



Thames Water

**AMP6 Outcomes Reporting
Policy**

**Annex 3 – Thames Tideway
Tunnel**

Performance Commitments

March 2015



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Introduction

In the PR14 Final Determination (PR14 FD), Thames Water has three performance commitments relating to the Thames Tideway Tunnel (TTT) project and price control:

- T1 – Thames Water will limit the extent of delays on the overall programme timeline
 - T1A – Successful procurement of the Infrastructure Provider (IP);
 - T1B – Thames Water will fulfil its land related commitments in line with the TTT programme requirements;
 - T1C – Completion of category 2 and 3 construction works and timely availability of sites to the IP;
- T2 – Thames Water will engage effectively with the IP, and other stakeholders, both in terms of integration and assurance; and
- T3 – Thames Water will engage with its customers to build understanding of the TTT project. Thames Water will liaise with the IP on its surveys of local communities impacted by construction.

This document sets out further detail on how we will report and measure against these three performance commitments. It also sets out the activities we are undertaking to finalise the measurement and reporting arrangements for performance commitments T2 and T3.

This is a technical document aimed at providing Ofwat, our Customer Challenge Group (CCG) and other stakeholders with additional detail on the measurement and reporting for the TTT performance commitments. We do not repeat the descriptions of the performance commitments from our PR14 FD.¹

This appendix should be read in conjunction with the main policy document. The policy documents sets out our approach to audit and assurance, including method statements, data checks, the use of independent assessors and review by our CCG. Details of our engagement with the CCG to provide additional challenge on our performance are included in Section 3.3 of the main policy document.

¹ Ofwat, "Final price control determination notice: company-specific appendix - Thames Water", December 2014, page 251+



T1A – Successful procurement of the Infrastructure Provider

Thames Water is leading the procurement of the IP. The Performance Commitment requires that the company successfully procures the IP according to the project timetable. The current timetable anticipates that the IP will be awarded its licence by Ofwat on 31 July 2015.

We are liaising closely with both Ofwat and Government on the procurement by Thames Water of the IP. We will make a public statement on conclusion of the procurement.

T1B – Thames Water will fulfil its land related commitments in line with the TTT programme requirements

We will monitor and report on the acquisition of land and access rights, and will publish our performance against this commitment on our website.

In line with our PR14 FD, we are setting out the financial years in which access is first required to the parcels of land relating to the 24 project sites.

Table 1 sets out the dates under the current programme timetable, which is consistent with the DCO. We note, however, that the timetable will change as the land acquisition requirements dates are set by the programme and specifically the timing of capital works as set out in the Works Schedule. The programme will be updated during the Optimised Contractor Involvement (OCI) period which will run post licence award. As such, we will update the land right schedule in Table 1.

Table 1: Individual parcels of land required in line with the current programme

	Unit	2015-16	2016-17	2017-18	2018-19	2019-20
Current programme target	No. of sites	20	12	9	0	1

Source: TTT current programme

As stated in our Representation on Ofwat’s Draft Determinations, we define land acquisitions as any sites/rights acquired by negotiation and any sites acquired, on a temporary or permanent basis², by use of powers under the DCO. Compulsory Purchase Orders (CPOs), where required, will also be included in the Land Schedule.

To protect customers’ interests by not impairing our ability to secure sights at appropriate prices, when reporting performance we will not publish an acquisition schedule with individual property information or the forecast/actual cost of any acquisition or compensation.

As stated in our Representation the circa 1200 sub soil interests will not be listed line by line.

It should be noted that the Land Schedule will be dependent on the TTT Works Schedule which is currently subject to change as it undergoes a process of optimisation.

² All rights under the DCO are temporary rights. The extent to which such temporary access will become permanent will be determined later and compulsory purchases take place in AMP7.



We have strong incentives, in the form of Performance Commitment T1C and our Alliance Agreement, to ensure that land acquisition does not delay our Works Schedule. Land costs are no pain / no gain, ensuring the best value is in the best interest of our customers. Securing the best price may impact the timing of land acquisitions, provided there is no effect on the overall programme. Where this occurs we will indicate the cause of the delay and explain the reasons behind any adjustments.

Reporting

To ensure continued transparency we will publish annual updates to our land acquisitions schedule on the Thames Tideway Tunnel website. This information will be consistent with that set out in Table 1.

There will be a continuation of the AMP5 regulatory oversight arrangements with Ofwat, as provisionally agreed with Ofwat at a meeting on 3 February 2015. For transactions greater than £1m, there will be engagement and agreement with Ofwat and its advisor (currently Mott MacDonald), through “no objection” letters to business cases and regular updates, either quarterly or half-yearly.

T1C – Completion of category 2 and 3 construction works and timely availability of sites to the IP

We are undertaking construction works (known as Category 2 and 3) to support the delivery of the TTT. T1C requires completion of Category 2 and 3 construction works and timely availability of the project’s 24 sites to the IP. The performance commitment includes financial penalties for delays in the availability of sites to the IP.

Table 2 below includes the availability dates for each of the 24 sites from the PR14 FD. We will continue to monitor internally against this schedule until the final baseline has been set.

The final baseline for the performance commitment will be the dates agreed following the OCI phase³ and included in the Baseline Project Master Programme. As an observer of the project’s Liaison Committee, Ofwat will receive these dates. Ofwat has agreed that variations to this programme will not adjust the performance commitment dates without prior agreement with Ofwat.

³ This was confirmed in an email exchange with Ofwat on 8 January 2015.



Table 2: T1C performance commitment and outcome delivery incentive (ODI)

	Unit	2015-16	2016-17	2017-18	2018-19	2019-20
Performance commitment	Cumulative number of sites	0	0	5	17	24
Penalty deadband	Cumulative number of sites	0	0	5	17	24
Penalty collar	Cumulative number of sites	0	0	0	0	0

Source: TW PR14 Final Determination: company-specific appendix – Thames Water, December 2014

Any potential penalties which arise will be calculated annually and applied to the total five-year position in 2015-20. The delay penalty will apply to any site which is handed over in a later financial year to that in which it was committed to in the Baseline Project Master Programme agreed at the end of the OCI Period. The granting of access to the IP and the acknowledgement of acceptance will be confirmed through both parties signing and dating an agreed certificate.

The Alliance Agreement incentivises Thames Water to deliver this programme efficiently and in line with the final programme. Ofwat specified in its PR14 FD that any site-specific penalties for delays incurred in the period 2015-16 to 2019-20 in relation to the Alliance Agreement may be netted off against the penalty incurred through the performance commitment, subject to sufficient regulatory oversight.

We will engage with Ofwat and other key stakeholders on the signed version of the Alliance Agreement to ensure that it meets their requirements.

Exception

Ofwat indicated in its PR14 FD that its intention was to recover costs for customers in the event of non-delivery of Category 2 and 3 (Cat 2/3) works if Thames Water does not undertake the project, in circumstances where the work is cancelled for reasons outside Thames Water's control. We have assumed in these circumstances that the penalties would not be applied. If the same circumstances result in a material delay rather than complete cancellation, the penalties would also be waived. Examples are if the project is de-specified, the IP loses its Licence or as a result of a Force Majeure event.

Reporting

To allow customers and stakeholders to effectively monitor the delivery of T1C, we will publish details on the delivery of this performance commitment on an annual basis. We will set out the Cat 2/3 activities by year and provide further site-specific details where appropriate. As this performance commitment relates to timely delivery of the construction activities, specific cost information will not be included.



As a member of the Alliance, Thames Water will report the performance of the Cat 2/3 programme regularly to the Alliance Board and the Liaison Committee. As per the Liaison Agreement, the Independent Technical Assessor will provide assurance over information reported to the Liaison Committee to ensure accurate data is reported.

T2 – Thames Water will engage effectively with IP, and other stakeholders, both in terms of integration and assurance

Thames Water and the IP will need to work effectively together to achieve a successful outcome for the project. We will need to work closely with the IP, and other stakeholders, including through the Liaison Committee, to seek to deliver the activities on a timely and efficient basis.

We will engage with all the relevant parties, including the IP, in an approach that is effective and reflects their views. We are continuing to develop the approach to engagement. To ensure a strong stakeholder strategy, the development phase will include stakeholder mapping, analysis of the different types of interaction with our key stakeholders and development and implementation of methods of interaction, e.g. forums, meetings and communication channels.

Once our development phase is complete, we will establish an approach to measuring the effectiveness of the stakeholder engagement, including the establishment of a baseline against which we can measure and report performance. This will be developed in collaboration with the TTT Ltd to ensure that our incentives are aligned and that we only approach our mutual stakeholders, such as Ofwat and Defra, with common communication messages.

The measurement of engagement will be defined once the stakeholder engagement strategy is confirmed in order to minimise the risk of inappropriate measurement and/or targets driving unintended behaviours that are not to the benefit of the project or our customers.

We will develop a standard approach to quantify the success of our engagement with stakeholders. This approach will consider:

- a. Definition and measurement of engagement;
- b. The stakeholders that we will include;
- c. Frequency of measurement, including use of multiple measurements over time;
and
- d. Development of target figures.

Reporting

We will propose to stakeholders that we would commission an independent company to survey the key stakeholders, including the IP, to assess effective engagement on an annual basis. Performance against our commitment will be reported in line with our year-end reporting processes. Monitoring against this measure will commence from the date of IP award. We will inform the CCG of our approach through quarterly updates in line with the reporting framework set out in the main policy document.

We recognise that as this performance commitment is still being developed, we will continue to engage our stakeholders in the development phase and will provide a final update to Ofwat on our agreed measurement and reporting approach prior to IP Licence Award.



T3 – Thames Water will engage with its customers to build understanding of the TTT project. Thames Water will liaise with the IP on its surveys of local communities impacted by construction

We will undertake a programme of ongoing engagement with customers and collaborate with water-only companies to understand and measure customers' views and to build an understanding of the TTT. The company will also liaise with the IP in relation to its surveys of communities impacted by the IP's construction sites.

It is important to ensure that we have an agreed approach with water only companies (WoCs) and that CCG has been effectively engaged. We will engage with the CCG on the programme of customer research and engagement throughout the AMP. We are defining the process and beginning the engagement activities with these parties.

The baseline survey approved by our CCG and shared for comment with other WoCs was carried out by an independent research agency (adhering to Market Research Society and British Polling Council rules) in February 2015. It covered a statistically representative group of our household customer base. The results will be available in March 2015 and will form the baseline for assessing this performance commitment.

We expect that subsequent surveys would focus on the following issues:

- a. Awareness of the TTT;
- b. Understanding of the project, including why it is needed;
- c. Support for the project;
- d. Acceptability of bill impacts associated with the project; and
- e. Perceived affordability of bill impacts.

The findings from subsequent surveys will be compared with the baseline survey, allowing us to determine the extent to which customers' views have changed. We currently propose reporting trend data for the questions associated with each of the five key focus areas annually. How we report the survey findings will be discussed with the CCG at the next meeting on 31 March 2015.

We will collaborate with WoCs and licenced retailers operating within Thames Water's region to understand and measure customers' views, and to deliver a joined up communications strategy. Our future engagement and research strategy will be shaped by a meeting with the WoCs at the end of March 2015.

We will continue to use an independent research agency to provide assurance that results from our customer surveys are presented accurately and are unbiased.

We will liaise with the IP on its surveys of local communities impacted by construction. The IP will report the findings of its surveys independently of the results of our customer surveys.

Reporting

We will publish the results of the surveys annually on our website.



Glossary of terms

Term	Definition
Alliance Board	Board set up under the Alliance Agreement attended by authorised representatives of the Main Works Contractors, Thames Water and the IP.
Baseline Project Master Programme	The programme schedule as agreed upon by all parties in the Alliance post OCI
Category 1 works	The main construction works for CSO interceptions, drop shafts and tunnels delivered by the IP
Category 2 works	The enabling works delivered by Thames Water prior to the commencement of the IP's Category 1 works
Category 3 works	The construction works at specific sites and delivered by Thames Water that interface with the overall project
CCG	Customer Challenge Group
CPO	Compulsory Purchase Order enables land or property to be purchased without the owner's consent. Compensation is available to ensure the owner is restored, as far as possible, to the same position as to before the CPO.
DCO	Development Consent Order
Force majeure	Causes beyond the company's reasonable control, including but not limited to acts of God, war, strikes or labour disputes, embargoes, government orders or any other force majeure event.
Independent Technical Assessor	Means the company appointed pursuant to the liaison agreement as an independent technical assessor
IP	Infrastructure provider
Liaison committee	Committee established under the liaison agreement to discuss and report the project between IP, Secretary of State and Thames Water
Main Works Contractors	Engineering, procurement, construction and commissioning contractors for Category 1 works
OCI	Optimised contractor involvement
Representation	Thames Water's formal response to Ofwat's Draft Determination
Thames Water	Thames Water Utilities Ltd
TTT	Thames Tideway Tunnel
WoCs	Water only Companies (no provision of wastewater services)
Works Schedule	Construction schedule being used by all parties on the project