



MINUTES of the Customer Challenge Group

Microsoft Teams

On 19 July 2024, 09:00am – 4:00pm

Present:

Sukhvinder Kaur-Stubbs	Chair of Customer Challenge Group	SK-S
Jeremy Crook OBE	Action for Race Equality	JC
Monica Wilson	Department of Education	MW
Baroness Grey-Thompson DBE, DL	Chair of Sport Wales	BGT
David Brindle	Ambient Support	DB
Sarah Powell	Environment Agency	SP
Dr Charlotte Duke	London Economics	CD
Nisha Arora	Financial Conduct Authority	NA
Peter Daw	Greater London Authority	PD

Thames Water:

Chris Weston	CEO	CW
David Bird	Retail Director	DAB
Nevil Muncaster	Strategy, Planning and Engineering Director	NM
Stephanie Baker	Net Zero Carbon Business Manager	SB
Gareth Parry	Ops Service and Control Centre Director	GP
Daniel Garside	Strategic Operations Manager	DG
Sian Heather	Head of Operational Contact Centre	SH
Pete Cotton	Head of HH Customer Strategy	PC
Jonathan Read	Director of Regulatory Policy and Investigations	JR
Mariana Simpson	Regulatory Engagement Manager	MS

Apologies:

Catherine Jones	CCW	CJ
Councillor Dr Pete Sudbury	Oxfordshire County Council	PS

Agenda Item No.		Action
1.	Apologies for absence / Declarations of interests / Minutes from previous meeting	
	Apologies were noted and no additional declarations of interests have been recorded. Minutes from meeting on 14 June were approved.	
2.	CEO session	
	Following introductions, the CCG Chair began the session, noting how the recent publication of the Draft Determination (DD) appeared to reflect a significant gap in expectations between Ofwat and the company. In light of the importance of customer groups – recently emphasised by both the	

new Secretary of State and Ofwat - CCG wanted to understand CW's views on the CCG's role in protecting and promoting the interests of customers in the period leading to the Final Determination. CW acknowledged the importance of the CCG as a critical friend and its role to act on behalf of the customers. CW highlighted the volume of customer research conducted and noted customers' priorities shaped the Business Plan submitted to Ofwat. However based on a preliminary review, many stakeholders had concluded that DD as it stands would be very difficult for TW, and that it would not serve to catalyse the company's turnaround by attracting new investment. CW emphasised the short window to respond on a range of complex regulatory issues. Given the importance of the CCG's contribution to the PR24 process, SKS suggested that following the meeting and CCG's reflections, SKS will come back to CW with initial observations.

CCG were interested at CW's reading of the big picture regarding both Ofwat and the political leadership attitude towards Thames and whether there is goodwill there to try to help TW. CW shared his perspective on stakeholder relationships and political developments.

Moving to more specific questions on the DD, CCG noted the overall costs were provisionally cut by 23% compared to the April 2024 BP position. CCG asked whether TW could deliver against the proposed settlement. CW noted that later session will go through the DD more in detail but highlighted couple of areas where TW will want to provide more evidence to justify their position and aim to persuade Ofwat to move their position by the FD. Examples included Trunk Main replacement, where Ofwat expects the company to deliver more than they put into their plan and for a price that did not reflect the true market costs. The same for the removal of wastewater cyber security costs.

CCG noted that the DD highlighted the poor quality of management data which Ofwat implied would make it impossible to manage the business efficiently. CW Recognised the need for improvement in data management and highlighted that improvement in overall business planning will be a crucial step between now and AMP9 to ensure that these processes become embedded into the company's nature. CW also recognised that Ofwat have a very high evidential requirements from making it essential for Thames Water to enhance its approach to meet these standards.

Given the announcement of special measures which would (once enacted) potentially place TW under more scrutiny, CCG asked two questions: first, whether special measures would have a significant impact on the ability to raise equity for the company; second, given the DD package overall, does that pose even bigger challenge in terms of convincing potential investors? CW explained that concerns come from the combination of these challenges. Looking at the DD and what capital the company needs to run this company and to deliver the desired performance set by Ofwat will most likely result in need for larger investment than the original PR24 submission. Given current TW's position, it is most likely that many equity providers would conclude that investing in TW at this time does not match their risk profile for utilities.

Furthermore, the prospect of Ofwat's special measures, and their suggested options such as company breakup and/or an IPO, and a gearing cap, adds complexity to the situation. These measures are seen as potentially unviable, particularly the gearing cap, which could demand an open-ended financial commitment from equity providers. The combination of these factors presents a multifaceted challenge for investors and the company's future financial strategy.

Turning to TW's annual report and comms more generally, CCG noted the continuous negative media coverage which may result in some customers fearing for the continuity of services. CCG thought that the timing of the annual report including performance and Executive pay close to the DD publication could bring additional challenges for the company. CW assured CCG that TW will continue to provide high-quality water and sewage treatment, regardless of potential restructuring or special administration. CW acknowledged that while certain performance targets may not be fully met, TW is committed to ongoing improvement and investment to meet environmental and regulatory obligations. CW recognised that timing of the results publication was a difficult decision, weighed against other events, but CW was confident it was the right time. CW explained that Executive pay including bonuses is part of the reporting and the arrangements which are linked to operational performance as well as financial performance are agreed in advance with Remuneration Committee and the TW Board. It was noted that Ofwat rated TW's planned remuneration highly. On the communication front, CW highlighted the improvements the company made in recent months, using proactive comms during incidents such the one in Bramley as an example. CW stressed that TW are committed to keep improving their comms going forward.

Further discussion focused on the possibility of reconciling the Government's aim for growth with Ofwat's DD, and financeability. CW recognised that the next six months leading up to the FD will be critical and TW are committed working constructively with Ofwat to get to the best possible outcome. On the cost of capital, CW highlighted that the proposed level in the DD does not reflect the reality of the company and the wider industry.

Moving to the Turnaround Plan, the CCG were interested in any further development to widen the plan's focus. CW shared the latest changes to the organisational structure, with the Chief Operating Officer Organisation being renamed to Asset Operations and Capital Delivery (AOCD). This change consolidates all assets under one unified team, which is seen as a crucial step in the organisation's development. Two specific roles were created to take on the accountability for water and wastewater. This will include managing the budget and making decisions from Totex perspective and balance capital and operational costs to benefit the company and its customers while delivering specific outcomes. This new structure emphasises clear accountability and performance, marking a substantial shift for the organisation and it will also help with business planning as well as improving performance. It is important that the focus with remain on key operational measures as this is where the company will see the results.

The CCG recognises there were areas in the DD where Ofwat praised TW – areas such as sewer collapse performance, unplanned outages etc but also social tariffs which are areas of particular interest of CCG and something which the CCG were keen continue to support TW in this area. Thinking about specific focus, CW thought that CCG can continue to play vital role in making sure that TW continue to improve the performance in the area but also in the way how TW communicate and interact with the customers. CW recognised that while TW is primarily an infrastructure company, the interaction with customers is important and the support the company provides to customers is fundamental part of that.

Returning to the special measures and company's future, the CCG were interested to understand more about the potential split of the company and whether it is likely to happen. CW explained that this had been considered by Ofwat before, and it is clear that Ofwat wishes the company to continue to keep the matter under review, however he recognised that a breakup would take

	<p>significant time and resources currently focussed on the turnaround, and it would not benefit the equity raise process and therefore he felt that the timing for this is not right.</p> <p>The EA's perspective is that the environmental obligations remain statutory obligations and the EA is expecting companies to deliver them. CW said that TW are doing their best, while recognising additional challenges from WINEP deferrals.</p> <p>The discussion concluded with wider industry view, with CCG interested whether TW could learn from companies whose plans were marked as outstanding. CW thought that, as previously noted, TW needed to improve its Business Planning process overall and have the right data to support the evidence, but having said that TW is open to learning from others. However, CW was clear that he would not support plan which would not reflect the reality of the company and would not be possible to deliver.</p> <p>The Chair thanked CW for joining the meeting and providing a frank response to their queries. She would follow up with a note to share with the Board in advance of the discussion on 20th August.</p>	
3.	<p>Climate Change</p>	
	<p>Following introductions, CCG introduced the session, highlighting that Climate Change is mentioned 37 times in the main document, mostly in terms of risk and therefore CCG were keen to understand if that is really reflected in how Climate Change is managed within TW. Furthermore, they wanted to understand more about TW's ambition in this area.</p> <p>NM and SB stepped through the slides explaining overall governance arrangements which provide line of sight from technical communities to the Board; TW's decarbonisation plans; and resilient strategy to the long-term planning.</p> <p>CCG recognised that TW complete long-term planning as a part of WRMP and DWMP which takes into account Climate Change, however it is harder to see where it is built in for short term activity. Looking back over the last few years there were a few near misses such as a potential drought.. In addition, the level of performance for key metrics such as pollutions or leakage is often impacted by the weather. NM explained that addressing climate change and managing growth effectively requires a long-term strategic plan that is informed by climate projections. This plan can be distilled into actionable, short-term goals over a five-year period, allowing for adaptability and responsiveness to changes as they occur. This approach ensures that both immediate and future needs are met in a sustainable and systematic manner. Learning from past events, like the 2022 drought, is essential to adapt and improve these plans. Investments in infrastructure and operational adjustments, such as the introduction of UV processes, are examples of proactive measures to enhance resilience against future challenges.</p> <p>Turning to Net Zero, CCG noted that the targets have slipped from 2030 and were interested when TW is likely to achieve the target. SB confirmed that the current plan is to achieve Net Zero by 2050 with 78% reduction by 2035. It was noted that the current roadmap will be updated to take into consideration updated targets and trajectory.</p> <p>Action: TW to share updated roadmap to Net Zero in the latter part of 2025</p> <p>CCG suggested that aligning the target to 2050 is a missed opportunity, as going faster would make the sector more productive and efficient and save money in the longer term. NM added that</p>	

	<p>the new asset strategy team which will look at all drivers for the business going forward and resilience, will strive to achieve more as it will be more efficient, effective and better overall for customers. Looking back at customer priorities, it was noted that while climate change may not feature high on their list, it is about having the right conversations – e.g. air pollution has a climate benefit but the focus is on health.</p> <p>Further discussion focused on the broader view which would also take into account customers' behaviour in usage reduction, governance, and collaboration with others. NM explained that everything is brought together at the Climate Change Working group which would then be used for drawing up the statutory plans. NM recognised the importance of collaboration with end users, using London as an example. Furthermore, NM assured CCG that TW is working with experts in their fields to ensure that TW statutory plans are developed and delivered in collaboration to the best possible quality and standards.</p> <p>Action: It was agreed that NM and SB will follow up with a written note to provide further information to cover the following points:</p> <ul style="list-style-type: none"> • Where does short term preparedness sit? Is it part of the climate change working group, or Ops, or both? This needs to be clear. • Who owns management and adaptation of climate change in Thames Water? (Assume Chris Weston is ultimately responsible) • How does TW use forecasting and modelling of climate impact, not just relying on what happened previously but taking into account the risk that future events are likely to be worse? 	
4.	<p>Incident Management framework update</p>	
	<p>Following introductions, GP stepped through the presentation providing updates on Incident Management and Operational Control. GP highlighted challenges faced by external factors with increasing severity and impact, ageing infrastructure coupled with high reactive work associated with unstable performance.</p> <p>GP acknowledged that with more frequent incidents, emerging issues are not always identified early enough, and customer needs and expectations are not always met, especially in communication and follow-up actions. In response, the focus is on improving incident management and customer communication. The goal is to proactively identify and mitigate emerging risks, enhance network monitoring, and risk assessment. To increase preparedness, the team developed playbooks and clear communication strategies to address incidents effectively and reassure customers. Focus remains on continuous improvement and learning from previous incidents. The next steps will involve detailing proactive intervention strategies and customer response plans.</p> <p>GP explained that changes are underway and used the recent incident in Bramley as an example where TW received positive customers' feedback. Team have been engaging with key stakeholders since the risk was identified and when the issue started to materialise, the team mobilised the delivery of bottled water arrangements which included direct delivery to all impacted customers for the period of the incident. To respond to concerns over the length of repairs, the teams worked 24/7. Throughout the period, customers were kept proactively updated through a number of channels including leaflet drops and customer reps. The teams also pulled experts such as communication specialists from the business which the team is now considering implementing going forward.</p>	

	<p>Moving forward, GP shared that the team has established an immediate improvement plan to address immediate opportunities and they are working hard to consider the immediate and long-term opportunities available to drive improvements in this area.</p> <p>The first part of the discussion focused on the impact of DD. GP acknowledged that it is too early to say as teams will be working through the details in the document, however the focus within the operation remains around delivering the service that customers need in a safe way.</p> <p>Reflecting on negative media coverage, annual performance report and the way TW respond to the major incidents by using resources from other parts of the business, CCG questioned whether that results in negative impact elsewhere. GP assured CCG that this is not case and while the company performance is not where it should be, there were a number of positives (e.g. the lowest level of leakage and reduction in operational complaints by 24% compared to the previous year)</p> <p>Going back to the three-phase plan, the discussion focused on collaboration and learning from other companies as well as other sectors – such as TfL or National Grid. Some of the valuable lessons included clear set up and understanding how others approached system operator type transformation. There was a recognition that despite of the size of the challenge, there is a positive attitude from everyone with a desire to succeed, vastly due to the nature of people who work in TW.</p> <p>Further discussion focused on customer aftercare, with the team acknowledging it is one of the areas where TW need to go further and move faster. CCG were keen to understand the plans more in detail and whether this includes compensation. SH explained that absolutely does and previously the team would think about aftercare once the incident finished, while now going forward the plan is to set up early and make sure that steps are put into place with customer advocates who would focus on the customers’ journey alongside of the technical teams sorting the incidents.</p> <p>Turning to cross company collaboration and resourcing incidents, CCG stressed the importance of teams across the TW working together, as they would expect that the Incident Management area would benefit from the links with Digital Strategy and digital capabilities, Behaviour Economics and Comms which will also link to Customer Licence Condition. CCG were also interested in how the incident support gets resourced and the timeliness of communication during incidents. DG and SH explained the resourcing through rotas of Incident responders and shared examples where the teams were already working together to improve the service. On the comms, there was a recognition that it is improving, with TW now committing to timely updates during incidents and ensuring that they are time stamped and make it clear when the next update will come even if the situation did not change.</p> <p>The session concluded with discussion on wider collaboration and partnerships, with DG highlighting the work of resilience specialists who attend local resilience forums, but also working with Local Authorities. The teams also conduct joint exercises with the authorities to exercise plans with them which allows to clear any misconceptions.</p>	
5.	Compensation	
	<p>Setting up the context for the session, it was noted that the current compensation review does not look at the level of the compensation, but it is about accessibility of information and making sure all the information is clear for customers. This links to the Incident Management Framework from the previous session, and specifically to the aftercare. There was a recognition that the current</p>	

	<p>information is not clear, it can be overwhelming and confusing for customers which is not helped by the number of different schemes.</p> <p>GP shared the current process and timeline for the review, noting the number of the workshops, benchmarking against other companies as well as other industries and lessons learnt. GP proposed that the team would bring a number of recommendations to the CCG for their feedback ahead of implementation.</p> <p>The first part of discussion focused on the timeliness of compensation; the CCG were interested in the percentage of compensation paid automatically without customers' needing to chase. SH explained that automatic payments are completed for the guaranteed scheme (GS) and company guaranteed scheme (CGS) which is clearly defined, and robust process is in place. Payments' completion is fully assured by external partners.</p> <p>Turning to the review, CCG recommended that the team engage with some groups that represent older customers, customers with health issues and more vulnerable customers. In addition, CCG thought that there may be some gaps in Data which prevented PSR customers from automatic payments. SH agreed to follow it up with the relevant team to understand the query in detail.</p> <p>CCG were interested in the ease of the process for raising a query on compensation. SH explained that for GS and CGS there is a web form which goes directly to the relevant team who can answer it. For good will payments where the compensation vary from case to case is more complicated. To make it easier, the team introduced WhatsApp and a chat channel, with dedicated complaints web page due to go live in the near future. There was a recognition that ease of contact or complaint is paramount.</p> <p>CCG raised concerns over the fairness, fearing that customers with loud voices who can articulate well their arguments may end up with higher compensation compared to the more vulnerable or less knowledgeable customers. CCG put forward a set of principles for the TW compensation scheme: simple, clear, accessible, consistent and proportionate (to bills). The point was made that this was a good opportunity to not just make the process more accessible but also make it fairer by simplifying the levels and reducing discretionary payments. CCG asked what the company's understanding was of people that benefitted most from discretionary payments and if it matched the generic customer profile? The Chair would write to David Bird to follow up.</p> <p>[since then plans for a new consultation on changes to the levels of guaranteed scheme compensation have been announced and TW will await further guidance].</p>	
6.	PR24 – Draft Determination	
	<p>JR shared an initial view of the recently published Draft Determination (DD) JR highlighted the fact that the DD represents more complex regime and included key points on overall plan assessment, expenditure, outcomes and risk and return. It was noted that as part of the DD, Ofwat is proposing that TW is placed in a Turnaround Oversight regime. JR shared what the DD represented for the average bill (excluding investments that would be subject to additional Ofwat gated approvals), alongside base and enhancement expenditure allowances. It was noted that Ofwat has set performance commitments at the median level (not upper quartile) but has increased ODIs, particularly on external sewer flooding. JR set out the TW's approach for responding to the DD and outlined proposed engagement with the CCG and the PR24 focus group.</p> <p>The first part of the discussion focused on the overall DD and the enhancement case allowances and whether there is an opportunity for trade-offs. JR explained that the Enhancement Case</p>	

	<p>allowances are for specific cases, the majority of them being statutory programmes. Although there are some synergies between enhancement cases there is limited scope for trade-offs.</p> <p>The CCG reflected on the DD overall including the level proposed bill increase which is lower than the one tested with customers as a part of the affordability and acceptability testing. Given customers' clear desire for the company to improve its performance, CCG questioned whether a DD that cut back on improvements was best interests for customers and their preferences. The CCG noted that there is a clear expectation from Ofwat for TW to close the gap between current performance and benchmark performance and how this would be an area of focus for a proposed turnaround oversight regime</p> <p>Further discussion focused on key points from the DD including questions over how Ofwat would ensure no customers were expected to 'pay twice', returns on investment and the overall value allowed to be recovered through customers' bills.</p>	
7.	Affordability / Rising block tariff update	
	<p>PC shared Ofwat's feedback on TW affordability plan and the bill profile that the DD creates. It was noted that along with most other companies TW were judged to have 'moderate ambition' with respect to the affordability ambition test. Affordability was one area where TW passed the ambition tests and received positive feedback. In terms of bill profile, Ofwat proposed bill increase of 23% over AMP8 compared to 39% in TW restated plan.</p> <p>Moving to the results of customer research to increase social tariff cross subsidy, PC highlighted that customers accepted the highest level of contribution which would provide additional £33 a year and in turn help an additional 170,000 additional households who are struggling to pay their water bills. It was noted that this is similar subsidy to Severn Trent. Completing modelling across various scenarios confirmed that TW could reach 100% of the eligible population in our billed region, along with demand side support for 5% that have high metered bills. PC outlined what the cross subsidy means for early growth of social tariff and continuity of extra support scheme into AMP8. It was noted that the Rising Block Tariff pilot is proposed to move back to Year 2 of AMP8 to allow time to focus on proactive engagement.</p> <p>CCG were interested in the characteristics of the customers who were not supportive of the higher cross subsidy. PC explained that there was a broad support across all segments with the mix of reasons for those who did not support it. PC shared the full report post meeting for the full details including questionnaire https://www.thameswater.co.uk/media-library/home/about-us/performance/our-customer-research/social-tariff-june-2024.pdf</p> <p>Further discussion focused on bad debt and on the current assistance through payment support matching scheme with PC explaining that TW plan to maintain current levels of funding for payment matching rather than increase in line with original PR24 submission, as demand from customers has reduced as the company expanded their social tariff. CCG were keen to understand whether all customers who need support are able to find a way to receive it. PC recognised that there is still more to do in respect to engaging underrepresented communities. There are also opportunities to leverage data and create referral pathways.</p> <p>Final part of the discussion focused on the proposed changes to the MeXes methodology to align to Institute of customer service metrics and what it may mean. DAB explained that the aim is probably to compare the companies to the wider UK utility sector and broader rather than just within the industry. DAB highlighted that the MeXes continue to use penalties as an incentive and</p>	

	<p>recognised that given where the TW currently is, it adds additional financial pressures on the company rather than provides an incentive to perform.</p> <p>The session concluded by JR stepping through upcoming CCG engagement.</p>	
8.	AOB	
	<p>The Chair confirmed to the wider CCG that following his election to Parliament, Adam Jogee resigned from the CCG with immediate effect. Chair wished to formally congratulate on his achievement. She recognised that that AJ will be a great advocate, not just for his constituents, but generally for consumers and, in terms of the interests that CCG are trying represent. She thanked AJ for his contribution to the CCG, in particular his emphasis on building relationships with local authorities and elected officers.</p> <p>The Chair reminded CCG members of Ofwat's Your water, your say session on Tuesday 23 July and encouraged them to attend.</p> <p>It was noted that EA will be publishing its annual Water company performance report on Tuesday 23 July. It was agreed that a session on the report will be added to agenda for the meeting on 9 August 2024.</p> <p>Next CCG meeting on 9 August</p>	
9.	CCG closed session	
	No minutes recorded	