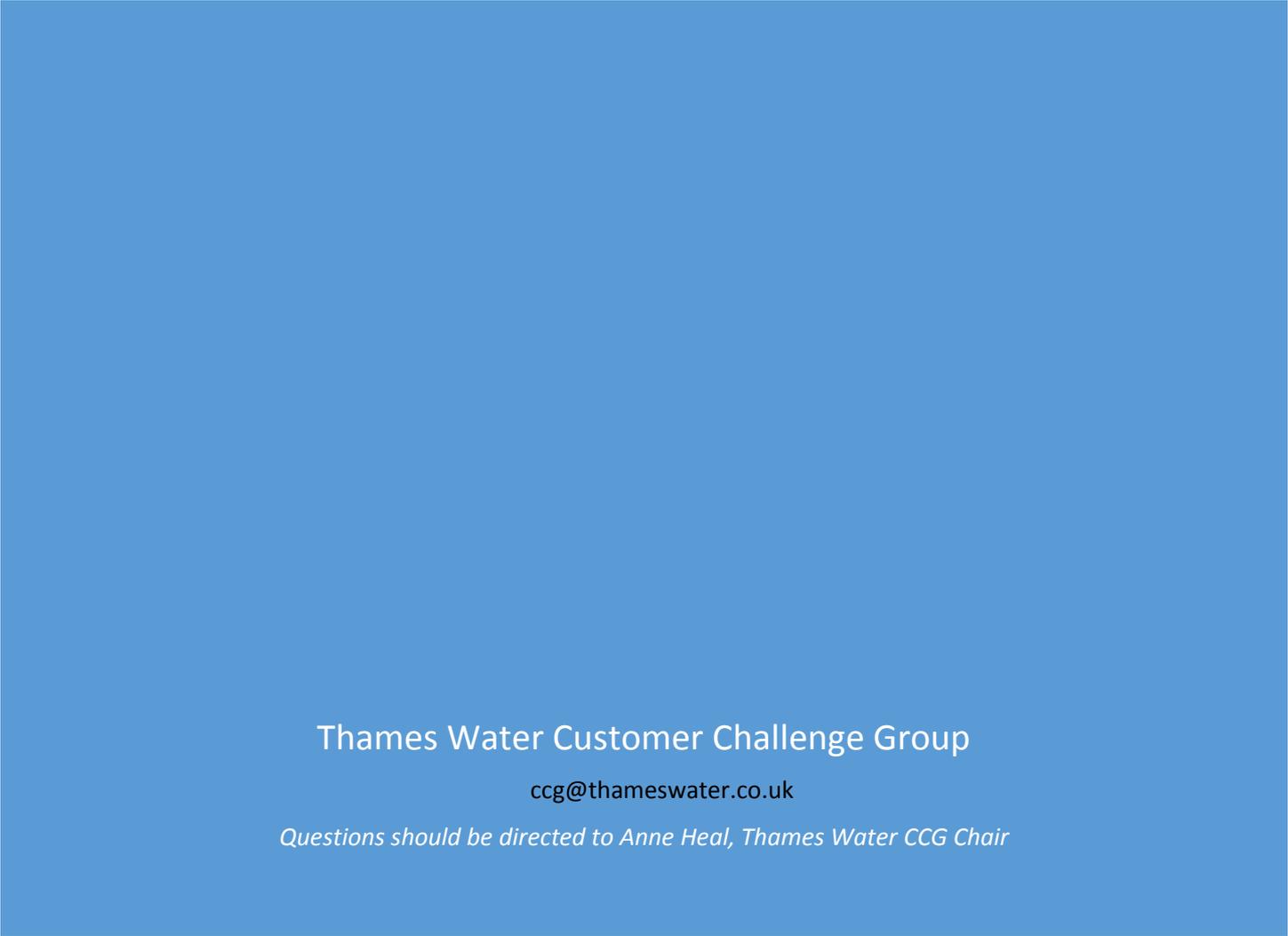


RESPONSE TO WATER 2020: REGULATORY
FRAMEWORK FOR WHOLESale MARKETS AND
THE 2019 PRICE REVIEW



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Questions should be directed to Anne Heal, Thames Water CCG Chair

Response to Ofwat's consultation - *Water 2020: Regulatory framework for wholesale markets and the 2019 price review.*

This is the response of the Thames Water Customer Challenge Group (CCG) to Ofwat's consultation, *Water 2020: Regulatory framework for wholesale markets and the 2019 price review*. The Thames Water CCG is pleased to be able to participate at such an early stage of the regulatory process and is also pleased to see Ofwat's continued and consistent determination to strengthen their approach to outcomes and customer engagement, building on learning and success to date and driving a long term focus on customers. The Thames Water CCG was proud that the contribution it and other CCGs made on behalf of customers and stakeholders played an important and valued part in the outcomes of PR14 and is keen that this should also be the case for PR19. This response focusses mainly around the content of Chapter 7 *Proposed approach to customer engagement and outcomes*.

Consultation Questions

Q46 What does good customer engagement look like? What are your views on the principles outlined above? How could companies draw on good practice from within and outside the sector? How can companies make use of revealed preference techniques and information obtained in their day-to-day interactions with customers to develop a richer set of evidence of customers' needs and requirements?

The Thames Water CCG would agree that businesses should aspire to understand deeply and respond appropriately and continuously to the needs and requirements of their customers. This is especially true when customer choice and ability to switch is limited by the prevailing circumstances and market structure. It is also key, as Ofwat suggests, that water companies should take the opportunity of every customer interaction, however apparently minimal, to build an ever richer picture of customer opinion and requirements and to validate findings in one area by reference to other findings, both operational and research based. It is important to say, however, that listening to customers also requires the ability to be able to interpret and draw insightful conclusions that go beyond the simplistic.

That said, given the need to take significant strategic decisions based on the outcomes of research and interaction there will need to be robust research methodologies from which a clear line of sight to business plans can be drawn. It may be that Willingness To Pay research continues but in parallel with other approaches during this review period in order to maintain some comparability and continuity with an aim of moving to other methods in the future. Ensuring that the breadth of the customer base is thoroughly and carefully researched is pivotal and companies will need to take particular care with customers in vulnerable circumstances, as Ofwat suggests, exploring creative and empathetic approaches whenever possible.

Valuing every interaction with customers and using it as a part of a feedback and planning process implies that companies will be seeking to build a culture where customer input is genuinely and deeply valued and where engagement is quite simply part of the day job for everyone who ever deals with customers in any way; the impetus for this will inevitably need to come from the top of the organisation and would need to be supported by appropriate

objective setting and incentivisation. It should be for each company to determine how best to achieve this from board level down; each will inevitably have a slightly different approach but must seek one which recognises the role that customer insight has in terms of driving their business.

The CCG would agree that there is a need for a deepening two way dialogue and that greater customer engagement will better inform thinking on longer term issues; however, this also implies an extensive and wide-ranging customer education programme as such issues may well require much scene setting and contextualisation. Thames Water's recent programme of deliberative research which many CCG members attended demonstrated clearly the low level of customer understanding of the water and waste processes; it did, though, also suggest considerable customer interest in long term environment and sustainability issues. The CCG would suggest that as well as the more obvious education initiatives, companies need to provide clear and understandable summaries of their business plans and financial reports with a view to reaching the widest possible audiences; this is a crucial part of an enhanced educational programme in the broadest possible sense.

The CCG does not agree that it is a given that a desire to inform and engage with customers necessarily involves relinquishing control by the company, not least because a scenario where customers "vote" directly on investment options seems unrealistic on a number of counts; however, the expression of preferences will provide deeper and valuable insight and a strong steer as to customer preference. But involving customers in how services are delivered may get companies somewhat closer to the overarching aim as careful customer research, engagement and experiential experimentation could well lead to a reshaping of the service offering.

What Ofwat is suggesting in terms of the level of engagement and customer driven decision making is ambitious and forward looking; companies will need to look for examples of best practice from other sectors and around the world. The CCG would value Ofwat helping to ensure that such best practice is shared.

Q47 What are your views in relation to our proposals on future CCG remit; scope; timetable; governance arrangements; and membership? In relation to the quality of a company's customer engagement, do you agree with the above list of issues that should be covered by the CCG report? What are your views on the division of responsibilities between CCGs and Ofwat?

The Thames Water CCG is pleased that the value added by the CCGs has been recognised and is keen to ensure that the greatest possible value is added during this cycle. We are broadly content with the role of the CCG as it is articulated but would also suggest that there would be merit in including a sentence relating to current performance monitoring (as included in the list of questions at p150). The CCG believes that monitoring performance and the communication of progress (or lack of it) by companies is a critical part of the process and that it is worthy of mention in the summary of the role. The CCG would entirely endorse the view that a CCG is not a substitute for company/customer engagement and feels that such an approach would be entirely incompatible with the views in Q46.

The Thames Water CCG would say that the list of questions suggested is a good one and, while not exhaustive, that it provides a helpful framework for CCG thinking and analysis.

However, while the CCG would also agree that it is not for the CCG to challenge or assure costs, in practice the Thames Water CCG found during PR14 that it was necessary to go quite forensically into the detail of costs and business models in order to assess whether there was a valid translation of customer priorities and tradeoffs into business and strategic plans. So the CCG's assertion would be that such a level of scrutiny is in fact both necessary and appropriate. As a consequence, CCG members would also value briefing from Ofwat at an early stage (and then as needed) on Ofwat's thinking about such key drivers as WACC, MEAV, RPI vs CPI etc. Providing this briefing to all CCGs at one time would also create helpful dialogue around critical topics. The Thames Water CCG has seen first-hand what a tremendous difference the cost of capital can make to strategic projects and so very much would value early and detailed insight into Ofwat's thinking.

It may also be appropriate for Ofwat to seek CCG insight into a number of other linked areas. These include that of risk and reward, where the CCG believes that there is merit in a CCG better understanding a company's views on risk and reward in order to understand more fully how their plan is constructed and what risks are being considered as part of the analysis. This is also true regarding ODIs and how the company views and develops them. The third area is customer segmentation where the CCG believes it is pivotal that CCGs gain a detailed insight into the company's thinking and assumptions not least because the segmentation will inevitably drive research planning and analysis.

While the Thames Water CCG would endorse the idea that the final report from CCGs should be submitted within approximately the same time frame as companies submit their business plans in 2018, there was a strong feeling that there was merit in allowing the CCGs a brief further period to finalise their report once the company's board had endorsed its plan. To an extent the timing of this is driven by the actions and planning of the company and the CCGs but it would be helpful if Ofwat indicated that CCGs had up to, say, a fortnight, to submit their response once the company had submitted theirs. This would allow early consideration of the business plans by Ofwat but would recognise that CCGs could then respond to any last minute changes made by boards. The CCG agrees that if further company submissions were needed, another CCG report would also be required.

A further observation regarding the timetable would be with regard to the Water Resources Plan. While appreciating the difficulty and complexity involved the CCG would urge that as much is done as possible to ensure that all potentially dependant plans and assumptions are brought into alignment.

We welcome Ofwat's suggestion that it will not specify a list of organisations that must be represented; each area will have different needs and this recognises that. Of course, there is much learning from previous experience and the likelihood will be that there will be broadly similar entities represented across CCGs. Thames Water's CCG has a broad representation including customers and regulators; this includes a member from the local Citizens Advice service (Annex 1). The suggestion that there should be an environmental section of the report seems eminently sensible and this CCG would welcome that approach. With all regulators, however, it would be helpful to have a steer from Ofwat and the regulators concerned in terms of the time commitment they are prepared to make, recognising that their resource is inevitably finite.

In terms of governance, the new Thames Water CCG Chair is unaffiliated and was appointed following a process involving senior representatives of Thames Water (including the independent non-executive director focussing on customer service) and CCWater. The chair will be given regular access to the Board and also will meet regularly with the independent non-executive director focussing on customer service; she will also attend Thames Water's Customer Service Committee from time to time to share the CCG's thinking and views.

The Thames Water CCG is currently considering how best to become more transparent; the website is being reviewed with the intention of publishing regular minutes. There is some concern from CCG members that during debate they are not acting as representatives of their bodies but as informed participants and that the minutes will need to reflect this distinction; the Thames Water CCG will endeavour to find a way to record meetings such that this ambiguity is manageable and meaningful minutes can be published. However, the intention is that within the confines of commercial requirements as much should be published as possible and that efforts will be made to ensure that enough context is provided that the minutes are of value.

Regarding Ofwat, the CCG recognises the distinct role of an economic regulator. The CCG would see itself as a body that can provide informed, local, insight and scrutiny into the plans and actions of the company to which it is linked, seeing the company's plans and achievements from a customer (and/or stakeholder) perspective. The CCG believes that Ofwat has an additional role to play in convening CCGs and other bodies to provide all with the best possible insight and understanding.

Q48 What are your views on our proposal to facilitate more collaboration between CCGs? What are your views on our aspiration to publish information on the WACC and outcome RoRE ranges early? Without inserting ourselves between companies and their customers, what else could we do to incentivise and encourage good quality customer engagement?

The Thames Water CCG applauds Ofwat's desire to facilitate more collaboration between CCGs and believes that this will lead to greater exchange of best practice and understanding. The CCG would ask (as noted above) that Ofwat does publish and communicate about WACC and other specifics earlier and believes that this offers an opportunity to gain shared understanding across the CCGs and companies as well as ensuring that those participating in the process fully understand Ofwat's thinking. Ofwat potentially has a further role as an entity that shares best practice (particularly from abroad and from other sectors) and then challenges companies to adopt or refine these approaches.

Q49 How can the outcomes framework encourage a longer-term approach? Should we encourage, or even mandate, that certain measures - for example asset health – span more than a single regulatory control period?

While appreciating that this would inevitably add complexity to the process across a number of dimensions, this is an infrastructure based industry and if appropriate a longer term view should be factored into thinking, monitoring and incentivisation.

During the previous price control companies produced a 25 year forward look; it would be helpful if Ofwat asked for a similar view in this control and also required that companies should report progress against their previously stated objectives.

Q50 What are your views on the proposed contents of our November 2016 consultation on outcomes (balance of bespoke versus comparative measures, and role of comparative information)?

The CCG recognises there is a difficult balance to achieve between enabling each company to have, in effect, bespoke measures and the desire for a degree of comparability. The CCG would suggest that there needs to be a carefully thought through set of key metrics which can enable direct comparison by customers and stakeholders. By necessity, this might be a modest list, but having some degree of comparability is important.

The Thames Water CCG would suggest that one way forward might be a greater focus on simple metrics such as average cost to serve or cost per customer; these would have the merit of allowing comparability both between companies and also over time, demonstrating efficiency, and would be measures that customers would find clear and helpful to use.

Q51 What are your views on our proposal that companies submit the definitions – but not the targets or any associated incentives - for their performance commitments to us in early 2018 before they submit their business plans?

The CCG would support this approach, believing that the earliest possible clarity on key topics can only help the smooth running of the process and conversely that injecting new thinking at a late stage can greatly damage a complex consultation and research process. This would be equally true for Ofwat as well as for companies.

Q52 What are your views on our proposal for a licence modification to allow for the in-period payment of outcome delivery rewards and penalties?

The Thames Water CCG was made aware of data during the last review that suggested customers valued the predictability of regular bills that did not alter during a control period; the CCG would suggest that there would be value in undertaking some further research to validate this view.

Some comments on the proposed market promotion of certain parts of the wholesale value chain for sludge and water resource management.

The Thames Water CCG recognises that there may well be benefits and efficiencies to be derived from the development of these wholesale markets, which might ultimately impact bills for customers. However, and especially given that these are not particularly customer centric activities, the CCG would urge great care in ensuring that the risks and impacts for customers are particularly carefully assessed and assurances given that customers will not only benefit from efficiencies but will also not see a reduction in the experience that they receive.

ENDS

Annex 1

CCG

Anne Heal	Independent (Chair)
Jill Strong	Independent (Secretariat)
Sir Anthony Redmond	CCWater (Vice Chair)
Alex Nickson	Greater London Authority
Colin Stanbridge	London Chamber of Commerce
Harry Hodgson	Federation of Small Businesses
Helen Charlton	CCWater
Robin Edwards	CLA
Samantha Heath	London Sustainability Exchange
Steve Bloomfield	Independent
Kay Lacey	Independent
Jeremy Gould	Large business

CCG Environment Panel

David Howarth	Environment Agency
Rebecca Tibbetts	Natural England
Adam Wallace	Natural England
Tony Juniper	Environment Specialist

CCG Specialist Customer Panel

Gill Tishler	Citizens Advice
Geoffrey Fowler	London Design and Engineering UTC
Suki Westmore	Mind