

Thames Water Customer Challenge Group's response to Thames Water's Building a Better Future:
Response to Ofwat's Initial Assessment of Thames Water's PR19 Business Plan

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Prepared by the Thames Water
Customer Challenge Group



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Section 1

Executive Summary

The Thames Water Customer Challenge Group (CCG) welcomes the chance to comment on Thames Water's April submission as part of Ofwat's IAP process.

Since the September submission, the CCG has been actively engaged with Thames as it has worked hard to review its plan in light of Ofwat's (and the CCG's) feedback. The CCG has been impressed with the scale, range and depth of research that Thames has undertaken, especially given the short timescales. The CCG believes that Thames has made a significant effort to listen again to as many of its customers as it can. Thames was able to carry out further customer research on PCs, ODIs, North East London resilience and Final Acceptability Testing including AMP8. Thames has also indicated that it will be undertaking further research after the April deadline and this is to be welcomed.

The CCG is pleased to see that when Thames tested the revised plan with customers in new Final Acceptability Testing, there was a substantial increase in the support they received for it. Acceptability has increased from 67% in September to 87% in April, providing a much clearer endorsement from customers.

In the April submission, Thames has made a commitment to substantial efficiency improvements and has made enhancements in performance targets in some key areas for customers, namely supply interruptions, sewer flooding and pollution. Thames is now proposing a real reduction in bills with flat bills through to 2030. Thames has also strengthened its proposals to address Ofwat's Back in Balance agenda including sharing with customers any benefits from the financial efficiency arising from debt financing. This is to be commended. The CCG, however, continues to have serious concerns about the outcomes from the leakage programme, despite Thames's very real efforts, where it appears likely that AMP6 targets will be missed, making AMP7 targets increasingly challenging. It is also disappointed that PCC targets have not been improved.

Overall, though, CCG believes that this revised plan represents a marked improvement on Thames Water's September 2018 submission, with certain key areas being more effectively addressed and with customers remaining at the heart of Thames's thinking.

Section 2

Introduction

The CCG will address the specific points highlighted in the Thames Water IAP actions tracker and will also consider a number of other issues which it believes it should cover as a result of the revision of the submission.

The CCG recognises that there is a tight deadline specified by Ofwat and that there has been relatively little time to undertake thinking and then research in what are compressed timescales; the CCG will be reporting with that in mind. There is also a recognition – and some concern – that this process will not enable the views of customers to be heard as clearly and directly as during the main submission process. Thames have indicated that they will be undertaking further research after the deadline and this is to be welcomed. That said, the CCG has been impressed with the amount of research that Thames has undertaken between September and now and believes that Thames has made a significant effort to engage with as many of its customers as it can.

Section 3

The CCG were asked to respond specifically via the tracker on two issues

i. Action TMS.AV.A1 - Addressing affordability & vulnerability – post 2025 bills research into long term bill profiles requires CCG input

The CCG has been involved in preparation of the research around Final Acceptability Testing, which has, to a limited extent, addressed post 2025 bills. This is understandable given the necessary focus on this AMP. For reasons of speed, the survey was conducted online. As a result the CCG had some concerns that TW was unable to carry out face to face top-up surveys with customers who did not have online access. The CCG understands that given the time constraints this top up research was not possible. The CCG acknowledges Thames's commitment to complete this top-up survey post April as part of further research and the CCG also appreciates that previous research showed very similar outcomes for this group.

The CCG understands that in 2025-30 the bill profile will now be flat excluding inflation; the CCG notes this will be achieved largely through ongoing efficiency savings rather than delayed or deferred investment.

ii. Action TMS.OC.A50 - Resilience of NEL supply – confirm the CCG have been updated, and that views have been incorporated.

The CCG can confirm that it has been involved appropriately in the research around the North East London Resilience project, and related London resilience schemes, having been sighted on the proposed methodology and given the opportunity to feedback on the materials. Some CCG members also observed some of the research sessions. The CCG can confirm that customers were positive about the scheme, seeing the North East London Scheme as a good step in the right direction and indeed would be keen to see it delivered even earlier. Customers accepted the notion of a 'change mechanism' for NELR and the related London resilience projects, to deal with population growth turning out to be not as predicted. However some customers voiced concerns that the mechanism

should not be used to excuse Thames for performance where project delivery is affected (e.g. delayed or does not happen) where it is Thames's fault.

Section 4

Final acceptability testing

The CCG is pleased that Thames has again asked customers what constitutes the threshold for acceptability, which the CCG considers to be a customer focussed approach. The CCG is pleased, too, that Thames found ways to research acceptability and affordability both with and without inflation. The CCG would like to stress how keen it is for there to be consistency across all water companies at FAT stage and feels this two-way approach helps to get there.

The CCG is reassured that TW set quotas and applied weighting to ensure the online survey was representative of their customer base (in terms of age, gender, socio-economic grade, ethnicity, disability, metered/unmetered, combined service/wastewater-only and if wastewater-only, the water-only company served by). As noted above, the CCG had some concerns initially around the absence of some key groups from the research, most particularly given that the survey (for reasons of speed) had to be online only, meaning that customers who do not go online for reasons of habit or access difficulties were unable to participate. Although the CCG would have liked the research to have included an off-line survey so that it was fully inclusive of all customer types the CCG understands why this was not feasible in the timescales. Thames has worked hard to explain to the CCG that in previous major research programmes, conducted without time pressure, the outcomes for such groups have been very similar to those surveyed online, and that this was true for the previous FAT test. The CCG acknowledges this and is pleased that future research which is more focussed on AMP8 and which is planned for later this year does address these groups although the precise objectives of this research are yet to be clarified.

The CCG also observed that a number of other changes were made to meet concerns about possible inconsistency with other companies' approaches to FAT testing, which it accepts as a necessary part of the process at this point. The survey was also simplified and modified to ensure collection of the data necessary to complete the Ofwat data tables. The average household bill was used, rather than the respondent's own current and future bill and the social tariff information was provided as background as part of customer service items, rather than as a separate item.

The CCG has now seen the top line initial results of FAT testing which shows the benchmark that customers are seeking to be 69% acceptability and 67% affordability to implement the 2020-2025 plan, and that 87% found it acceptable with 81% finding it affordable; a similar percentage found the 2025-30 plan acceptable. There is a slight reduction in the percentage who consider the 2025-30 plan affordable if inflation is included. These results are very encouraging and the CCG looks forward to seeing the detailed findings including breakdowns of results among different socioeconomic groups and for different aspects of the plan.

Section 5

Further customer research

Thames has also completed further customer research on topics such as drought resilience and protecting chalk streams, and on PCs & ODIs.

The research on PCs and ODIs was deliberative research with a relatively small sample of customers, not least given the unfamiliar and somewhat complicated topics being discussed. The CCG has noted that the findings are therefore not statistically robust but do provide an approximate indication of customer views and strength of feeling.

Section 6

Thames have highlighted to the CCG some key areas where they were challenged to increase the scale of their ambition. These are discussed below.

i. Leakage

This is an area of great concern for the CCG, because it is so important to customers. Thames has the worst leakage performance in the sector, and on the basis of companies' draft business plans submitted in September, by the end of AMP 7 Thames is likely to remain in this position.

It is worth saying that the CCG recognises the vast amount of effort that Thames is putting into tackling leaks, including its increasingly sophisticated and technologically based approach to leakage detection on a number of fronts and the increased number of gangs working on the programme. It recognises, also, that incidents such as the Beast from the East and the hot summer as well as the need to address delivery through the infrastructure alliance have provided added challenge to Thames's plans over the current period.

Thames tells the CCG that its revised plan includes learning from the current AMP, and that it also takes into account the additional challenge as a result of the outturn position at the end of AMP6. This means that although its ambition in the revised plan in terms of percentage leakage reduction has increased from 15% to 20%, it does not result in a change in the target set for AMP7; rather it simply reflects the necessity of making up the savings not achieved in AMP6. The CCG recognises Thames's very real ambition and commitment from the highest possible levels to addressing the leakage issue.

However, given what the CCG has been told, not least during its regular reviews of Thames's performance, and even with the additional resources the company has employed, the CCG believes that despite Thames's clear ambition and commitment, Thames will be unlikely to meet its targets for the end of this AMP, which will then affect materially its ability to deliver in AMP7; the CCG does recognise, however, Thames's commitment to do this through its very ambitious plans. However, when all is said and done, the CCG has serious doubts that Thames will meet its leakage targets. The CCG understands that mains rehabilitation is identified as the long term solution, but acknowledges the difficulty in building a strategic programme which can be practically delivered while managing its potential bill impact.

ii. Interruptions to supply

The CCG understands that Thames is to take a target that is within Ofwat's range so the CCG has no further comment to make.

iii. Internal sewer flooding incidents

Ofwat challenged Thames regarding the level of stretch in the plan; Thames has offered a 20% improvement. The CCG would stress the importance of this commitment to customers and would encourage Thames to go even further if it can, responding to the ODI; Thames refers to more innovative solutions being needed and the CCG would urge Thames to seek to make even greater progress in this area.

iv. Pollution

Thames's revised submission is now in line with the WISER guidance, and the plan has a more stretching target. This, again, is a measure that is highly valued by customers and the CCG is pleased that Thames is going to take on this challenge.

v. PCC

Thames has decided that – despite challenge from Ofwat and the CCG – it is not going to amend this target. Customers were asked whether they agreed they should not pay or be compensated for changes to PCC that Thames does not make or influence but were not invited to consider the PCC target itself. The CCG is disappointed to hear there is to be no change, as customers frequently suggest that they want to hear more in this area so they can help to reduce their consumption and the combination of Smarter Home visits and metering have been seen to be effective. The CCG does not find Thames's argument that cross industry comparisons are difficult to be a compelling one, or one which seeks to demonstrate a leadership position. The CCG would urge Thames to reconsider its position with regard to this measure, although it recognises the fact that it will be difficult for Thames to go further with metering in the coming AMP. The CCG agrees with Thames, however, that wider action (e.g. legislation, action such as the Future Homes Standard and partnering) is needed to support additional progress and is pleased that Thames is participating actively in relevant working groups.

Overall, the CCG considers that this metric needs a fair and robust mechanism for establishing how far changes in PCC result from Thames's (rather than third party) acts/omissions. CCG has seen some evidence of customers' behaviour change due to Thames activity but clarity around who has driven any change in consumption metric would be of value.

Section 7

Proposed changes to PCs/ODIs

- i. The CCG has noted the PCs that are being removed and is content with this approach; the CCG was pleased to see that in some of its recent research projects Thames took the opportunity to 'play back' to customers what items were being removed.
- ii. The CCG would make the following comments on "new" PCs. Although they have not been tested with customers the metrics for Priority Service Register and the BSI accreditation are very much in line with previous research and submissions, and so the CCG is content with the approach proposed.
 - a. **Priority Service Register** – the CCG notes and welcomes the common approach that is being taken to this issue and also the further increase in numbers to be achieved. This can only be helpful for customers in the longer term – however, it may take a little time to get a stable and meaningful measure. The CCG notes particularly the distinction between engaging with customers and customers responding to that contact. Clarity is needed as to what constitutes contact, engagement and success. The CCG would urge that Ofwat keeps this measure under review and that there is the potential for it to evolve during the plan period.
 - b. **BSI** – the CCG welcomes the idea of accreditation by a trusted third party, however, it is somewhat concerned by the length of time that it could take, although it understands that some interim milestones are now being proposed.
 - c. **Strategic regional solution development** – the CCG notes the creation by Ofwat of this measure. It broadly welcomes its creation, but would observe that it needs to be constructed such that it can be communicated easily to customers. The idea of gating is one that the CCG embraces. The CCG would also want to be assured that there was customer support for all the projects within the measure, but believes this to be the case at the present time. The CCG has recently learned that a joint statement on how to progress has been agreed by the potential participants and is encouraged by this.

"True down uncertainty mechanism"

While not a PC or ODI, The CCG would acknowledge that this is a practical and pragmatic solution to addressing Thames's situation, provided that the items included in it are those that are valued by customers and that the projects are effectively ringfenced in the measure. The CCG would ask that customer research is carried out throughout the process to ensure that this remains the case. Research to date suggests that customers trust Thames to manage investment in key programmes, that they would prefer Thames to keep money to use for investment when projects are halted and that returning minimal sums is not especially welcomed, all of which suggest that this is potentially a positive development. Care is needed, however, to make sure this is used purely as a mechanism to agree those costs/projects where Ofwat requires more evidence. Customers also were concerned that Thames should not be excused performance where project delivery is affected as a result of its actions/omissions.

Section 8

Comments on PCs and ODIs where the CCG had issues but Ofwat did not

The CCG has reviewed the challenges it made in the light of Ofwat's response and has noted Ofwat's comments and approach. The PCs/ODIs concerned are noted at Annex A. The CCG will not pursue these further.

Section 9

Comments on PCs and ODIs where the CCG challenged previously

The CCG continues to hope that all PCs and ODIs will be expressed in customer friendly language.

BW07 – properties at risk of receiving low pressure. The CCG remains concerned that this is not a good measure, and fails to recognise the serious impact on customers of this issue, most notably a potential fall in their house price. The CCG also is still minded that customers did not want an outperformance measure. However, the CCG does note that the number of customers currently potentially impacted is very small.

CS02 – asset health sewer collapses. The CCG notes that customers tended to disagree that this was a stretching target, while Thames believes it is a frontier company. The CCG feels that given its oversight Ofwat will be able to determine whether this is an appropriate target.

DWS02 – securing our sites. The CCG would reiterate the view of customers that this should be a reputation only incentive as it should be business as usual for Thames, but acknowledges that Thames has agreed its security plans with Defra, and that the ODI provides a mechanism to adjust the scope and therefore costs of this programme (if required by Defra) between now and 2025.

DWS01 – Power resilience. The CCG is pleased Ofwat has required a change to the percentage of sites addressed. The CCG continues to feel that it is still not 100% clear that customers understood how many sites were involved, or, if they realised that the whole estate was not involved, if they understood how the sites had been selected. So it is difficult to judge what might be an appropriate target percentage of all sites.

DS02 – surface water management. The CCG is supportive of the overall programme of activity, but does not fully understand the use of an outperformance payment as a means of undertaking more projects through getting additional funding. The CCG's previous observation that it is hard for customers to see if this measure is stretching still stands.

CS05 – sewage pumping station availability. The CCG acknowledges Thames's comments, but continues to feel that an underperformance measure is most appropriate.

AR01 – C-Mex. The CCG understands the rationale behind Ofwat's new measure, but is very concerned to learn that the relative differences between companies have not been appropriately considered, including differences in company size, customer demographics and expectations. The CCG also understands that a company that has made performance improvements could face penalties when others who did not make improvements could be rewarded. CCG feels that this

methodology should be subject to further review and would urge Ofwat to reconsider the detailed approach to the measure as a matter of urgency.

EWS01 – enhancing biodiversity. The CCG remains concerned that customers did not understand this measure which is perhaps unsurprising given that this is a very new area for everyone concerned. The CCG therefore feels that it too early to attach a financial measure and continues to feel that this should not be case, while welcoming the focus in this area.

EWS02 – smarter water catchment areas. The CCG recognises Thames's commitment and has no further comment, although it feels that even more customer engagement would be of benefit in helping Thames shape and deliver its programme.

BW01 Mains bursts. The CCG would wish to comment that the flat mains bursts target remained unchanged after customer research in January 2019 in which the rationale for a flat bursts rate was explained as 'as Thames does more proactive leakage repairs, recorded bursts will increase but reactive repairs should go down'. Customers accepted this rationale. Later, in March 2019, Thames explained to the CCG that on hidden leaks it was finding 15% fewer leaks than anticipated which is impacting leakage detection and repair work currently; the CCG has been told that this will not impact the bursts target as if leaks are found they do not count as bursts.

ES02 – environmental measures delivered wastewater.

EW02 – environmental measure delivered water.

These two performance commitments relate to the schemes required in order to deliver agreed measures set out in the Water Industry National Environment Programme (WINEP). The CCG understands that some projects are Amber in the WINEP and those that are not currently cost-beneficial have not been included in the company plan. The CCG is anxious about this, given the importance of environmental issues to customers, however, Thames has clarified that it has an appropriate mechanism (ODI) to include additional schemes if they become cost beneficial. Issues around phosphorous schemes are of particular concern as the CCG have been told that some are not cost-beneficial at the scale of individual sites, although the Environment Agency's view is that they are at the catchment scale. The CCG has been told that these schemes may be reintroduced at a later stage which would have the effect of needing additional money from customers, collected via an ODI reward serving as a change mechanism. The CCG feels that further exploration and explanation is needed to bring clarity in this area and to ensure that Thames can comply with the River Basin Management plan when it is signed off, without an unexpected bill impact.

Section 10

A brief commentary on the ODI package

The CCG has now received the diagram which summarises the ODIs; however, and quite understandably, the CCG has not as a group been able to discuss it in detail with Thames, nor to get an understanding of comparisons with other water companies. The CCG therefore feels it should not comment at this point.

Section 11

Retail/wholesale

Now that the CCG has heard more about the new measures, such as C-Mex, R-Mex and D-Mex, it feels it is important to ensure that there is clarity around what Thames (and indeed other companies) can do, given that as wholesalers, they are not in many cases, in control of the whole process and therefore cannot fully be responsible for every aspect of the customer experience to the same extent, given the involvement of retailers in the non-household area.

Equally, in the absence of a supplier-customer relationship between Thames and NHH user, a metric is desirable to monitor and measure NHH customers' experience of Thames's "wholesale" services, given NHH customers' dependency on Thames for wholesale water and wastewater services.

Section 12

Thames Tideway Tunnel measures

In its initial submission, the CCG had concerns that these projects/activities should be seen as business as usual and should not be PCs. This was as a result of very strong steers from customers, who also thought that Thames should not be rewarded for doing things that they would have done anyway. The CCG also feels that overall; these are metrics where Thames needs to work collaboratively with Tideway (Bazelgette Tunnel Ltd), Ofwat and other stakeholders to ensure successful delivery of the project. The CCG would therefore reiterate its initial view that these should be excluded from Thames's list of commitments.

Section 13

An additional customer service measure

The CCG understands that Thames intends to propose a new measure which demonstrates progress against a number of specific customer metrics, such as complaints. The CCG welcomes this approach and would be interested to see customers' responses to such a proposition.

Section 14

Proposed research plans

Thames Water has updated the CCG on its forward research programme, both in advance of the 1 April submission, and – probably more importantly – subsequently. The programme that the CCG has seen has addressed some issues that cannot sensibly be addressed in the period before 31 March. This includes some important aspects such as research around 2025-2030 plans. Leaving that aside, the CCG is glad that the long term approach which links customer research and engagement to ongoing action and planning is continuing. The CCG has been assured that Thames's focus on cultural and operational change facilitated by the use of the net promoter process will continue and although the CCG has some remaining reservations about this, it is pleased that there is to be such a sustained focus on the customer across the company.

The CCG is also pleased that Thames is continuing to ensure that its key document – *What Customers Want* – is being updated appropriately and continues to be used as part of the underlying planning process.

However, the CCG is concerned that the forward research programme as it stands is still not addressing some long standing CCG challenges. This is with particular reference to thinking more on a regional basis and using regional insight to shape and take decisions. The CCG continues to challenge on this point and has been encouraged by recent updates which suggest a different approach to research, insight and operations is being contemplated by the company.

Section 15

General views on assurance

The CCG has now been briefed on several occasions by the Assurance team regarding the resubmission and feels that the process it has heard described is a thorough one. The CCG was especially pleased that there is 100% assurance on all PCs and ODIs.

Section 16

A brief commentary on efficiency

Thames's plan now includes a further efficiency challenge; the CCG has been briefed on Thames's new approach. The CCG would stress the fact that customers will be keen to know that Thames is being as innovative as possible in order to meet what are in many cases highly ambitious targets.

Section 17

A brief commentary on deliverability

Thames has set out an ambitious plan across the piece; the question of leakage is discussed earlier. The CCG is especially keen that Thames is able to deliver against its customer service targets, which will require major IT programmes to be successfully implemented in order for them to do so.

Section 18

A brief commentary on Back in Balance

The CCG feels it is appropriate to commend Thames for the continued commitment to improving its position around governance and associated processes, including the position on dividends, executive pay and the gearing sharing mechanism.

Section 19

Innovation

The CCG believes that innovation is key to Thames being able to have a material impact on the challenges it faces around improving its efficiency and, indeed, delivering on a sustained and consistent basis. Earlier in this document, the CCG noted its concerns around Thames's ability to deliver against its current AMP leakage targets. It is certain that without material innovation that

Thames will not be able to achieve its ambitions across a number of key measures. The CCG has seen an increased focus on innovation (and this is being helped by the evolving approach to outsourcing) and this is to be welcomed, but even more drive and focus is needed in order to move things forward at pace in a way that Thames and its customers would expect.

Section 20

A read across to WRMP

The CCG acknowledges that there have been some important changes to WRMP as the process has proceeded, most notably the move towards regional, strategic, shared resource schemes/transfers serving Thames customers, and customers of other water companies, with an adaptive approach. This is then underpinned using 'gateways' for allowing progression to the next project phase and/or to alternative project(s).

As a result of this, it is likely that important decisions will be made during the course of AMP7 which will be of significance in terms of the WRMP. Customers have on many occasions said that they are concerned about major investment being undertaken to develop new water resources when leakage remains high. While there is also recognition by customers that such major investment is needed to ensure regional resilience, clearly Thames must succeed in delivering its leakage reduction targets on time to meet what customers want and to fulfil the "twin track approach" to resilience.

Section 21

A brief summary of continuing points of difference/outstanding challenges that are not covered elsewhere

A number of new challenges have been added to the Challenge Log since the initial submission. These include concerns about the industry wide impact on, and approach to, microplastics and how Thames is responding and how to communicate about hard water to customers. While the CCG would not necessarily expect to see reference to these in Thames's new submission, it is important that they do not fall between the cracks of AMP 6 and AMP7.

Section 22

A brief summary of challenges that have been addressed and closed

Since the September submission, the CCG has been working with Thames to remove items from the Challenge Log. Since that time 33 items have been removed, in the main these have related to queries around research and engagement methodologies, but a number relating to progress with Thames's thinking around the Priority Services Register and how vulnerable customers are supported have been discussed and addressed. The CCG are especially pleased to see the progress being made on affordability and priority services. The CCG expect Thames to provide regular updates on progress and would like more detail to be shared on key service levels and KPI's, implementation milestone plan, how waste customers will be supported and the approach to tiers and growth in social tariffs in AMP7. But the CCG would wish to stress how pleased it is with the progress Thames has made in this critical area. The current CCG

Challenge Log is available if required.

Section 23

CCG involvement since September

Since September 2018, the CCG has met as a whole 7 times. It has held 6 conference calls. The Customer Engagement Sub Group has met 3 times and the Business Plan & Finance sub group 5 times.

Annex A

PCs with no IAP actions	
BW09	Water quality events
BW10	Reducing risk of lead
CS04	Clearance of blockages
ER03	Households on the Thames Water social tariff
ES03	Sludge treated before disposal
EW01	Abstraction Incentive Mechanism (AIM)
EWS03	Renewable energy produced
EWS04	Natural Capital Accounting
EWS08	Empty business properties

Discontinued PCs	
AR04	Number of customers on the priority service register
AR05	Customers recommending priority services
AR02	Households on a Payment plan
AW01	Improving engagement on leaks to customers' pipes
ES04	Compliance with Bioresources environmental permits
EWS05	Financial transparency
EWS06	Driving cultural change through employee engagement
EWS07	Financial resilience

