretching.



PC	Description	Customer support of level of stretch
EWS08	Empty Business Properties	<ul style="list-style-type: none">• Not tested.• Given that voids have approximately doubled since the market opened this is an ambitious goal. We think this is a stretching commitment for a wholesaler since maintaining accurate occupancy status is a retailer responsibility in the business market. Notwithstanding this we believe that through applying our analytical capability to this issue, collaborating with retailers and challenging incorrect occupancy status, we can play an important role in reducing the number of void premises.



- 4.42 The research indicates that whilst customers were broadly supportive of the level of stretch we have proposed, there remained some challenge. Where possible, we have supplemented the qualitative findings from the testing research with other forms of customer evidence including quantitative customer valuations through cost-benefit analysis, customer consultation findings and other forms of deep dive customer research to address these customer challenges. We also needed to consider the value to customers of moving to different levels of service.

Why our PCs are stretching

- 4.43 For the common PCs, we have set stretch initial service levels based on our customer engagement, and challenged our performance against the forecast upper quartile for each year of the price control. We explain our approach at a PC level in each of our PC summary documents (CSD005).⁷⁸

Bespoke PCs

- 4.44 We propose 39 bespoke PCs,⁷⁹ including the bespoke asset health measures discussed below. As we explain above, we have tailored our suite of bespoke PCs to link our planned enhancement expenditure to customer outcomes.
- 4.45 We propose four bespoke asset health PCs, the first two of which are from Ofwat's longlist:⁸⁰
- BW07 – Properties at risk of receiving low pressure;⁸¹
 - CS04 – Clearance of blockages;⁸²
 - CS05 – Sewage pumping station availability;⁸³ and
 - BW08 – Acceptability of water to consumers.⁸⁴
- 4.46 Across our asset health PCs, we have validated our initial service levels and that our performance is stretching by comparing our targets against our own historic performance and comparative data where it is available (e.g. Shadow reporting, Discover Water, Water UK). Where historic and comparative information is not available, we have paid particular attention to evaluating alternative investment solutions based on a comprehensive programme of cost-benefit analysis ("CBA").

⁷⁸ Thames Water, CSD005-PR19-Detailed Performance Commitments

⁷⁹ Thames Water, CSD005-PR19-Detailed Performance Commitments

⁸⁰ Ofwat, Delivering Water 2020: Our methodology for the 2019 price review Appendix 2: Delivering outcomes for customers

⁸¹ Thames Water, CSD005-BW07-PR19-Properties at risk of receiving low pressure

⁸² Thames Water, CSD005-CS04-PR19-Clearance of blockages

⁸³ Thames Water, CSD005-CS05-PR19-Sewage pumping station availability

⁸⁴ Thames Water, CSD005-BW08-PR19-Acceptability of water to consumers



- 4.47 We have tested our proposed PC levels with customers, using customer research⁸⁵ and via the CCG.

Alignment of our PCs with our long-run targets

- 4.48 We have set long-run targets for each PC, common and bespoke, which have a financial ODI attached, until at least 2035, and due to the value we and our customers place on planning for the future, in some instances we have gone beyond Ofwat's requirements, and set longer term targets, e.g. to 2045. As part of this approach, we have ensured that our investments over AMP7 lay the groundwork for the continually improving outcomes we will deliver for customers over the next 40 years.⁸⁶
- 4.49 In setting our stretching PC levels, we have also taken account of PCs where customers want us to deliver continually improving levels of service. For these PCs, we have aligned our level of performance during AMP7 with the level of performance customers want us to deliver in the long-run, e.g. interruptions to supply - where we aim to reduce the number of interruptions by 50% by 2040,⁸⁷ and leakage - where we plan to reduce our leakage level by 50% by 2050.⁸⁸

Developing our ODIs

- 4.50 We have developed our financial and reputational ODIs in consultation with our customers and CCG, using customer valuation techniques⁸⁹ to develop WTP values, and obtaining their support for the overall RoRE range that we have proposed in our business plan.⁹⁰
- 4.51 Our process for calculating ODI incentive rates is driven by our efforts to ensure that the outperformance and underperformance payments truly reflect customer priorities and the costs of delivering them. We have then calibrated the design of our ODI with other features, where appropriate, and ensured that the incentive range, design features and rates of outperformance and underperformance penalties are fully supported by customers, as summarised in the figure below.

⁸⁵ Thames Water, TSD019-CR27-PR19-PCs and ODIs

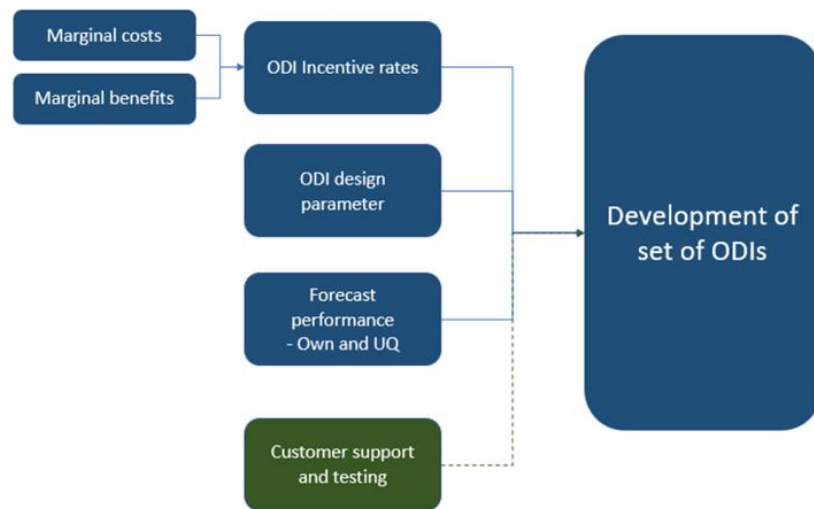
⁸⁶ Thames Water, Data Table APP1 gives full details of annual targets

⁸⁷ Thames Water, CSD005-BW03-PR19-Interruptions to supply

⁸⁸ Thames Water, CSD005-BW04-PR19-Leakage

⁸⁹ Thames Water, CSD025-PR19-ODI approach and principles report

⁹⁰ Thames Water, TSD019-CR27-PR19-PCs and ODIs

Figure 20: Developing ODIs

Source: Thames Water, Regulation team

- 4.52 Our ODI Approach and Principles Report provides our methodology for developing our suite of ODIs at AMP7. It sets out the incentive type (financial and reputational or reputational-only), the calculation of incremental costs and benefits, the design of the financial incentives, and the balance of risk and reward for customers.⁹¹
- 4.53 Our objective has been to develop an ODI package which supports outstanding achievement and innovation, as well as protecting customers against the risk of delivery failure and excessive outperformance payments due to reasons beyond our control.
- 4.54 We describe the relationship between our performance against our financial ODIs and risk and return in full in Appendix 6 – Risk and Return.⁹² In summary, our RoRE range, of -1.53% to +0.47% across all of our ODIs,⁹³ is skewed towards underperformance penalties due to our inclusion of “penalty only” ODIs, where we do not receive additional payments for outperformance relative to the PC level. This reflects our customers’ limited appetite for reward payments, and their preference that we use “penalty only” ODIs to protect them against delivery failure for specific schemes. We tested this with customers during both the ODI research⁹⁴ and our final acceptability testing.⁹⁵

⁹¹ Thames Water, CSD025-PR19-ODI approach and principles report

⁹² Thames Water, Appendix 6-PR19-Risk and Return

⁹³ Thames Water, Appendix 6-PR19-Risk and Return, page 25 (the RoRE range presented in para 4.54 (-1.53% to +0.47%), excludes CMeX and DMeX)

⁹⁴ Thames Water, TSD019-CR27-PR19-PCs and ODIs

⁹⁵ Thames Water, TSD019-CR50b-PR19-Final acceptability testing phase 2

Design Parameters of our ODIs

- 4.55 ODIs are financial and reputational, rather than reputational-only, as the default. We have only proposed reputational-only ODIs where it is supported by strong customer evidence and there is an impact on reputation, since customers have a clear awareness of the PC and can see our performance against it. See 4.64 for our approach to strengthening reputational ODIs, and a summary of our reputation-only ODIs.
- 4.56 We have also calibrated some individual ODIs with reference to the particular characteristics of the PC in question; for example, using caps and collars on underperformance and outperformance payments where there is greatest uncertainty about performance level, and using deadbands in cases where small variation in performance from year-to-year are particularly likely to arise for reasons outside our control. The rest of this sub-section describes these particular design features, and when we have chosen to use them.
- 4.57 ODIs are in-period, rather than end-of-period, as the default. When we explored this with customers they had no preference between in-period and end-of-period.⁹⁶ This brings payments closer in time to the service performance that generated them. We only use end-of-AMP ODIs in the following cases, where an in-period ODI would be inappropriate due to the perverse incentives that year-to-year rewards and penalties might create:
- BW12 – Improving system resilience of North East London water supply;⁹⁷
 - DS02 – Surface water management;⁹⁸
 - DWS02 – SEMD - Securing our sites;⁹⁹
 - ES02 – Environmental measures delivered (wastewater);¹⁰⁰
 - ES04 – Compliance with bio-resource environmental permits;¹⁰¹
 - EW02 – Environmental measures delivered (Water);¹⁰² and
 - EWS01 – Enhancing biodiversity.¹⁰³
- 4.58 While we prefer end-of-AMP PCs to be a revenue adjustment, we have used a RCV-adjustment in the following cases:
- BW12 – Improving system resilience of North East London water supply;¹⁰⁴
 - ES02 – Environmental measures delivered (wastewater);¹⁰⁵

⁹⁶ Thames Water, TSD019–CR27-PR19-PCs and ODIs

⁹⁷ Thames Water, CSD005-BW12-PR19-Improving system resilience of North East London water supply

⁹⁸ Thames Water, CSD005-DS02-PR19-Surface water management

⁹⁹ Thames Water, CSD005-DWS02-SEMD - Securing our sites

¹⁰⁰ Thames Water, CSD005-ES02-PR19-Environmental measures delivered (wastewater)

¹⁰¹ Thames Water, CSD005-ES04-PR19-Compliance with bio-resource environmental perm

¹⁰² Thames Water, CSD005-EW02-PR19-Environmental measures delivered (Water)

¹⁰³ Thames Water, CSD005-EWS01-PR19-Enhancing biodiversity

¹⁰⁴ Thames Water, CSD005-BW12-PR19-Improving system resilience of North East London water supply

¹⁰⁵ Thames Water, CSD005-ES02-PR19-Environmental measures delivered (wastewater)

- ES04 – Compliance with bioresource environmental permits;¹⁰⁶ and
 - EW02 – Environmental measures delivered (water).¹⁰⁷
- 4.59 As a default, we do not propose to use caps and collars, since they can disincentivise us from striving for highest level of performance. For instance, if there is a cap on our outperformance payment, we cannot fund the delivery of higher service levels above the cap level, even if customers are willing to pay for a higher level of service. Therefore, we have proposed caps and collars in limited cases, and for the following reasons:
- To avoid the exposure of us and customers to unlimited, or very high, outperformance and underperformance payments on particular ODIs e.g. where high or low performance is unlikely to be within the control of Thames Water;
 - To allow us to have higher incentive rates, focused over a smaller performance range; and
 - Where the main cost is that these individual caps and collars reduce the incentives for us to improve performance near, at and beyond the cap and collar.
- 4.60 After we developed our ODI framework, we engaged our customers to understand whether they consider caps and collars to be appropriate in the context of the whole ODI package, as well as for individual measures. We therefore propose caps and collars for individual ODIs in the following cases, where there is the potential for strong upside or downside performance due to factors which Thames Water cannot control (“exogenous factors”):¹⁰⁸
- BW04 – water supply interruptions;¹⁰⁹
 - BW06 – water quality compliance (CRI);¹¹⁰
 - CS03 – internal sewer flooding incidents;¹¹¹ and
 - ES01 – wastewater pollution incidents.¹¹²
- 4.61 As a default, we do not propose to apply deadbands around our PC levels, due to the potential for them to disincentive performance improvements at the margin, and reduce transparency for customers as to the actual level of service we are committed to delivering. Deadbands are appropriate, however, where disproportionately high investment is necessary to achieve stable performance around the target, and where third party actions or extreme weather events cause significant variation.
- 4.62 For these reasons, we propose deadbands in two specific cases as follows:¹¹³

¹⁰⁶ Thames Water, CSD005-ES04-PR19-Compliance with bioresource environmental permits

¹⁰⁷ Thames Water, CSD005-EW02-PR19-Environmental measures delivered (water)

¹⁰⁸ For detailed reasoning and evidence of the customer support for our proposed deadbands, please see the relevant Performance Commitment and CSD025-PR19-ODI approach and principles report, section 6

¹⁰⁹ Thames Water, CSD005-BW04-PR19-water supply interruptions

¹¹⁰ Thames Water, CSD005-BW06-PR19-water quality compliance (CRI)

¹¹¹ Thames Water, CSD005-CS03-PR19-internal sewer flooding incidents

¹¹² Thames Water, CSD005-ES01-PR19-wastewater pollution incidents

- For water quality compliance (CRI),¹¹⁴ we agree with Ofwat's conclusion that it is an inherently volatile measurement unit, which can be materially affected by a small number of events, and is based on the judgement of the Drinking Water Inspectorate, which can lead to inconsistencies of reporting between companies; and
- For treatment works compliance,¹¹⁵ our deadband is designed to limit penalties against underperformance due to small variations from year-to-year, given this is a compliance focussed penalty-only ODI.¹¹⁶

4.63 We have chosen not to propose any ODIs which offer enhanced performance payments. In our suite of common PCs, we propose to deliver upper quartile performance for wastewater pollution incidents,¹¹⁷ internal sewer flooding incidents,¹¹⁸ and interruptions to supply.¹¹⁹ Our customer research found that customers often dislike the prospect of Thames Water receiving outperformance payments. Taking account of this finding, we believe the opportunity for us to receive an even larger reward for performance above a certain threshold would be unattractive to customers. We therefore consider that a higher incentive rate would not be appropriate for these PCs. Furthermore, our customer research often found that some customers disliked the prospect of Thames Water receiving outperformance payments in any case. Taking account of this finding, we think the opportunity for us to receive an even larger reward for performance above a certain threshold would be particularly unattractive to customers.

Our approach to strengthening reputational ODIs

4.64 Our proposed ODIs seek to align the interests of the company and our customers. The majority of our ODIs are set as financial and reputational, however we do propose reputational-only ODIs in some cases, where the following criteria is met:

- A reputational ODI is supported by strong customer evidence;
- The PC is immature (e.g. limited historical or comparative information); and
- There is a material impact on our reputation due to this PC.
- Finally, we propose reputational-only ODIs for some retail PCs (e.g. AR04¹²⁰ and ER03¹²¹) where a financial incentive mechanism would create a perverse incentive.

¹¹³ the relevant Performance Commitment and CSD025-PR19-ODI approach and principles report, Section 6

¹¹⁴ Thames Water, CSD005-BW06-PR19-water quality compliance (CRI)

¹¹⁵ Thames Water, CSD005-CS01-PR19-asset health: treatment works compliance

¹¹⁶ i.e. as a penalty-only measure, it is not possible to even-out performance between multiple years

¹¹⁷ Thames Water, CSD005-ES01-PR19-wastewater pollution incidents

¹¹⁸ Thames Water, CSD005-CS03-PR19-internal sewer flooding incidents

¹¹⁹ Thames Water, CSD005-BW03-PR19-interruptions to supply

¹²⁰ Thames Water, CSD005-AR04-PR19-Number of customers on the priority services register

¹²¹ Thames Water, CSD005-ER03-PR19-Households on the Thames Water social tariff



4.65 Where an ODI is reputational-only, there remains a strong incentive to achieve or outperform on the measure. This is because we report our performance extensively, including:

- In our Annual Performance Report (“APR”);¹²²
- On our website and our social media channels;
- UK Water; and
- The media.

This enables customers, CCGs and wider stakeholders to challenge us on our performance.

4.66 We will link executive pay to some of the highest profile PCs as well as to customer satisfaction, which is itself in effect an aggregate measure of the reputational effect of all PCs and other public promises, weighted by customer priorities.

- DS01 – Risk of sewer flooding in a storm: 1 in 50 year storm;¹²³
- DW01 – Risk of severe restrictions in a drought: 1:200 drought resilience;¹²⁴
- ET02 – Effective stakeholder engagement;¹²⁵
- AR02 – Households on a payment plan;¹²⁶
- AR04 – Number of customers on the priority services register;¹²⁷
- AR05 – Customers recommending Priority Services;¹²⁸
- AWS03 – Business retailer measure of experience;¹²⁹
- EWS08 – Empty business properties;¹³⁰
- AWS02 – Proactive customer engagement;¹³¹
- AW01 – Improving customer engagement concerning leaks on customers' pipes;¹³²
- EWS04 – Natural Capital Accounting;¹³³
- ER01 – Unregistered Household Properties;¹³⁴
- ER02 – Empty Household Properties;¹³⁵

¹²² Thames Water, CSD021-PR19-Thames Water Annual Report and Annual Performance Report 2017/18

¹²³ Thames Water, CSD005-DS01-PR19-Risk of sewer flooding in a storm: 1 in 50 year storm

¹²⁴ Thames Water, CSD005-DW01-PR19-Risk of severe restrictions in a drought: 1:200 drought resilience

¹²⁵ Thames Water, CSD005-ET02-PR19-Effective stakeholder engagement

¹²⁶ Thames Water, CSD005-AR02-PR19-Households on a payment plan

¹²⁷ Thames Water, CSD005-AR04-PR19-Number of customers on the priority services register

¹²⁸ Thames Water, CSD005-AR05-PR19-Customers recommending Priority Services

¹²⁹ Thames Water, CSD005-AWS03-PR19-Business retailer measure of experience

¹³⁰ Thames Water, CSD005-EWS08-PR19-Empty business properties

¹³¹ Thames Water, CSD005-AWS02-PR19-Proactive customer engagement

¹³² Thames Water, CSD005-AW01-PR19-Improving customer engagement concerning leaks on customers' pipes

¹³³ Thames Water, CSD005-EWS04-PR19-Natural Capital Accounting

¹³⁴ Thames Water, CSD005-ER01-PR19-Unregistered Household Properties

- ER03 – Households on the Thames Water social tariff;¹³⁶
- BW12 – Improving system resilience of North East London water supply;¹³⁷
- EWS05 – Financial Transparency;¹³⁸
- EWS06 – Driving cultural change through employee engagement: Customer Net Promotor Score (NPS);¹³⁹
- EWS07 – Financial Resilience;¹⁴⁰ and
- ES04 – Compliance with bio-resource environmental permits.¹⁴¹

E Phase 3 – Acceptability testing and finalising plan

What we did

- 4.67 The consultation combined a formal consultation of our Water Resources Management Plan¹⁴² and our conversation with customers about the business plan.
- 4.68 The objective for this consultation was to understand how our customers would balance levels of services across eight key areas of the plan (where they have previously shown strong interests) with the impact it had on their bill.
- 4.69 We took knowledge from our previous two conversations and continued to run ‘Local Stakeholder Forums’ for interested customers and stakeholders, whilst developing a more customised update of our Shape Your Water Future tool. This gave customers the freedom to build and select their own personal preferred level of service by referencing their own bill – rather than a predetermined choice experiment.
- 4.70 Figure 21 gives a summary of some of the consultation outcomes where customers made a number of choices and decisions which made it clear that they wanted us to do more in our proposals for replacing lead pipes, reducing leaks and supply interruptions.

¹³⁵ Thames Water, CSD005-ER02-PR19-Empty Household Properties

¹³⁶ Thames Water, CSD005-ER03-PR19-Households on the Thames Water social tariff

¹³⁷ Thames Water, CSD005-BW12-PR19-Improving system resilience of North East London water supply

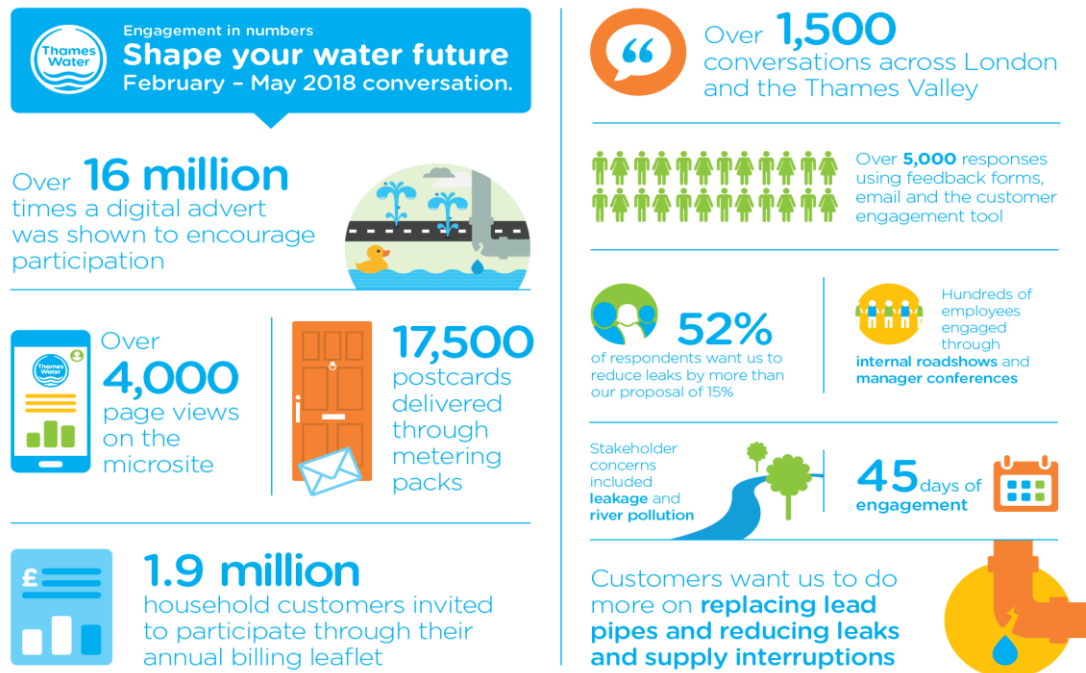
¹³⁸ Thames Water, CSD005-EWS05-PR19-Financial Transparency

¹³⁹ Thames Water, CSD005-EWS06-PR19-Driving cultural change through employee engagement: Customer Net Promotor Score (NPS)

¹⁴⁰ Thames Water, CSD005-EWS07-PR19-Financial Resilience

¹⁴¹ Thames Water, CSD005-ES04-PR19-Compliance with bio-resource environmental permits

¹⁴² Thames Water, TSD019-PR19-CC03b-WRMP Consultation

Figure 21: Infographic showing Business plan consultation

Source: Thames Water, TSD019-CC03a-PR19-Business plan consultation¹⁴³

- 4.71 In July and August we also examined with customers the behaviours expected of us to be considered a responsible, trusted and transparent company. This was important for us to understand, as customer support is a critical success factor for demand management. We did this by asking for their views on a package of measures intended to address concerns raised by stakeholders in this area. Some of the feedback from customers in these deliberative-style sessions is highlighted below. For example, customers told us they were surprised by the level of investment we make, however they also felt our level of gearing appears risky to them and wanted reassurance, so they were pleased that we are looking to increase our equity buffer and our ability to withstand financial shocks.

¹⁴³ Thames Water, TSD019-CC03a-PR19-Business plan consultation

Figure 22: Quotes from corporate and financial responsibility workshops

Source: Thames Water, TSD019–CR66-PR19-Corporate and financial responsibility

- 4.72 At the heart of our research process and plan is an iterative comparison between the full set of PCs and our customers' views on their relative importance, level of ambition, and the nature of financial incentives which should be attached to them.
- 4.73 Ultimately this process leads to a critical decision on the relative priorities of affordability and price, service delivery and investment, financial resilience, and therefore returns to investors.
- 4.74 We tested at two stages during the development of our plan – the interim and final stages. We also tested the full suite of PCs (including the targets and ODIs) in a series of in-depth deliberative workshops. This research helped ensure that:
- Our PCs were easy for customers to understand;
 - The associated targets were sufficiently stretching;
 - The type of incentive was appropriate for each measure e.g. whether it was reputational, penalty-only or reward and penalty; and
 - For financial ODIs, customers commented on features such as caps and collars and incentive rates, as well as the extent and timing of any impact on bills.

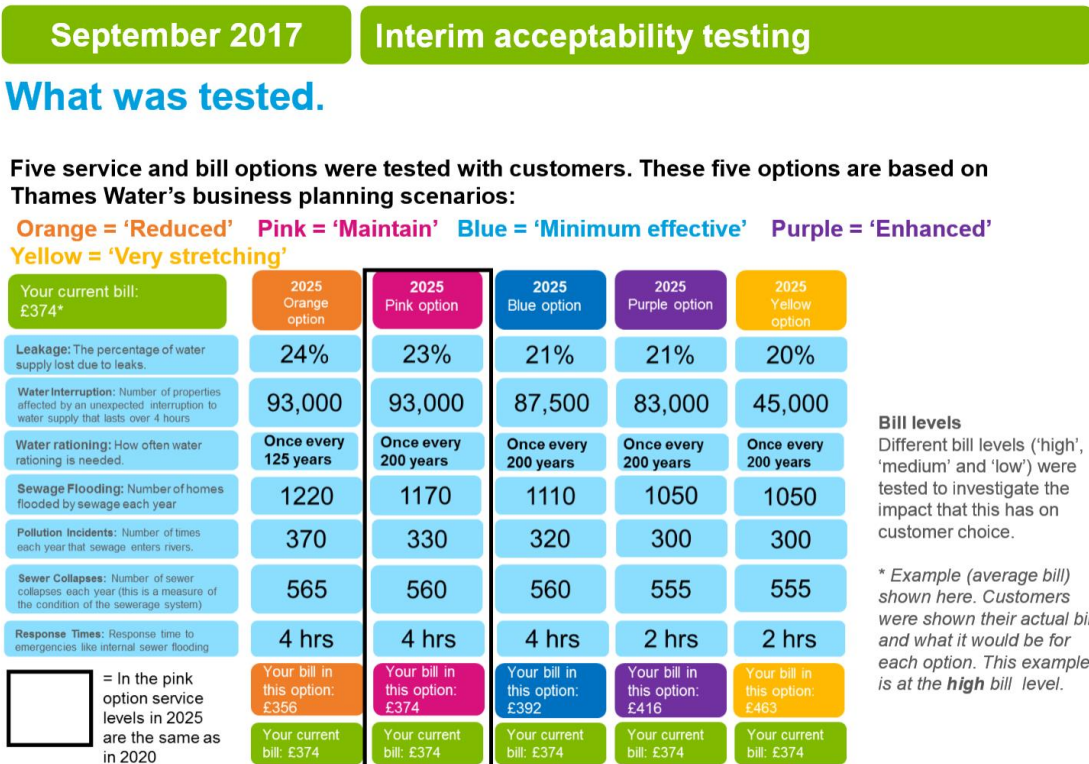
What customers said (acceptability testing)

Interim acceptability (Sept 2017)

- 4.75 We wanted to understand how our customers would view different service and bill options and showed them five potential scenarios. We engaged with 3,296 customers.¹⁴⁴

¹⁴⁴ Thames Water TSD019-CR49-PR19-Interim acceptability testing of service and bill options, 2017

Figure 23: What we tested with customers during interim acceptability testing

Source: Thames Water, CSD002¹⁴⁵

- 4.76 Feedback from customers was that they favoured options equating to their current bill amount with some improvement in service or a small increase in bill with an increase in service. The majority of customers want to maximise what they get for their money, as long as this seems like good value.

Final acceptability (June to August 2018)

- 4.77 We used a representative sample of 1,359 customers (1,117 Household, 89 future customers and 153 Non-household customers).¹⁴⁶ We went beyond the methodology required to complete the data tables and explored both the long-term acceptability and affordability of the plan as well as showing customers both the impact of inflation and potential ODI impacts.

¹⁴⁵ Thames Water, CSD002-PR19-What Customers Want – consolidated report, page 106

¹⁴⁶ Thames Water, TSD019-CR50a-PR19-Final acceptability testing

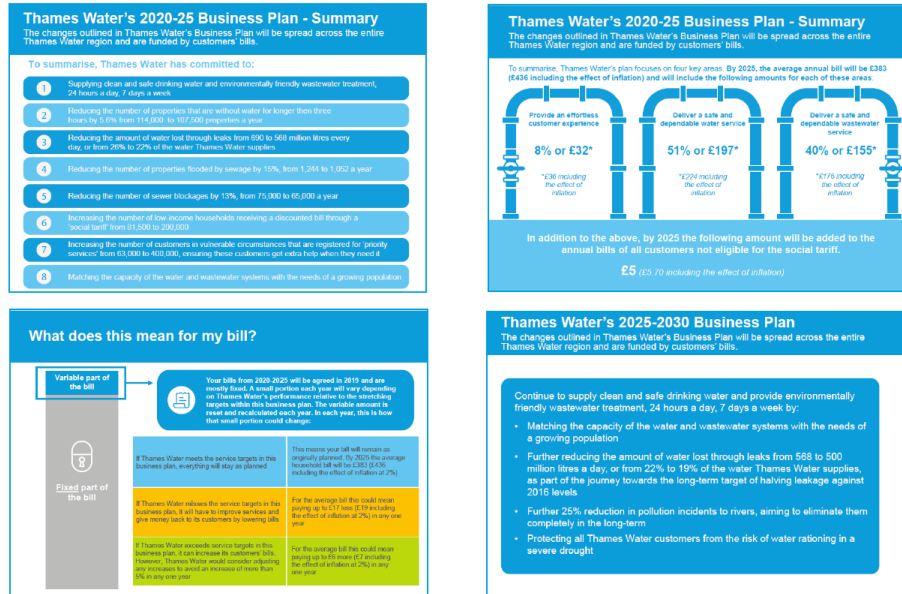
Figure 24: What we tested with customer during final acceptability testing

August 2018

Final acceptability testing

What was tested.

Customers were asked to assess the acceptability and affordability of their 2025 and 2030 bills, based on our final plans, including proposed service levels & improvements and potential ODIs impact. The average annual combined household bill tested for 2025 was £383 and for wastewater-only was £170. For 2030 the amounts tested were £424 and £181 respectively (figures including the effects of inflation were also provided).

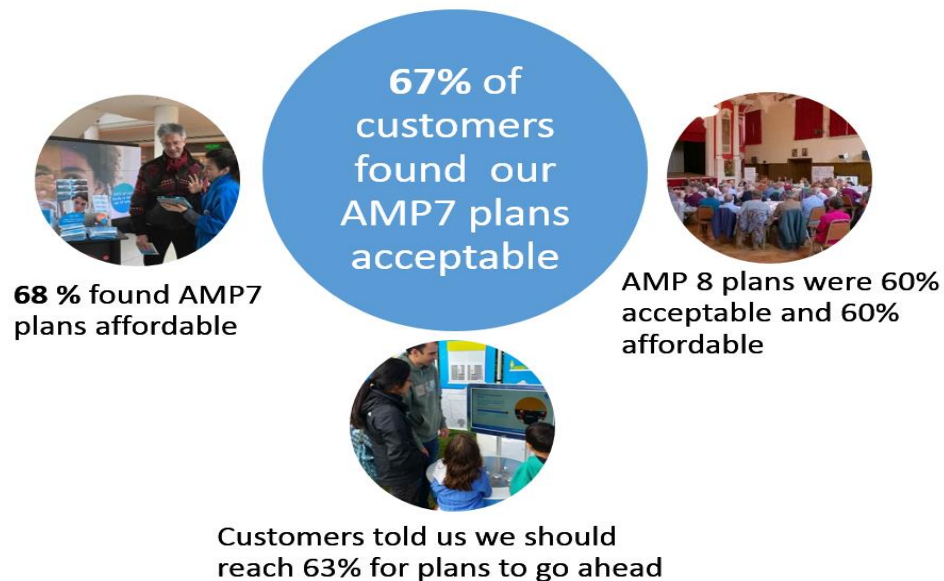


Source: Thames Water, CSD002¹⁴⁷

- 4.78 The results concluded that 67% of customers found our 2020-25 plan acceptable and 68% found it affordable. 60% of customers found our views of our 2025-30 (AMP8) plan acceptable and 60% found it affordable. We asked customers what majority percentage was reasonable for us to go ahead with our plans and they told us we should reach 63% acceptability and 62% affordability.¹⁴⁸

¹⁴⁷ Thames Water, CSD002-PR19-What Customers Want – consolidated report, page 114

¹⁴⁸ Thames Water, TSD019-CR50b-PR19-Final Acceptability Test stage 2 report

Figure 25: Acceptability and affordability of our plans

Source: Thames Water, TSD019¹⁴⁹

While the acceptability level for the AMP8 proposals is just under the acceptability and affordability thresholds customers thought should be applied, we are confident that our proposals for AMP8 will secure sufficient support ahead of the PR24 price control.¹⁵⁰

4.79 For a detailed analysis of each Performance Commitment, please see CSD005.¹⁵¹

F Business plan outputs - balancing affordability, service and investment, and financial resilience

4.80 At the heart of the dialogue we had with our customers was the balance among affordability, service and investment, and financial resilience.

4.81 Based on the expressed needs and preferences, and relative priorities of our customers our plan includes:

- Keeping average bills flat in real-terms;
- A seven-fold growth in customers on our priority service register;
- A four-fold increase in supporting customers who find it hard to pay;

¹⁴⁹ Thames Water, TSD019-CR50b-PR19-Final Acceptability Test stage 2 report

¹⁵⁰ Thames Water, Appendix 3-PR19-Affordability and vulnerability, page 13

¹⁵¹ Thames Water, CSD005-PR19-Detailed Performance Commitments



- A focus across the whole company on creating lifelong customer advocacy through the deployment of a company-wide net promoter system;
 - A 15% reduction in leakage with a commitment to reduce by 50%;¹⁵²
 - An 18% reduction in pollutions;¹⁵³
 - A long-term plan that delivers a step-change in operational resilience, supported by £2.1bn incremental investment;¹⁵⁴
 - Providing every school with access to a lead-free water supply;
 - Finalise our long-term plans to insulate our region from the effects of drought in partnership with other water companies and our customers;
 - An increase in the financial resilience of our company – reduce gearing by 5% and increase our 'equity buffer' by c.£2bn;¹⁵⁵
 - A 13.6 % reduction in operational unit costs on average between 2015-2020 and 2020-2025; and
 - Powering the equivalent of 115,000 homes with the green energy we generate.
- 4.82 To support these customer priorities, we will only pay a modest dividend to our investors of around £20m a year between 2020-25, which will be funded from our projected profits of c.£350m per annum, and is subject to compliance with our dividend policy.

¹⁵² Thames Water, CSD005-BW04-PR19-Leakage

¹⁵³ Thames Water, CSD005-ES01-PR19-Wastewater pollution incidents: Total category 1-3 incidents from sewage related premises per 10,000km

¹⁵⁴ Thames Water, Appendix 4-PR19-Resilience

¹⁵⁵ Thames Water, Appendix 6-PR19-Risk and return

Section 5

Encouraging our customers to be active participants

A Beyond the business plan - engaging our customers as active participants in the water cycle

- 5.1 Beyond our business plan we know that to deliver the outcomes our customers want and need; we also need their help. We know that engaged customers, who understand the challenges we face, and what we are doing to solve them, are much more likely to work with us to help to deliver the outcomes that they value. Clearly we do not just engage with our customers about our business plan, we engage with them about our business and services, day in day out.
- 5.2 This section provides important wider context for our customer engagement strategy, setting out our ongoing approach to customer engagement. We see this as a critical success factor in building trust with customers to support our customer service ambitions and demand management strategies.
- 5.3 We have set ourselves three engagement objectives. The first is to engage customers in their communities so they have the opportunity to participate in the water cycle and become advocates for our services and industry. The second is to better inform customers in order to encourage behavioural change to support the outcomes they have told us they value. Finally to gain customer trust and advocacy, our customers need to see and believe that we are a responsible company, and to do that we must tangibly demonstrate our commitment to this. To that end, our third objective is to raise awareness of our corporate social responsibility agenda and create transparency around our performance, governance and financing. Our customer engagement activities align to these objectives and our plans for PR19 are built from those activities we are already working to deliver.

B Customer participation – in the community

- 5.4 Key to how we act as a responsible company, is our interaction and engagement with our local communities. There are currently over 600 groups and organisations across our region who we work with and who have an interest in us.¹⁵⁶ We have outlined below our

¹⁵⁶ Thames Water, CSD022-PR19-Delivering for Environment (WISER document)



work and our plans moving forward with a number of these groups to encourage and facilitate their engagement and participation in our decision making:

Figure 26: Summary of the local community groups we engage

Working with local government	<ul style="list-style-type: none"> • We work with more than 140 parish, district, county and unitary councils across our region. We have collaborated with communities on issues, such as growth & infrastructure capacity, river restoration, construction traffic, odour and flooding. We plan to increase this level of engagement for PR19 with a dedicated team to help coordinate our activities.
Working with local schools	<ul style="list-style-type: none"> • Our education team, education partners and employee volunteers reach around 21,000 children directly across the region each year. We influence positive behavioural change with reference to the environment, e.g. saving water, and broadening knowledge of clean and waste water treatment in line with the National Curriculum and teachers' needs. Our plans include engaging every school aged child in the next five-years as well as a mobile classroom and forest schools during the summer months.
Working with leaseholders	<ul style="list-style-type: none"> • Seventy of our sites have formal arrangements with a wide variety of groups, via lease or license agreements. For example, heritage trusts and golf clubs. It is important that we utilise these relationships and support with enhancement funds for heritage, biodiversity and public access which we plan to continue for PR19
Working with fishing groups	<ul style="list-style-type: none"> • We work closely with 16 organisations, representing more than 100,000 members who fish 150 miles of 14 rivers and their tributaries, plus 1,000 acres of still waters. We also operate a fishing academy at our Farmoor reservoir that encourage all members of our community to engage with the environment.
Working with civic societies	<ul style="list-style-type: none"> • We work with 192 civic societies and groups, from flood forums to single interest parties. It is important we are seen by our customers as being actively involved in the issues that impact them. We plan to build or interaction with these groups with dedicated local teams to help foster these relationships.
Working with partners	<ul style="list-style-type: none"> • We work closely with a range of other partners such as WWF, TFL, Water only companies & organisations such as MIND and debt advisors to understand what our customers and stakeholders need.

Source: Stakeholder relationship team, Thames Water

C Customer participation – encouraging behaviour change

5.5 Our customers are active participants in their water and wastewater services. By engaging with them and encouraging them to change their behaviour, we gain valuable insight which enables us to improve outcomes for our customers and the wider society. Our approach is to understand customer behaviour and its drivers, and then test and implement interventions which encourage positive behaviours (and remove barriers). There are four key areas of behaviour change we are committed to, based on what customers have told us matters to them and our campaigns run across our region through a variety of mediums:

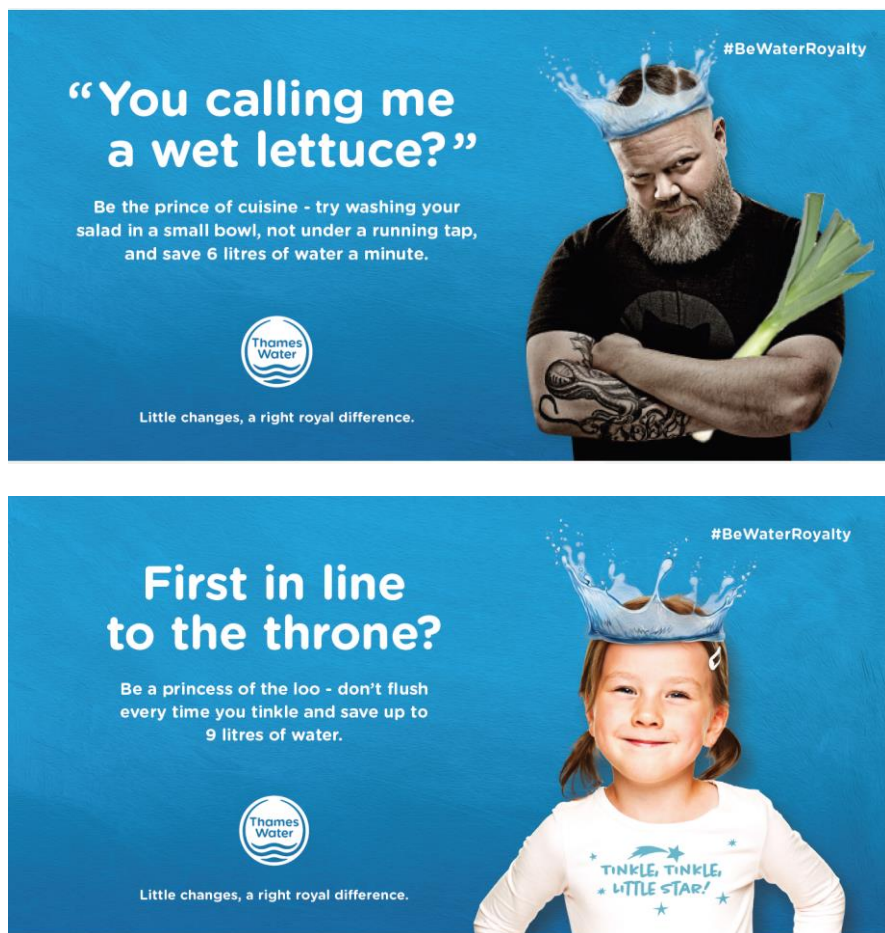
- Saving water – by continuing our innovative smarter home and business visits, school water audits, our smart metering programme engagement, customer side leakage free repairs, online rewards and the distribution of our free water saving devices. We have just launched a new customer education campaign across print, radio, out of home and our social media channels with the aim of engaging customers in a light-hearted way about the steps they can take to reduce their water usage. With the strapline #bewaterroyalty, our aim is to engage customers with a fresh approach using advertisements and personas across new channels on an ongoing basis. Our plan is to refresh this seasonally to support the different demand management challenges at different times of the year. Customer engagement has informed our demand reduction programme and target setting. We have used available demand reduction evidence from previous national and regional campaigns/water stress periods, along with area specific campaigns.¹⁵⁷ For example, PCC reductions have been incorporated into our PR19 WRMP submission, and include an element of water savings attributed to water efficiency engagement/education.
- Responsible sewer use - we have launched a new 'bin it' campaign across social media targeted at incentivising customers to pledge to 'bin it'. Last year we spent approximately £1.5m on customer education (with targeted 'Bin It' campaigns in problematic areas) and we managed to reduce blockages, internal floods and pollution incidents. The traction in the press of the Fatberg story and a greater awareness of plastic pollution (and how this links to the scourge of wet wipes in our sewers) have very clearly demonstrated the importance that our customers place on this issue, so we have incorporated this in our plans for managing our sewer network in the next AMP.
- Drinking tap water and reducing plastic waste – this is a relatively new but successful area of engagement where we provided free tap water drinking bars to high profile public events in our region such as the Chelsea Flower Show, Countryfile Live, Notting Hill Carnival, as well as providing discounted reusable water bottles in support of WaterAid. We also are collaborating with the Mayor of London on providing water

¹⁵⁷ Thames Water, PCD4-PR19-Water Resources

fountains to London communities which will not only raise awareness but also create a legacy for our region.

- Raising awareness of supporting customers in vulnerable circumstances – a core tenet and commitment in our plan is working towards providing the appropriate support for every customer in our region that needs it. To that aim, we are targeting ambitious performance improvements including increasing the number of customers on our priority services by seven fold over the AMP to 400,000 and providing a meaningful discount to 200,000 customers on low incomes.¹⁵⁸ To achieve this we must raise awareness and support amongst our customer base and therefore this is an overarching engagement priority.

Figure 27: Illustration of some of the campaign materials developed



Source: Customer experience team

¹⁵⁸ Thames Water, Appendix 3-PR19-Affordability and Vulnerability

D Being a responsible company

- 5.6 We also recognise that our corporate practices, and how we communicate them, can serve to build or erode our customers' trust and, in turn, their willingness to collaborate with us to deliver the outcomes they value.
- 5.7 We have adopted a more open and transparent approach to how we engage with customers and other stakeholders through a suite of customer-focused documents. We have also increased our media communications, championed by our CEO, Steve Robertson and, for the first time, combined our Annual Report and Annual Performance Report,¹⁵⁹ prompted by a challenge from our Customer Challenge Group (CCG). We have also dealt with issues that impact legitimacy, such as initiating the closure of our Cayman Islands financing company.
- 5.8 To reinforce our commitment to these activities in our plan, we have introduced an innovative bespoke Performance Commitment on proactive customer engagement. This measure is designed to help address potential external factors that may impact our business, as well as to educate and inform, for example customers have told us they want help with how to use less water. Our commitment is to the number of targeted, proactive contacts we make to exceed 400,000 in AMP7, which is an increase of 15% on AMP6.¹⁶⁰

¹⁵⁹ Thames Water, CSD021-PR19-Thames Water Annual Report and Annual Performance Report 2017/18

¹⁶⁰ Thames Water, CSD005-AWS02-PR19-Proactive customer engagement

Section 6

Conclusion

- 6.1 In this document we have set out the unprecedented approach we have taken to customer engagement as part of our business planning process. 984,000 customers have contributed to the development of our plan and prioritised the deliverables encapsulated in our Performance Commitments. We have used new and innovative engagement channels and research and analytical methods to ensure we have a robust plan which has a clear and compelling line of sight to the specific needs and preferences of all our customer segments.
- 6.2 This approach has specifically informed the development of our draft business plan and is embedded in our business planning to ensure what customers want continues to be at the heart of our decision-making processes.
- 6.3 We capture data and insight from our customers on a daily basis and use and enrich this data to inform the way in which we engage with our customers. This already benefits and will further benefit customers as we use this to provide personal customer experiences, for example, proactively contacting customers to mitigate the risk of service interruption, failure, dissatisfaction or non-payment.
- 6.4 Our Performance Commitments have been designed to demonstrate, challenge and improve our capability to respond to what our customers have told us matters to them, balancing the interests of our customers, stakeholders and shareholders. To reinforce our commitment, we have constructed a set of ODIs which are skewed towards underperformance penalties due to our inclusion of “penalty only” ODIs, where we do not receive additional payments for outperformance relative to the PC level. This recognises that we have more to do to gain trust and legitimacy with our customers to deliver what they consider to be value for money services. We also recognise that to do this, we need to deliver a step-change in customer service performance which is the basis of the NPS and complaints improvements we have targeted in the absence of the C-MeX methodology being confirmed.
- 6.5 The result is that we believe we have a plan which is robustly and consistently informed by the needs of our customers and our region. As such, we believe the delivery of this plan will redefine the relationship we have with our customers and make a significant step towards being ‘Here for you’.

Annex A.

Discontinued AMP6 PCs

- 6.6 In developing our AMP7 programme, we have undertaken a full review of the Performance Commitments we implemented at PR14 and mapped them to the PCs we are proposing.
- 6.7 We propose to continue the majority of our AMP6 PCs, although we have chosen to discontinue 17 PCs. Our principal reasons for doing so are as follows:
- Some PCs were removed due to significant overlap with new PCs, including new common PCs, which adopt standardised definitions and reporting mechanisms – for example C-MeX, which encompasses a number of our AMP6 PCs;
 - New or redefined environmental measures with a substantial overlap with previous measures, e.g. the introduction of CRI (the “Compliance Risk Index”); and
 - PCs related to specific schemes which have now ended.
- 6.8 The substantial majority of our AMP6 PCs continue, or are mapped directly to the new ones we are proposing. Where we have chosen to discontinue a PC, we detail the reasons for the proposed change in the table below.

Figure 28: PR14 Performance Commitments that are not proposed in PR19

PC Ref	PR14 Performance Commitment	Reasoning
WB1	Asset Health Water Infrastructure. Planned network rehabilitation (km)	Measures an output rather than an outcome. May tie the business into a less efficient delivery mechanism for a measure such as leakage. Discontinue: Customer service protected in outcome measures such as BW03 Interruptions to supply and BW04 leakage.
WB2	Asset Health: DWQ Compliance measures – Enforcement Actions	The new common BW06 Water Quality Compliance: CRI (Compliance Risk Index) measure contains an enforcement actions element to the index. Discontinue: element is duplicated in CRI.
SB7 Waste	Population equivalent of sites made resilient to future extreme rainfall events	Measure of resilience, Discontinue: Very small programme in AMP7. We have a number of other PCs in AMP7, which focus on resilience measures e.g. ES02 Environmental measures delivered (wastewater), EW02 Environmental measures delivered (water), DS01 Risk of sewer flooding in a storm and DS02 Surface water management.
SC1 Waste	Greenhouse gas emissions from wastewater operations	Energy emissions Discontinue: Performance is typically achieved through carbon offsetting and the cost of this is rising. We will however continue to report to Water UK's Discover water site.
SC5 Waste	Satisfactory sludge disposal compliance	Sludge Discontinue: Industry performance is almost always 100%, so this is not a stretching measure.
SC6 Waste	We will educate our existing and future customers	Customer education/awareness Discontinue: AR01 Customer measure of experience (C-MeX), AR05 Customers recommending Priority Services supersedes the need for this. Also AWS02 Proactive customer engagement includes an element focused on education.

PC Ref	PR14 Performance Commitment	Reasoning
SC7 Waste	Modelled reduction in properties affected by odour	Sewage Treatment Works odour Discontinue: Very small odour programme in AMP7 so PC not needed.
SC9 Waste	Reduce the amount of phosphorus entering rivers to help improve aquatic plant and wildlife (SC9)	Environmental Discontinue: Covered by the Water Industry National Environment Programme (WINEP).
SD1 Waste	Energy imported less energy exported	Energy/emissions Discontinue: Replaced by renewable energy generated. We have no immediate plans to export energy. We are also currently exploring what would be required for the business to be fully energy self-sufficient or neutral. Scoping and development of this work is at an early stage of maturity and further work needs to be completed beyond September 2018. It would therefore be premature to include a PC around energy self-sufficiency until requirements, impacts and benefits are fully understood.
RA1	Minimise the number of written complaints received from household customers (relating to charging and billing)	Discontinue: A separate metric that will measure all forms of customer complaint by subject matter and channel will be reportable to the Consumer Council of Water. Customer satisfaction/dissatisfaction will also be captured through the AR01 Customer measure of experience (C-MeX), which includes a contactor survey.
RA2	Improve handling of written complaints by increasing first time resolution	The Consumer Council for Water will continue to expect written complaints to be reported to them according to the escalation stage. Discontinue: Customers who are dissatisfied with the way in which a complaint has been handled will still be captured within the contractor survey included under AR01 Customer measure of experience (C-MeX). Complaints are expected to be a key gate in C-MeX
RA3	Improved customer satisfaction of Retail customers (charging and billing services only)	Discontinue: Customer satisfaction both from those who contact the Company and those who have not contacted the Company will be measured within AR01 Customer measure of experience (C-MeX).
RA4	Improved customer satisfaction of Retail customers (operations contact centre)	Discontinue: Customer satisfaction both from those who contact the Company and those who have not contacted the Company will be measured within AR01 Customer measure of experience (C-MeX).
RA5	Increase the number of bills based on actual meter reads (in cycle)	A metric similar to this will continue to be tracked by the Company but as an internal measure. Discontinue: As this metric is primarily measuring our ability to transfer meter readings into bills, it is not truly customer focussed and will not be included as a Performance Commitment. The accuracy of the bills we send our customers and their satisfaction will be reflected by the volume of complaints received, customer satisfaction scores and by cash collection rates. All of these will be measured in some way in AMP7.
RA6	SIM points, performance relative to industry	Discontinue: The SIM metric will be replaced by AR01 Customer measure of experience (C-MeX) and will therefore no longer be reportable.
RB1	Implement new online account management for customers supported by web-chat	Discontinue: This metric will no longer be required as the service will be delivered in AMP6.

PC Ref	PR14 Performance Commitment	Reasoning
RC2	Increase cash collection rates	Discontinue: The work done as part of our Billing & Collections strategy suggests measuring a percentage of customers falling into collections, measuring the value of outstanding collections, or number of customers on payment plans may be appropriate. This is reflected in the revised Performance Commitments (AR01 Customer measure of experience (C-MeX), AR02 Households on a payment plan, AR03 Household accounts on our new billing system, AR04 Number of customers on the priority service register, AR05 Customers recommending priority services).

Source: Thames Water