

RESPONSE TO “CONSULTING ON OUR METHODOLOGY FOR THE 2019 PRICE REVIEW”

The Thames Water CCG’s response to Ofwat

THAMES WATER CUSTOMER CHALLENGE GROUP

August 30, 2017

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The Thames Water Customer Challenge Group (CCG) is pleased to be able to make a response to this important and thorough document. A general observation would be that the summary of issues that must be addressed (and what evidence will be needed to do this) is likely to be extremely helpful in preparing a CCG response to a company’s business plans.

Customer engagement

Although Ofwat does not ask any questions relating to the Customer Engagement section given that it was covered comprehensively last year, the CCG would welcome further insight into one topic area, namely that of customer participation in the delivery process - “Companies need to move from seeing customers as recipients of services, to seeing them as active participants in the delivery of those services” and referring to “customer ownership” of particular aspects of the process. Ofwat’s “Tapped In” session was of great value to this debate but the CCG feels further discussion would be helpful to elicit ideas which go beyond active customer participation and engagement and into actual customer involvement in the delivery process including where and how money is being spent.

The CCG welcomes Ofwat’s reiteration of its expectations of CCGs in the PR19 process and would hope that any further developments could also be flagged appropriately.

Affordability and vulnerability

Q1 Do you agree with our proposal to use the five principles of: customer engagement; customer support; effectiveness; efficiency

and accessibility, to assess how a company is addressing affordability in its business plan?

The CCG believes that this offers a sensible framework within which to consider this critical issue. It believes that Figure 3.1 which links these 5 principles to the 3 areas of affordability is particularly useful. The CCG is pleased that Ofwat stresses the importance of effective segmentation and also the need for intergenerational fairness and the imperative of looking beyond the plan period.

Q2. Do you agree with our proposal to use information and measures on affordability, including possible common measures, to assess how a company performs against the five principles in its business plan?

The CCG welcomes the proposal to use common measures around affordability. There is much useful and innovative thinking that can be shared within companies and indeed across sectors and a common set of measures (and assumptions and language) can only help to facilitate this. That said, creating such measures will undoubtedly be not without challenge.

Q3. Do you agree with our proposed option for requiring companies to propose bespoke performance commitments for addressing vulnerability in their business plan?

Q4. Do you agree with our proposed option for using common measures in our assessment of companies' approaches to addressing vulnerability in their business plan?

Although demonstrating a common approach is highly desirable, it is however key to create some bespoke measures to address particular issues in a specific area, given the very different demographic issues that companies will have to tackle. It may be helpful for companies to work with CCGs and other relevant expert bodies to make the measures as meaningful as possible. It is worth saying, however, that it will be challenging to create some of these commitments and it may be that this plan period should be used to test a variety of methodologies. It is particularly important to avoid the risk of perverse incentives, which could

manifest themselves in a number of ways. The CCG would urge that companies work together as much as possible in this important area to share learning, best practice and hopefully to avoid reinventing the wheel. As a more general comment, the CCG is encouraged by Ofwat's emphasis on urging companies to spot early signs of financial distress and intervene before problems develop further.

Outcomes

Q1. Do you agree with our proposals for common and bespoke performance commitments?

Q2. Do you agree with our proposals on setting performance commitment levels?

The CCG considers that a combination of common and bespoke performance commitments would be a positive step forward. Customers and other interested parties would value the ability to compare companies on the most important issues for them; equally, it is important that companies are able to put forward commitments which enable them to address the issues that are particular to their circumstances, history and future needs. It is also encouraging to see that companies will be expected to propose stretching, forward looking, targets and that the common commitments are directly linked to the issues that Ofwat and customers have identified as important.

The CCG also notes that Ofwat is keen that companies should not set too many bespoke commitments; this is to be very much welcomed. Thames currently has some 55 commitments and that is too many to communicate coherently to customers. That is also why the proposal for 14 common commitments is important.

Setting the levels of target is something that only Ofwat can do, as it needs to be a sensible data set which all companies can agree to and which overall represents progress for all customers.

We are also supportive of the suggestion that there should be no aggregation beyond the experience measures. Again, our view would be

that aggregation adds to confusion and makes progress (or lack of it) hard to share effectively with customers.

The CCG also notes that these measures will need to be constructed to look beyond that plan period; we firmly believe that some issues (asset health and resilience) in particular demand that length of planning horizon so are pleased to see this is a key part of the process.

Finally, the CCG recognises Ofwat's desire to move beyond the overly simplistic Willingness To Pay approach and agrees that a more nuanced combination of approaches is more likely to capture customers' wants and needs. What customers want should be the guiding principle that drives the creation of the sets of incentives and commitments.

Q3. Do you agree with our proposals for strengthening outcome delivery incentives?

Having stronger outcome delivery measures sends an important message to the industry. Using reputational ODIs is an important part of that, which is to be welcomed. Financial ODIs also have a part to play, but customers need to be content with that approach. Customers sometimes find the idea of companies being rewarded for what they are already meant to do rather difficult; exceptional performance would make this easier to justify. The CCG is a little worried by the discussion around in period ODIs, as what we have seen suggests customers value the regularity of their bill amounts, and may find volatile ODIs less acceptable. There is also a question around the complexity of setting the bill amount and of communicating what has been done simply and effectively.

Q4. Do you agree with our proposed Customer Measure of Experience (C-MeX)?

The CCG is pleased that the SIM measure is to be evolved, and that the intention is to make it a more outward facing measure. The fact that non contactors are to be involved is particularly encouraging, as is the fact that there is a recognition that it is not just about progress to resolution but how the process was handled as well. The inclusion of complaints is key. The CCG would note, however, that finding a set of companies to act as

comparators may not be without difficulty given the monopoly nature of the water industry. It may be that a phased approach has to be taken to this in some way, to acknowledge and reward progress. The CCG assumes that there will need to be cross industry working on this area and feels that in itself is to be welcomed. One area to be explored further is perhaps how best to contact customers to ensure maximum participation and how to avoid confusion when a customer has more than one supplier – this is especially important with non contactors.

Q5. Do you agree with our proposed Developer services Measure of Experience (D-MeX)?

In its response to the last consultation on this topic, the CCG agreed that some sort of measure relating to developers was appropriate. However, the CCG is somewhat concerned by the prominence and weight given to this measure, which almost seems to make it as important as the C-Mex measure. The role and handling of developers is key, but making it one of the 14 key measures seems disproportionate – not least because the water companies are very much part of an eco system and unable to manage this process alone – it is very much shared with local government, government, DEFRA and so on. The measure does not (and cannot?) properly reflect this shared responsibility. The CCG would urge Ofwat to reconsider its approach to this and to attempt to find a metric which better reflects this set of circumstances - but, crucially, which still recognises the pivotal role and needs of the developer as customer in the overall process.

Resilience

Q1. Do you agree with our resilience planning principles?

Q2. Do you agree with our approach to assessing resilience in the initial assessment of plans?

The CCG is most encouraged to see a “joined up” approach to thinking about resilience and is especially pleased to see customers very much at the heart of the thinking and process.

Securing confidence and assurance

The initial assessment of business plans

The CCG would wish to make some general points on these two topics.

The CCG would wish to record that it finds the approach Ofwat is suggesting to both topics to be constructive and helpful, giving as it does a clear picture of how confidence and assurance can be demonstrated and enabling business plans to be characterised appropriately. The CCG would note, however, that there will need to be judgement exercised by both the CCGs and Ofwat in how they comment on assurance and the clarity and effectiveness of the plan. Customer engagement, for example, cannot really be “marked” in numeric terms, so CCG responses and commentaries will inevitably be qualitative not empirical. Overall, too, the CCG feels it is worth noting that the role of the CCG appears to have deepened across this part of the process, and this CCG looks forward to being provided with any further relevant guidance as Ofwat confirms its approach. The CCG is also reassured that Boards must be deeply involved in the assurance process.

The CCG would also make the general observation that companies need to be given the ability to do two things – first, make a step change in their performance even if they have performed badly in the last PR cycle and second, that companies need to be able to move between business plan categories if they respond appropriately. Customers are not well served by companies feeling that they have little incentive to make a step change at the start of the new cycle.

ENDS

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