

Commentary on Thames Water's Performance Commitments 2018

Prepared by the Thames Water
Customer Challenge Group



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

The Thames Water Customer Challenge Group (CCG) exists as a group which is independent of Thames Water. All water companies in England and Wales have similar groups. The Thames Water CCG has two main roles; to monitor whether Thames Water is meeting its commitments and reporting what progress it finds on an annual basis and also to see whether Thames Water's future plans reflect what customers need and want. It then reports on its findings to Thames Water customers, the wider public and Ofwat.

Our mission

To represent the needs and interests of current and future customers in ensuring Thames Water both develops and delivers an affordable and sustainable business plan, including encouraging the company to consider the impacts on the environment and wider society in a customer context.

Our objectives

To be

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

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

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

What has the Thames Water CCG done this year?

The CCG met eleven times for its regular meetings including 4 quarterly reviews of performance. There were also meetings throughout the year of two sub groups. The first, the Customer Engagement Sub Group, focussed on Thames's engagement with customers. The sub group reviewed Thames's plans for research and engagement, including considering the methodologies to be employed and the materials proposed to be used. It then reviewed the output and implications of the research and engagement undertaken. The second sub group, the Business Plan and Finance Sub Group, was set up to review Thames's business planning processes and associated areas such as risk. The Customer Engagement Sub Group met 11 times. The Business Plan and Finance Subgroup met 11 times. CCG members attended many research focus groups and also visited various locations where Thames was meeting its customers.

During the year the CCG was visited by a Thames Water board member, Greg Pestrak. The CCG Chair was invited to the Thames Water Board on one occasion to give an update on the CCG's current perspective on Thames's progress. The Chair also spoke at Thames's annual stakeholder forum and made a presentation to Thames Water's managers.

The CCG responded formally to the Ofwat consultation "Consulting on our methodology for the 2019 Price Review". The CCG also prepared a submission to DEFRA on Thames Water's draft Water Resources Management Plan.

Explanation of Green Amber Red

- Performance at, or favourable to, Thames Water's committed performance level for 2017/18
- Performance adverse to committed performance level, but within some agreed ranges
- Performance adverse to committed performance level and outside some agreed ranges

A more detailed explanation is at Annex 1, page 14

Introduction

This is the third year of Thames Water's commitments in its 5-year Business Plan 2015-2020. Throughout the year Thames Water have reported to the CCG on their progress against these on a quarterly basis, giving the CCG the opportunity to challenge directly and understand why progress is and isn't being made.

The CCG previously recorded its disappointment that Thames Water chose to separate the publication of its annual results and their summary of their performance against their commitments, so was pleased that Thames has responded positively to the CCG's comments. As a result the separation will not happen this year and Thames's performance report and the annual results will be published simultaneously for the first time this regulatory period.

Last year, the CCG noted that there were a number of key issues that Thames Water should address urgently if it was to meet its commitments by the end of the Asset Management Plan (AMP) and beyond. These included the need to achieve sustainable and replicable performance, the need to think beyond the 5 year planning horizon and for clear strategic direction from the Board around asset health, the need for radical improvements in IT and telephony and customer service and engagement and finally, avoiding operational siloes. The CCG also expressed its concern in last year's report that the issues that really mattered to customers such as leakage and sewer flooding were not making the progress that they should. Broadly speaking, those comments can be seen to stand for the year covered in this report although there has been progress made with sewer flooding and some of the broader organisational issues. While it is outside the scope of this reporting period, it is important, too, to note Ofwat's enforcement action regarding leakage and Thames's subsequent commitments which were published in June 2018.

Regrettably, the issue of asset health and its consequences troubled Thames throughout the year, with leaks and bursts causing considerable and unacceptable disruption, especially within London. Three high profile and highly disruptive incidents, culminating in the "freeze thaw" experience of March, demonstrated both the fragility of the network and the challenge for Thames of responding effectively and consistently to a major incident, despite sustained efforts on their part throughout the year to improve their incident handling processes. The Ofwat view of how Thames had failed to plan to support vulnerable customers was particularly concerning.

The need, therefore, to ensure that the forthcoming business plan addresses asset health is key. During the year the CCG has pressed Thames to be more ambitious in its thinking, particularly in the area of leakage, and the CCG was pleased to see that Thames have put the more ambitious figure of a 15% leakage reduction target for the next 5 years into their plans although this is still less than customers would want to see. However, the CCG is aware that Thames have said they will commit to a 50% reduction over time, taking the overall leakage figure to around 14-15% - the CCG is very supportive of this, but has seen no commitment within their current documentation to these figures.

As yet, there have been no major steps forward in either IT or telephony visible to the CCG and it is the CCG's observation that failures and weaknesses in these areas hamper Thames's progress and its relations with its customers.

In April 2018 (just after the end of the year), Thames announced a new internal structure which aimed to make the company more effective and responsive to customers by removing unnecessary barriers. The CCG will watch the implementation of this with interest.

The CCG also notes that Thames now has a new Chairman and is altering its various governance structures. Customers are interested and concerned by such matters and discuss them in the context of other research programmes. Research in the specific area of governance and finance is planned for July 2018 and it will be interesting to see the results.





Progress against water performance measures

This year has been dominated for Thames Water by the issue of leakage (WC2). At the time of writing (after the end of the performance period) and following an investigation by Ofwat, Thames Water agreed to pay an additional £65M back to customers on top of £55M in automatic penalties to compensate its customers for its underperformance in this area. This will be paid solely by Thames's shareholders. While this is not within the scope of this report, it demonstrates the importance and significance of the topic – and, also, that Thames has begun to address it appropriately.

The CCG has been having monthly presentations from Thames throughout the year on the subject of leakage and how the company is tackling it. Key to progress has been the appointment of a senior manager with end to end responsibility. Thames's willingness to be open in this area has also been helpful. Equally important have been investment and innovation, and the CCG has heard how Thames have introduced thousands of new data loggers to enable better detection and how hundreds of extra contractors have been engaged. The 'fix and find' programme is also going well. Thames has explained how the introduction of its contractor alliance damaged its leakage programme and what it is doing to recover this aspect of the situation including how activities are being insourced and contractual arrangements amended.

While Thames is clearly doing more, recovery is fragile and the March freeze thaw incident demonstrated this. At year end, while the measure was still red, Thames were able to state that their progress was ahead of their recovery plan. On a positive note, the number of customers using Thames's free repair service to deal with a repair outside their property (WA5) has leapt and Thames are to be commended for this positive development.

The CCG would urge Thames to maintain their focus in the critical area of leakage which continues to be of paramount importance to customers who regard it as a bellwether of Thames's stewardship of the network. For failures relating to the year under review, Thames will pay a penalty of £13m to customers, by way of a bill adjustment.

Another important issue for customers is security of supply. The number of hours lost per property served due to interruptions of greater than 4 hours (WB5) rose markedly and is now red. Thames attribute much of this to the "Beast from the East". Thames will pay a penalty of more than £10m to customers by way of a bill adjustment as a result of this failure. The security of supply index (WB6), which represents Thames' ability to supply water during extreme weather conditions is also red. This shows in particular the imbalance between supply and demand in London; Thames believe improvements in their leakage performance will improve this measure. Meanwhile, they will pay a penalty of £6.7m to all customers.

Thames have failed to meet their low pressure targets (WB4) by some considerable margin. This is however a spot measure, taken at a point in time and circumstances and the freeze thaw event mean that this is not a wholly representative outcome.

The measure assessing asset health for things that are below ground (infrastructure) (WB1) continues to be rated at amber and marginal and has incurred a penalty which will be paid to customers as a result; however, the non infrastructure asset health measure (WB2) (pumping stations and water treatment works) continues to be rated as green and stable. All of this taken together suggests that the water network, its performance and operation continue to be under considerable stress.

The measure relating to drinking water quality (WB3) has been altered – the Drinking Water Inspectorate now requires 100% compliance and the measure is therefore considered to be amber although there has been no change in performance.

During the year low rainfall meant that the Abstraction Incentive Mechanism (AIM) was triggered, however the availability of alternative water sources meant Thames could comply with AIM during the year.

Although there are no public performance commitments around Thames Water's lead pipe replacement programme, the CCG has been following the progress of this programme with great interest, given its significance to customers. The CCG is pleased by the increased focus it has seen this year, and also by the fact that Thames consulted with customers on extending the programme as part of the business planning process. The CCG would urge further focus and commitment in the coming year.

Looking forward, the CCG will work closely with Thames to respond to Ofwat's request for a formal response regarding the 'freeze thaw' incident. The CCG will be keen to build upon the positives identified, such as Thames's success in increasing water production, and its willingness to respond to the CCG's suggestion regarding compensation, but it will be keen to see progress on key issues such as the treatment of vulnerable customers and indeed customer support more generally.

Water annual performance measures

	2016/17 Actual	2017/18 Actual		2016/17 Actual	2017/18 Actual
WA1: Improve handling of written complaints (%) [R]	96%	96%	WB4: Low pressure performance [R]	5	206
WA2: Minimise the number of written complaints [R] (No per 10k HH properties)	9.12	12.39	WB5: Supply interruptions >4hrs [FPR]	0.12	0.21
WA3: Improve customer satisfaction [R]	4.5	4.42	WB6: Security of supply index [FP]	99	97
WA5: Customer side leakage free repair [R]	2089	4834	WC2: Leakage [FRP]	677	695
WB1: Asset health infrastructure [FP]	Marginal	Marginal	WC3: Abstraction incentive mechanism [R]	N/A	-1676.29
WB2*: Asset health non infrastructure [FP]	Stable	Stable	WC4: Customer education [R]	20,898	21,341
WB3*: Drinking water quality supply [FP]	99.96	99.96			

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

Complaints and customer satisfaction

The handling of written complaints so that they are resolved first time (WA1) remains stable and on target; the number of complaints (WA2) has, however increased and now stands at red. Thames' customer satisfaction scores (WA3) in this area have dipped with the result that the rating is now amber.

On a more positive note, the CCG is pleased to see that the customer education measure (WC4) continues to outperform against target, although it should be noted that it measures the number of children engaged rather than any changes in behaviour. Customers continue, though, to express enthusiasm for additional support to help them save water and understand the pressures the region faces. This has been demonstrated frequently during Thames's extensive customer consultation into its draft Water Resources Management Plan and the CCG believes that Thames should aspire to do more in this important area.

Water performance - 5 year measures

	2016/17 Actual	2017/18 Actual		2016/17 Actual	2017/18 Actual
WA4: Water efficiency [FP]	NA	20.22	WB8: Flooding resilience [FPR]	NA	4
WB7: Security and emergency measures directive [FP]	NA	21			

5 year water measures

Thames appear to be making good progress with their distribution of water efficiency devices, often as part of their smarter homes visit programme and are well ahead of target. Thames are, however, behind on their compliance with SEMD advice notes but expect to spend what they had planned. Thames are on target to meet new environmental regulations and will also deliver the targetted number of sites made resilient to extreme future rainfall events - although the population equivalent will be higher.



Progress against waste performance measures

The CCG is pleased to see that there has been an improvement in the number of pollution incidents (SC2) given Thames's deepened focus in this area. It is also pleasing to note that the sludge outcome (SC5) remains at 100% for the third year. It is encouraging that there has also been an improvement in the sewage treatment works compliance measure following some investment (SC3), although this remains at amber against a challenging 100% target.

Given the distressing impact such incidents have on customers it is good to see that the internal sewerage flooding measure (SB4) is now green which represents a positive improvement and we are told that Thames are working hard to reduce the number of properties that are at risk going forward. They are also using better detection methods which help them to pre-empt events. Thames are especially proud of changes which enable swifter reporting of such incidents which mean they can be dealt with quicker hopefully minimising distress to customers. As a result of this progress, Thames will earn a reward of £1.2m.

The two asset health measures (SB1 - which includes "unconsented" pollutions and compliance with sewage discharge rules and SB2 - which relates to below ground infrastructure) are both green and stable.

Thames have exceeded their target for odour reduction (SC7), following some upgrade programmes which they plan to continue. They will receive a modest reward for this.

Waste annual performance measures

	2016/17 Actual	2017/18 Actual		2016/17 Actual	2017/18 Actual
SB1*: Asset health non infra [FP]	Stable	Stable	SC5: Sludge disposal [R]	100%	100%
SB2: Asset health infra [FP]	Stable	Stable	SC6: Customer education [R]	20,898	21,341
SB4: Internal flooding incident other causes [FPR]	1,214	1062	SC7: Odour reduction [FPR]	1,305	1,980
SC2*: Pollution incidents [FPR]	315	292	SA2: Minimise the number of written complaints [R] (No per 10k HH properties)	6.21	4.39
SC3*: STW discharge compliance [FP]	98.28	99.43	SA3: Improve customer satisfaction [R]	4.57	4.55

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

The number of written complaints (SA2) has shown a positive trend with a near 30% reduction and the way they were handled has stayed stable at amber (SA1). Overall satisfaction has, however, gone backwards (SA3); Thames have told us that this is a disappointment to them as they had hoped for greater progress, not least given their success with complaints.

Waste performance - 5 year measures

	2016/17 Actual	2017/18 Actual		2016/17 Actual	2017/18 Actual
SB3: Properties protected from flooding due to rainfall	NA	40	SC4: Water bodies improved or protected from deterioration as a result of Thames Water's activities	NA	0
SB5: Contributing area disconnected from combined sewers by retrofitting sustainable drainage	NA	0	SC8: Deliver 100% of measures to meet new environmental regulations	NA	NA
SB6: Compliance with SEMD advice notes	NA	26	SC9: Reduce the amount of phosphorus entering rivers to help improve aquatic plant and wildlife	NA	0
SB7: Population equivalent of sites made resilient to future extreme rainfall events	NA	537,700			

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

5 year waste measures

Thames have decided to take a different approach to protecting properties from sewer flooding due to rainfall; they will focus on protecting individual properties rather than building a new strategic sewer. The CCG welcomes this if it delivers better outcomes for customers. Thames are, however, behind on their compliance with SEMD advice notes but expect to spend what they had planned. Thames are on target to meet new environmental regulations and will also deliver the targetted number of sites made resilient to extreme future rainfall events - although the population equivalent will be higher.



Thames Tideway Tunnel

Thames have a number of operational and engagement targets relating to the Tideway Tunnel. The operational targets (T1B, T1C, T2) are at green. This has again been a year when work has been ramping up but when the tunnel is not yet operational (T3). The CCG continues to urge Thames to communicate creatively with a variety of audiences through a range of media. There has been a requirement to restate the previous year's outcome due to a clarification of the methodology used; the nature of the measure means that it is now red and was red in the previous year. The CCG have been assured however that Thames are confident of meeting the 5 year measure.

Tideway tunnel performance

	2016/17 Actual	2017/18 Actual		2016/17 Actual	2017/18 Actual
T1C: Completion of category 2-3 works [FP]	19	21 ▲	T2: Stakeholder and infrastructure provider engagement [R]	Effective Engagement	Effective Engagement

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



Progress against Retail performance measures

The key customer satisfaction measure (SIM) (RA6) is effectively a measure of how well interactions between Thames and customers are handled rather than a simple satisfaction measure. While this measure has failed to achieve its target, there has been an improvement on previous years.

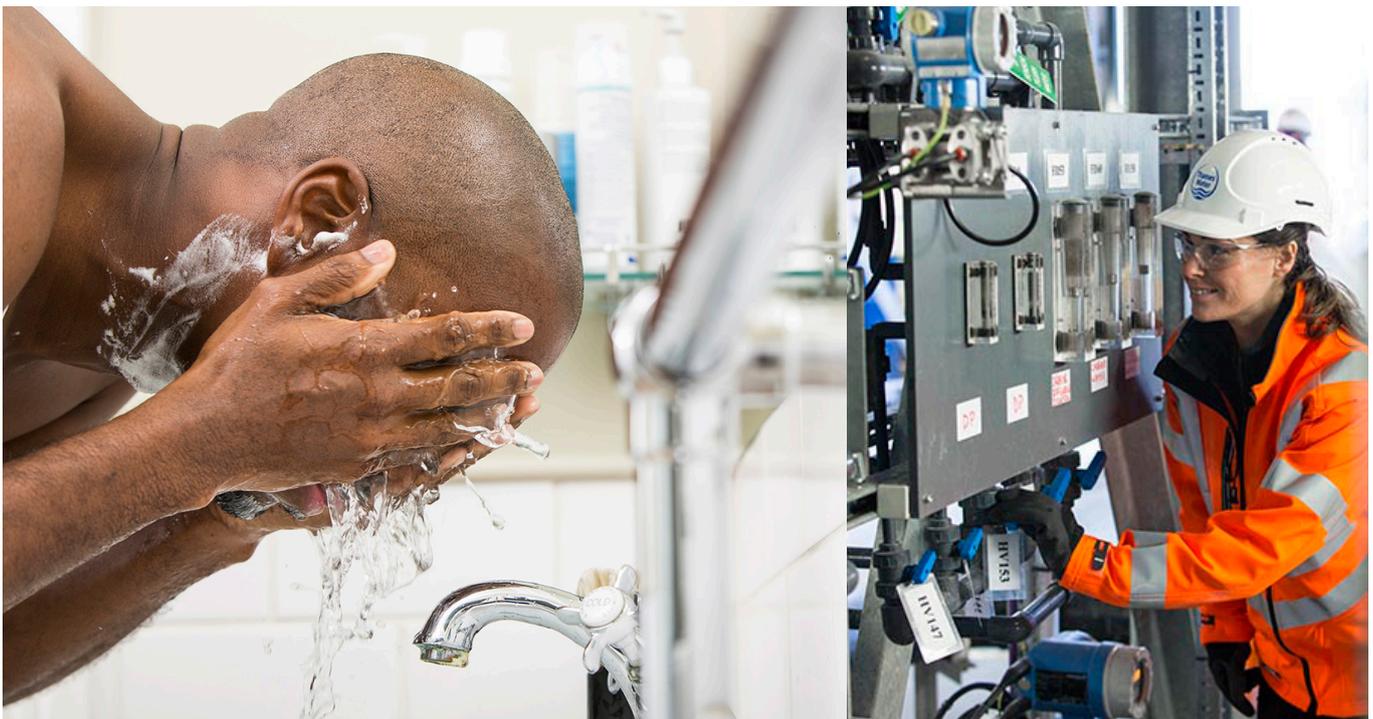
This will have been as a result of improvement across a number of related measures – minimising the number of written complaints about bills (RA1), improving the handling of written complaints by first time resolution (RA2) – the best performance in this period - and satisfaction of customers relating to charging and billing (RA3). The new online account management self serve channel for customers has been implemented and after some initial issues this is to be welcomed (RB1).

Satisfaction with contact centre performance (RA4) is however below target, is worse than the previous year and is therefore red. Thames attribute this in part to the freeze thaw incident, but the CCG would note that Thames continues to be dogged by telephony and IT issues which clearly have a material impact on how they do their business and particularly how they interact with customers.

The number of bills produced based on actual meter readings (RA5) – in part a proxy for meter roll out, in part operational – was ahead of target. Keeping the metering programme moving forward is important to Thames in its management of water resources. The CCG has urged even greater focus on meter roll out in future years. We expect Thames to deliver on its future commitments.

Cash collection rates (RC2) ended the year as amber. Thames recognised during the year that the removal of the non household customers from the measure had had an impact, suggesting that it is harder to collect from household customers. Thames did however meet their internal target.

There has been a positive movement in the number of customers on payment plans (RC1), which is to be welcomed and reflects what the CCG is seeing as an increasing focus on customers who may struggle to pay their water bills. Direct debit payments increased.



Retail annual performance measures

	2016/17 Actual	2017/18 Actual		2016/17 Actual	2017/18 Actual
RA1: Minimise the number of written complaints [R] (No per 10k HH properties)	19	17	RA6: SIM points performance relative to industry (/100) [FPR]	77.3	78.4
RA2: Improve handling of written complaints [R]	94%	95%	RB1: Online account management supported by webchat [FP]	Limited online	New online self serve channel
RA3: Improved customer satisfaction (charging & billing) [R]	4.63	4.66	RC1: Increased number of customers on payment plan [R]	55%	58%
RA4: Improved customer satisfaction (Operations) [R]	4.46	4.43	RC2: Increased cash collection rates [R]	87.9%	89.2%
RA5: Increase the number of bills based on actual meter readings [R]	97%	96%			

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

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

Greenhouse Gases and Energy Imported

The amount of greenhouse gas emissions from water operations (WC1) has shown an impressive improvement against target and against previous years. This is due to Thames's switch to a green tariff and the fact that the UK is sourcing a higher proportion of energy from renewable sources. Thames also generate some renewable energy themselves from wind and solar power. There is a similarly positive story for greenhouse gas emissions from Thames's waste operations (SC1) but the operation's consumption of self generated energy from sludge was another additional positive feature.

However, the net energy imported from the grid measure (WD1) has deteriorated largely as a result of the need to refill reservoirs after heavy rain, and other supply and demand issues, such as dealing with sustained dry weather. However, it is also exacerbated by the issue of leakage, so improvements in leakage performance would also help this measure.

While there has been a significant improvement against the target for net energy imported to power waste operations (SD1), the measure is still red. This is attributed to a slow start to delivering the programme and a disagreement about the targets and removal of government subsidies. However, Thames have now put a number of activities in place which they hope will recover their position.

	2016/17 Actual**	2017/18 Actual		2016/17 Actual**	2017/18 Actual
SC1: Greenhouse gas emissions [R]	346.7	231.7	WC1: Greenhouse gas emissions [R]	151.4	46.2
SD1: Energy imported - energy exported [R]	477	431	WD1: Energy imported - energy exported [R]	491	510

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

**2016/17 performance has been restated in 2017/2018 following incorrect volume data being provided by a third party supplier. The restated figure is lower than previously reported.

Education

Thames have outperformed against their targets (WC4 and SC6) which mostly relate to school speaker and visit programmes. Thames have also undertaken a number of advertising campaigns aimed at changing behaviour, around water usage and also disposal of waste. But undoubtedly the most effective "campaign" has been the exploitation of the "fatberg", which has had worldwide publicity and which has opened up the debate around what should and should not go into the waste water system.

	2016/17 Actual	2017/18 Actual
SC6: we will educate our existing and future customers	20,898	21,341

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

Thames apparently are continuing to try and change wording on wet wipe packs to remind people that they should "bin it not block it". Thames are to be commended for all these initiatives; their home visits as part of the smart meter roll out also have real educational impact – as well as increasing customer satisfaction – and this can only have positive results. The CCG are also aware that Thames are aiming to encourage customers to use refillable bottles. This is an important step forward although the CCG would like to see this implemented through similar schemes on a wider basis across the region.

Customers continue to say that they would welcome more information both around water and waste water usage; Thames should continue to feel that this is something they should support with ever greater enthusiasm.



Innovation

The CCG continues to take an active interest in innovation and in particular how Thames is using creative solutions to deliver on their commitments. Thames now are providing more evidence of this in their regular presentations and the CCG has seen a digest of initiatives. Thames have also presented some interesting thinking around future trends and the CCG is aware that they are looking actively at a number of issues around microplastics. The challenges around energy imports have led to some very innovative solutions; operational challenges such as the need to get temporary portable reservoirs out to customers during service interruptions have been met with increasingly innovative solutions.



Customer research & engagement relating to 2020-25 business plan

The CCG continues to be deeply involved in Thames's research and engagement programme related to the business planning process for 2020-25.

During the year there has been an extensive and sustained research programme using a variety of techniques including deliberative groups, focus groups and on line surveys. A particular highlight was Thames's creation of an innovative interactive "tool" which enabled customers to make and value a number of choices regarding various aspects of water and waste water simultaneously. It was both engaging and effective as well as providing valuable and insightful data.



During the year, Thames have run two major engagement programmes involving their customers, having a presence in shopping centres, country fairs and other public places. They made contact with almost six thousand people during that "May conversation". This was followed in the early part of 2018 with a similar consultation and research exercise relating to both the draft Water Resources Management Plan and the Business Plan. Almost six thousand people took part in that also, although there was a considerable bias to household customers.

During the year Thames have continued to refine their understanding of what their customers want and have produced a digest known as What Customers Want which they have been using to create their business plan. Each assertion in What Customers Want can be tracked back to either a research source or operational data in a process known as triangulation. The material in What Customers Want is also being used to describe the line of sight between customer research and the business plan itself, including measures, commitments and spend. The CCG continues to look forward to some research on governance and finance issues which Thames has planned for the next few months. Overall the CCG continues to be impressed by the strength and depth of the research and engagement programme, and quality of the resulting documentation.



Conclusion

While there has been progress in some key areas, such as sewer flooding and pollution incidents, other issues, such as leakage and contact with Thames Water, which are of great importance to customers, are still a matter of concern and the recent Ofwat report on the “freeze thaw” event highlighted a number of areas where Thames must focus as a matter of urgency. The CCG will respond in due course on that specific topic and will continue to monitor progress across the range of Thames’s commitments.

It is clear that Thames has made many changes in the past year. There is a new chair, there are new shareholders and new corporate structures and it appears that the company has new approaches both to its customers and to the need for long term investment. The CCG has also observed a greater and more structured focus on vulnerable customers which is to be welcomed.

It is to be hoped that those new approaches, together with the continuing thorough work on research and engagement will enable Thames to construct a forward looking plan which will deliver for its customers through strong customer focus and increasingly robust asset health. Thames’s research has shown it clearly What Customers Want; now it needs to listen to them and to plan to enable it to deliver what they are seeking.

Annex A

A detailed explanation of red amber green

Performance at, or favourable to, Thames Water’s committed performance level for 2017/18

RAG rating	Description
	Performance at, or favourable to, Thames Water’s committed performance level for 2017/18, or improving trend for T3
	Performance within the range allowed without a penalty (the ‘deadband’) if defined, or, if not, within 5% of our committed performance level, or marginal asset health or stable trend for T3
	Performance below the deadband (if defined), or more than 5% adverse to our committed performance level, or deteriorating asset health, or declining trend for T3