

## **Company Business Plan Presentation Pro forma**

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## 1. Background

### 1.1 Company picture

Thames Water Utilities Limited (“TWUL” or the “Company”) is a private limited company incorporated in England and Wales. It supplies water and wastewater services to around 15 million people London and the Thames Valley.

The holding company of TWUL is Kemble Water Holdings Limited. The shareholders of KWHL as at 3 September 2018 are:

<b>Shareholder</b>	<b>Percentage holding</b>
OMERS	31.777
Universities Superannuation Scheme (USS)	10.939
Infinity	9.900
Wren House	8.771
bclMC	8.706
Hermes (BT Pension Scheme)	8.699
Cicero Investment Corporation	8.688
QIC	5.352
Aquila	4.996
PGGM (Stichting Pensioenfonds Zorg en Welzijn)	2.172

Since the start of AMP6, the following share sales have taken place:

- April 2017, State Super sold 2.389% holding to Aquila
- May 2017 Macquarie sold its 26.315% stake to Omers (17.543%) and Wren House (8.772%)
- November 2017 AMP Capital sold its 5.53% holding to Omers
- November 2017 AIM (3.258%), OPTrust (4.34%) and QSuper (3.336%) sold their respective holdings to University Superannuation Scheme (USS)
- December 2017 BriTel (Hermes) sold 4.361% of their stake to Omers
- July 2018 Stichting Pensioenfonds ABP sold their 4.344% holding to Omers

## 1.2 List of attendees

The following will attend the business plan presentation meeting on 28<sup>th</sup> September 2018:

- Ian Marchant, Independent Chairman, Thames Water Utilities Ltd
- Steve Robertson, Chief Executive Officer, Thames Water Utilities Ltd
- Kelly MacFarlane, Director, Customer Experience, Thames Water Utilities Ltd
- Lawrence Gosden, Chief Operating Officer, Thames Water Utilities Ltd
- Anne Heal, Chair, Thames Water Customer Challenge Group

Biographies can be found in Appendix 1.

## 2. Key business plan metrics

### PR19 key themes

Our plan has been built to meet the needs of our customers now and in the future. It also reflects the four key themes for PR19 of innovation, great customer service, affordability and increased resilience.

#### On **innovation**:

- a commitment to put data at the heart of our business to create insight and take action across all our business cycles, including developing smart water and wastewater networks that give us real time operational data about our underground networks
- digitalising our business so that – for example – customers can get in touch with us however they choose
- tapping into both our supply chain and other external markets to solve some of the major long-term challenges such as reducing leakage by 50%, delivering zero pollutions and replumbing London

#### On **customer service**:

- a focus across the whole company on creating lifelong customer advocacy through the deployment of a company-wide net promoter system
- 400,000 customers on our priority service register to support those who are vulnerable

#### On **affordability**:

- holding average bills flat in real-terms to 2025
- for those who struggle to pay, a comprehensive package of support, including an enhanced social tariff for at least 200,000 families
- an average 13.6% reduction in operational costs

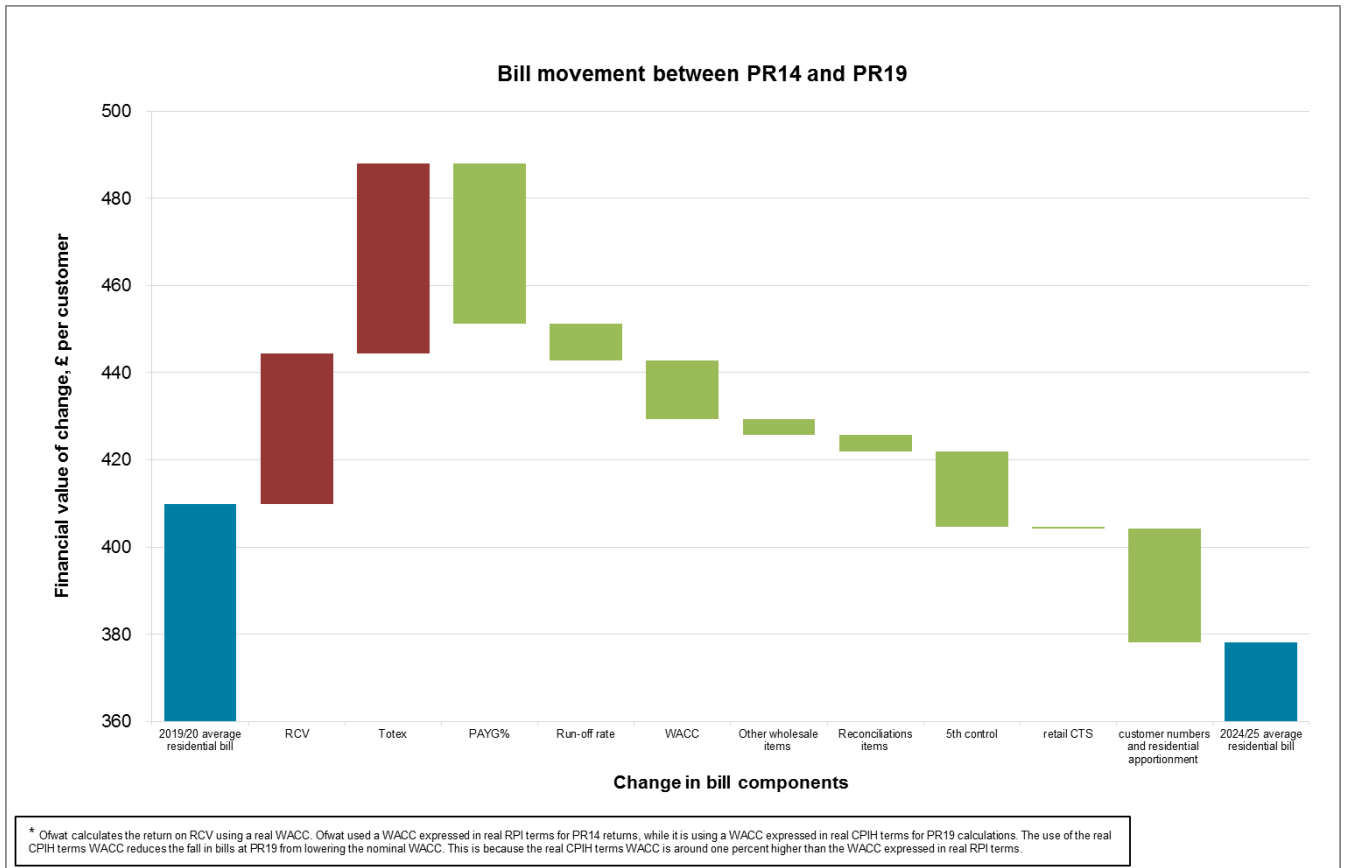
#### On **resilience**:

- a long-term plan that delivers a step-change in operational resilience, supported by £2.1 billion of extra investment

- ensuring that our day-to-day operations and processes are resilient to daily demand and business outages
- moving to a 24x7 multi-skill resource model that will allow us to better respond to exceptional incidents such as the 'Beast from the East'
- increasing financial resilience by reducing gearing to 76.2% and increasing our equity buffer to £4.7 billion

**Table 2.1: Waterfall chart<sup>1</sup>**

This chart provides an overview of what is driving changes to bills between 2019-20 and 2024-25. The inputs to the waterfall chart are in price base 2017-18 year average CPIH deflated. We have published the [PR19 bill movement model](#) in order for companies to developed the waterfall chart.



<sup>1</sup> The bill movement chart includes the residential retail adjustment (-£3.50) within 'Reconciliation items'. Since finalising our bill waterfall model, we received an email from Ofwat (from Stephen StPier, 28 August 2018) proposing an alternative change to the bill waterfall model, such that the residential retail adjustment would instead be included within the 'retail CTS' column. This alternative approach is not included in our submitted bill waterfall model. The impact of following this approach would be to move the £3.50 downward bill movement from the 'Reconciliation items' column of the waterfall chart to the 'retail CTS' column.

**Explanation of movement in customers' bills**

Please set out the key factors that are driving the movement in customers' bills from PR14 to PR19 [max. 200 words].

<b>Inputs</b> 2017/18 year average CPIH deflated	<b>£ per customer</b>	<b>Key factors driving the movement</b>
<b>2019-20 Bill<sup>2</sup>, per PR14 FD</b>	<b>410</b>	As expected in 2019/20 in our PR14 Final Determination.
<b>Changes between 2019/20 and 2024/25</b>		
RCV	34	This increase reflects a significant increase in investment in AMP7.
Totex	44	These changes – when combined – reflect the change in operating expenditure between AMP6 and AMP7. As explained elsewhere in our plan, this also reflects an average reduction in operational unit costs of 13.6%.
PAYG%	-37	
Run-off rate	-8	This reflects longer average asset lives.
WACC	-13	This reflects the reduction in the WACC between AMP6 and AMP7. (We have used Ofwat's early view in our AMP7 plans.)
Other wholesale items	-4	This reflects a reduced allowance for pension deficit repair. (Any remaining pension deficit repair costs are funded by shareholders.)
Reconciliation items	-4	This reflects AMP6 performance, including SIM, ODIs and totex.
5 <sup>th</sup> control (TTT)	-17	Thames Tideway Tunnel (TTT) project cost lower than estimated at PR14.
Retail CTS	0	
Customer numbers and residential apportionment	-26	Principally reflects increasing customer numbers, allowing costs of delivering water and wastewater service to be spread over a larger population.

<sup>2</sup> Our current forecast average residential 2019/20 bill is £382 (pre-rebate, 2017/18 CPIH prices). The £410 shown above (the bill forecast at PR14) is significantly higher. This reflects a number of factors including a £20 lower bill impact following the award of the TTT licence to Bazalgette Tunnel Ltd.



Inputs 2017/18 year average CPIH deflated	£ per customer	Key factors driving the movement
2024-25 Bill	378	

### Customer Expectations

We ran an industry-leading research programme, engaging our customers in well-informed discussions – to build a plan based on their wants and needs.

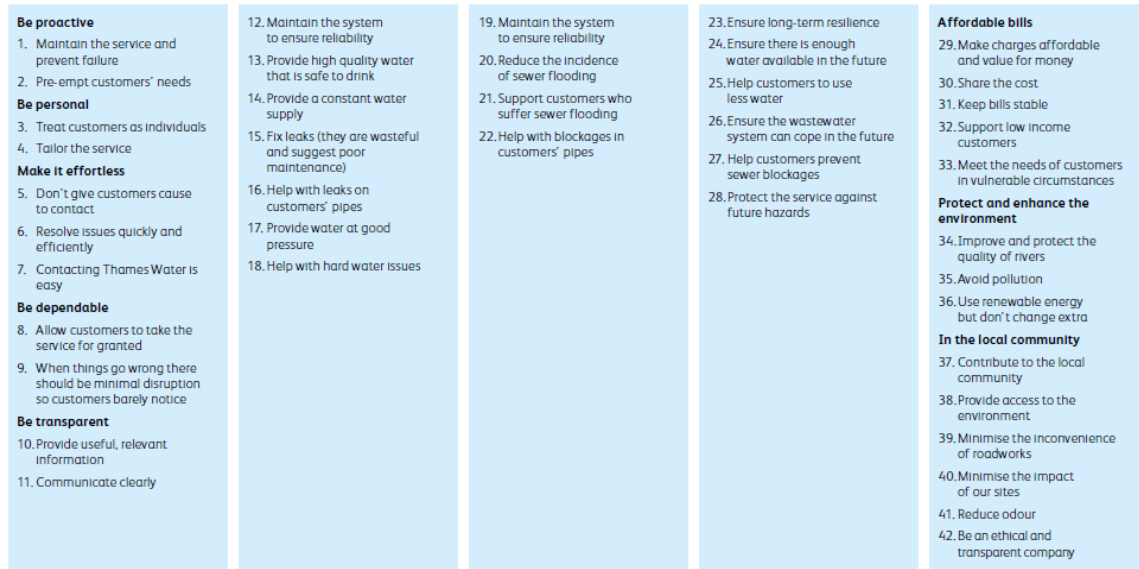
As part of our engagement process, all of our 15 million customers had the opportunity to shape our plan, and 984,000 actively participated in the engagement process. We have a socially and geographically diverse customer base, and we made sure that we received sufficient insight from all of our customer segments.

In summary, customers told us that – above all – they want a service they can depend on no matter what, now and in the future, at a price they can afford. They want us to be easy to deal with, fixing problems quickly, and treating them as individuals. They also expect us to act responsibly – as a business, towards the environment and in their community.

Our engagement programme allowed us to develop a detailed understanding of their wants and expectations. These are expressed in 42 key messages. These key messages – which we have organised into five customer outcomes – are set out in the figure below.

**Customer engagement**

42 things that customers want



5 outcomes



**Table 2.2: Key business plan metrics**

Metric	PR14 (2019-20) 31 March 2020 estimate	PR19 (2024-25) 31 March 2025 estimate	2019-20 to 2024-25 % change (leakage and PCC)
Number of residential water only customers (000s)	49.050	52.676	
Number of residential wastewater only customers (000s)	1972.921	2079.202	
Number of residential water and wastewater customers (000s)	3499.437	3710.070	
Total leakage (MI per day) Based on PR19 definition, annual average	637.88	540.27	-15.30%
Leakage (cubic metres per km of main per day) Based on PR19 definition, annual average	19.9	16.5	-17.09%
Leakage (litres per property per day) Based on PR19 definition, annual average	155.3	122.9	-20.86%
Per Capita Consumption (PCC) Based on PR19 definition, annual average	142.00	136.00	-4.23%

<b>Metric</b>	<b>PR14 (2019-20) 31 March 2020 estimate</b>	<b>PR19 (2024-25) 31 March 2025 estimate</b>	<b>2019-20 to 2024-25 % change (leakage and PCC)</b>
ODI RoRE range	-1.5% to +0.8%	-1.5% to +0.5%	
Appointee WACC (real RPI)	3.54%	2.40%	
Appointee WACC (real CPIH)	4.56%	3.40%	
Credit rating – actual financial structure	BBB+	BBB+ / Baa1	
<b>Metric</b>	<b>PR14 (2015-2020 Average)</b>	<b>PR19 (2020-25 Average)</b>	
Adjusted interest cover notional	1.25	1.41	
FFO net debt notional	0.07	0.07	
<b>Metric</b>	<b>2017-18 Actual</b>	<b>PR19 (2020-25 Average)</b>	
Actual gearing	82.93%	78.74%	
Adjusted interest cover actual	1.66	1.37	
FFO net debt actual <sup>3</sup>	0.07	0.06	

### Commitment to financial resilience

Please set out here how you will maintain commitment to financial resilience [max. 150 words].

Building trust and legitimacy with our customers, and all key stakeholders, is critically important to our strategy and business plan. We have therefore put together a fair financial package that increases our equity buffer by £2.1bn over AMP7, with gearing reducing by 5% to 76.2% by 2025 through the investment of an additional c.£900m of capital in Thames Water. We plan to pay net cash dividends of c.£80m per annum<sup>4</sup>, equivalent to c.2% yield – below the 5% level indicated by Ofwat as a reasonable base yield. We have put a clear dividend and remuneration policy in place – linked to operational performance – and taken a long term view on financial

<sup>3</sup> Even though the same numbers are entered into App10 and Table 2.2 they display in different ways as the App10 has a formatting error (which is locked and cannot be changed) so that a 0.084957 displays as 8.50% in App10 and 0.08 in Table 2.2. Please take note of this if you are using these numbers to compare companies as companies may have done it differently.

<sup>4</sup> This reflects a gross TWUL dividend of just under £110m per annum which is offset by interest income of around £30m per annum.

resilience. This package has the clear support of our customers and enhances our credit metrics over the next five years. For these reasons we think our approach is preferable to that contained in Ofwat’s position statement on back in balance.

**Table 2.3: RCV**

<b>Control</b>	<b>1 April 2020 (£m) Opening RCV 2017-18 FYA (CPIH deflated)</b>	<b>30 March 2025 (£m) Closing RCV 2017-18 FYA (CPIH deflated)</b>	<b>% growth</b>
Water resources RCV	289.496	462.101	60%
Water network Plus RCV	5,791.004	7,583.088	31%
Wastewater network Plus RCV	4,966.998	6,105.865	23%
Bioresources RCV	1,511.998	1,562.087	3%

**Table 2.4: Dividends**

<b>Metric £m</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>		
Outturn (nominal prices)					
Dividends (based on PR14 actual company structure)	-70.000	-109.161	-43.405		
Outturn (nominal prices)	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
Dividends (based on PR19 actual company structure)	-106.640	-108.206	-109.981	-107.761	-107.465

### **Dividend Policy**

The Board has agreed the parameters of a new dividend policy, with the full support of shareholders, which has the following key features:

- Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants
- Payment of a proposed dividend should not impair the longer term financeability of the company’s business
- Assessment of the impact that payment of the dividend may have on all stakeholders including employees, pension members and customers

- Our financial performance, that underpins the opportunity to pay the dividend, is as a result of operational performance that meets the level required of a supplier of essential services
- If a net dividend is declared above Ofwat's 5% dividend yield guidance, applied to Ofwat's notional company, the Board will consider whether the additional returns result from performance (including progress towards degearing) that has benefited customers and may therefore be reasonably be applied to finance a dividend.

## 3. Appendices

## Appendix 1: Company presentation attendee biographies

Please include biographies for all company presentation attendees, including the Customer Challenge Group Chair (if attending). [Max 100 words per person]

### Ian Marchant, Chairman



Ian was appointed as an Independent Non-Executive Director on 1 December 2017, and became our Chairman on 26 January 2018 following Sir Peter Mason's retirement. Ian spent 21 years at SSE Plc, most recently as Chief Executive and prior to that as Finance Director, before his retirement in June 2013. Ian was an Independent Chairman of Maggie's Cancer Charity and, is currently Independent Chairman of John Wood Group plc, Chair of Nova Innovation Ltd and a Non-Executive Director of Aggreko plc. Through his company Dunelm Energy Limited, he advises and invests in start-up businesses. He is a visiting professor at Edinburgh and Durham University Business Schools and chairs the Strathclyde University CEP advisory Board. Ian is also the founder of the Scotland lights up Malawi Campaign for Climate Justice and was recently appointed Honorary President of the Royal Zoological Society of Scotland. Ian is the former Chairman, and founder of Scotland 2020 Climate Group, and served as the President of the Energy Institute and Chairman of the renewable energy Firm, Infinis.

### Steve Robertson, Chief Executive Officer



Steve became our CEO in September 2016, having previously held the position of Chief Executive Officer at Truphone, where he developed ground-breaking technology allowing it to become a disruptive player in the global market. Prior to joining Truphone, Steve served as CEO of BT Openreach from its inception in 2005 until 2010. He has gained extensive experience in the telecoms industry with a wide variety of roles in the BT Group and at COLT Telecommunications, including having responsibility for the overall performance and operation of the whole of BT's UK mainland telecommunications network, as Managing Director of Wholesale Operations.

**Kelly MacFarlane, Director, Customer Experience, Thames Water Utilities Ltd**



Kelly joined Thames Water in December 2016 and took up the role of Director, Customer Service and Retail in March 2017. In April 2018, following a business re-organisation, Kelly's role evolved to the Director of Customer Experience. Kelly is responsible for all customer interfaces at Thames Water, including leading our Wholesale Market Services division and has group wide responsibility for the design and delivery of our customer service and engagement strategies.

Kelly previously worked at Openreach, the infrastructure division of BT Group since 2008 and has significant experience managing customer service operations and infrastructure in regulated environments. She has a demonstrable track record of achieving strong operational results and service transformation having held a variety of key regulatory, commercial and operational roles at Deloitte, Tiscali and nPower.

**Lawrence Gosden, Chief Operating Officer, Thames Water Utilities Ltd**



Lawrence became Chief Operating Officer in April 2018, having previously held the role of Managing Director, Wastewater since June 2014 with responsibility for overhauling Thames Water's environmental, and customer service performance. He joined Thames Water in October 2007 to lead the delivery of the company's £1 billion annual capital programme, having previously held senior positions at Southern Water and South East Water. As

Chief Operating Officer, Lawrence oversees the efficient running of water and wastewater operations and is responsible for delivering safe wholesome drinking water and reducing leakage, then safely collecting wastewater and transforming it into renewable power and clean water recycled to our rivers. Lawrence is also responsible for ensuring that we protect the environment through proactive, preventative operations and the utilisation of technology to enable 'smart' system optimisation.



### **Anne Heal, Chair, Thames Water Customer Challenge Group**



Anne, Chair of the Thames Water Customer Challenge Group, is a board member of ORR, the rail and road regulator, a lay member of the General Dental Council, a board member of ELEXON and also a member of the Bank of England Enforcement Decision Making Committee. She was previously Director of Regulatory Affairs for BT Group, leading the regulatory negotiations that led to the creation of Openreach, where she then became MD, Strategy. Anne also chairs a charity, Volunteering Matters, and is a trustee of NCVO and Ballet Boyz and a director of the London Design and Engineering UTC.

## Appendix 2: Business plan executive summary

Please provide a copy (in file formats that can be opened in word) of the executive summary for your business plan.

This is our business plan for 2020–2025. It will deliver a major step towards making our vision – ‘**Here for you, in a changing world**’ – a reality. Our plan will deliver increased resilience, efficiency, transparency and innovation, while improving affordability. The creation of the plan has been led by our Board and Executive team and the outcomes are rooted in our most extensive ever programme of customer engagement and insight with nearly one million customers.

### 1.1 | Our vision

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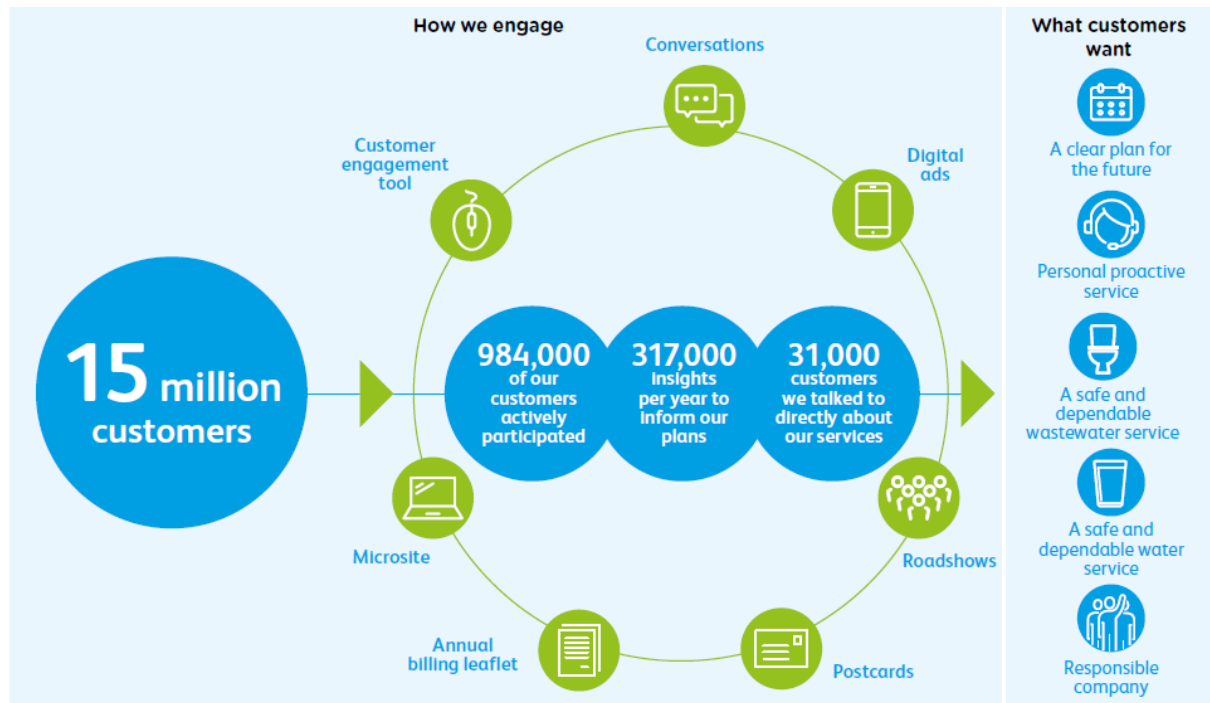
Our vision – *Here for you, in a changing world* – is our guiding principle – our “North Star”.

It means understanding our 15 million customers’ needs and devoting the resources and capability of our entire business, and that of our partners, to deliver for them – individually and collectively – now and as their needs evolve in the future.

**It is our job to ensure the service we provide – a service that is essential to society – is resilient to external pressures and always available to our customers, despite the challenges of an ever-changing world. It also needs to be provided at as low a cost to our customers as possible.**

We’ve talked to our customers to understand their needs, wants and preferences and spent time talking to all our employees to test our vision and understand what it means for us as a business and in our working lives as we serve our customers. This vision was shaped by our customers and the people who serve them, and we passionately believe in it. **This plan will deliver a step-change in making it a reality.**

## 1.2 | Our plan is built on the voice of our customers



## 1.3 | Our strategy

Recognising the importance not only of what we deliver, but the way we deliver it, our plan embeds characteristics into the fabric of our business which are essential to staying true to our vision. These defining characteristics are to be **open and transparent, efficient, fair, resilient and innovative** in everything we do.

Starting in 2017, the Board and Executive conducted a thorough review of our business, performance and strategic direction to understand what needed to change, and what should continue, to achieve our vision. This was informed by customer research and strategic analysis, together with learnings from both operational successes, including a reduction in pollutions and health and safety improvements, and when we failed to meet our goals, such as missing our leakage target, supply interruptions and information system failures.

The review resulted in two outputs:



Deliver brilliant customer engagement to create lifelong advocacy



Invest in resilient systems and assets



Protect and enhance the environment



Build a collaborative and capable team, dedicated to serving our customers



Use data from customers, operations and the environment to make better decisions

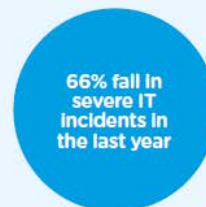
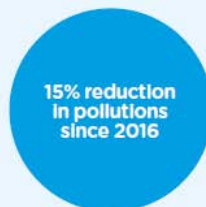
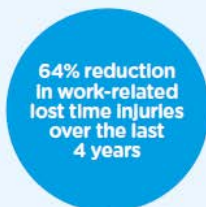
It identified four fundamental and immediate changes to underpin the delivery of our strategic priorities and **lay the foundations for the implementation of our plan for 2020–2025.**

- **Reset our investment plan** – significantly increasing spend by c.£560 million\* to improve performance and resilience and ensure a solid starting platform for our 2020–2025 plan.
- **Restructure our business** to ensure that we deliver the best customer outcomes as efficiently as possible.
- **Restructure our alliances** to ensure we have the right level of control to manage our water network and information systems effectively with our partners.
- **Strengthen our governance** to increase transparency and trust with our customers and stakeholders including a revised dividend policy.

\* Compared to our 5 year plan finalised and agreed with Ofwat in 2013/14.

This has resulted in immediate improvements in operational performance and addressed significant governance issues including executive incentives and the closure of our Cayman Islands entities.

#### Some of our successes



**1.4 | Delivering our vision: 2020–2025**

Our plan for 2020–2025 is driven by customer insight and has been shaped by our strategic priorities. It will deliver a major step towards making our vision a reality.

Based on extensive customer engagement we've worked hard to drive the right balance between affordability, efficiency, resilience, and returns to our investors. Our plan has been tested, refined and supported by our Board, with external shareholders supporting our decision to prioritise critical customer commitments.

“ Challenges which will continue through PR19 and into AMP7 include how Thames can take a more nuanced approach to customer segmentation, how the Priority Service Register Scheme is implemented and whether Thames can do more to engage customers in co-creation and participation.  
 CCG Response to Ofwat. ”

“ In summary... the CCG believes that Thames has run a very sound research and engagement programme and that it has listened to its customers. Thames now knows what its customers want and, overall, the plan now seems designed to deliver against its customers' wants and needs.  
 CCG Response to Ofwat. ”

**It will deliver:**

-  **Flat average bills** in real terms
-  **400,000** in customers on our **priority services register**
-  Supporting at least **200,000 families** who find it **hard to pay**
-  A focus across the whole company on creating **lifelong customer advocacy through deployment of company-wide net promoter system**
-  A **15% reduction in leakage** with a long term aspiration to reduce by 50%
-  An **18% reduction in pollutions with a long term aspiration to reduce to zero** (a 30% reduction by 2025 compared to EP Water Industry Strategic Environmental Requirements)
-  A long-term plan that delivers a **step-change in operational resilience**, supported by £2.1 billion of extra investment
-  Access to a **lead-pipe free water supply** to every primary school and nursery
-  A long-term plan to **insulate our region from the effects of drought** in partnership with other water companies and our customers
-  An increase in the financial resilience of our company – **reduce gearing to 76.2% and increase our 'equity buffer' to £4.7 billion**
-  An average **14.3% reduction in operational unit costs**
-  Green energy that could power the equivalent of **115,000 homes**

To support these outcomes, we plan a **modest external distribution of ~£20 million per annum** to our shareholders. These commitments are underpinned by an incentive scheme that puts up to **£481 million at risk if we don't deliver**.

### 1.5 | How much our plan costs and why it is efficient

To deliver these outcomes we will spend £11.7 billion between 2020 and 2025, which is offset by £343 million from Thames Tideway Tunnel land sales resulting in £11.35 billion of regulated expenditure (Totex). This includes:

- £5.0 billion in operating expenditure delivering an efficient and dependable water and waste water service.
- £3.3 billion in capital investment to ensure we maintain our existing assets and improve operational resilience.
- £3.3 billion investment in improving operational resilience and growth, and new obligations.
- £0.1 billion in depreciation for investment in IT specific to our customer services function.

We will spend this money on behalf of our customers so it is essential for us to be as efficient as possible and invest wisely. Throughout our planning process we have challenged ourselves to improve value for money and this has resulted in operating unit costs falling by 13.6% and capital efficiency improving. **Our benchmarks show that across much of our business we will be approaching frontier levels of efficiency by the end of this planning period.**

### Our Summary financials for 2020-25 period are:

All in £m (in nominal terms)	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Profit &amp; loss</b>					
Revenue	2,179	2,269	2,330	2,393	2,457
Operating costs	(1,787)	(1,851)	(1,885)	(1,929)	(1,987)
Operating profit	392	418	445	463	470
Other income (incl grants and contributions)	125	118	107	103	95
Interest expense	(526)	(557)	(571)	(596)	(637)
Profit before tax	(10)	(20)	(19)	(30)	(72)

## 1.6 | Assurance of our plan

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It is important to say at the outset that Thames Water is a very different company now to the one that existed when the PR19 exercise began: there has been change in the shareholders, the Chairman, Board, Chief Executive and senior management. The CCG has seen at first hand a demonstrable and genuine desire to listen to and deliver for customers and tackle issues around trust and confidence.

CCG Response to Ofwat.

”

We have subjected this plan to thorough internal and external scrutiny, with personal responsibility for the accuracy of the plan being taken by the Executive team.

A critical part of the process has been in-depth challenge by the Board as a whole, the relevant Board sub-committees and individual Board members. They have undertaken a series of deep dives, workshops, interrogations and participated in customer engagement, which have challenged the plan's ambition, deliverability, customer focus, innovation and efficiency at every stage of its development.

The balance between affordability, service, financial resilience and investor returns has been a particular area of focus to ensure the plan fully reflects the needs and wishes of our customers.

One of the most important elements of assurance has been our engagement with our CCG, which has made a significant contribution in the formation of our plan.

## 1.7 | In conclusion

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Thames Water has become a very different company over the last two years.

This plan marks a fundamental change in the way that Thames Water operates. In constructing this plan, we have taken a long-term view of the challenges that our region faces and what our response needs to be. Delivering this plan will redefine the relationship we have with our customers and make a significant step towards fulfilling our vision – **Here for you, in a changing world.**

## Appendix 3: CCG report executive summary

Please provide a copy (in file formats that can be opened in word) of the executive summary from the CCG report on your company.

The CCG welcomes the opportunity to answer the questions contained in Ofwat's Aide Memoire, and to set out its thinking and observations around Thames Water's business plan. In particular the CCG will focus on the quality of customer research and engagement that Thames has undertaken in recent years in order to shape its thinking and plans and how well it feels those plans have been translated into the final PR19 document.

It is important to say at the outset that Thames Water is a very different company now to the one which existed when the PR19 exercise began: there has been change in the shareholders, the Chairman, Board, Chief Executive, and senior management. The CCG has seen first-hand a demonstrable and genuine desire to listen to, and deliver for, customers and to tackle issues around trust and confidence. Thames's actions, for example, around dividends and movements in the debt/equity ratio seem authentic, the ambition to support vulnerable customers is also a step in the right direction and there appears to be a growing determination to innovate effectively in order to deliver its plans.

The CCG feels that Thames has run a thorough and highly professional research and engagement programme to help it prepare for PR19, which has been carried out over a sustained period. The CCG has been particularly impressed by the way that Thames has used the learning from its research programme and engagement activities in the current Asset Management Plan (AMP). Elements of the process that the CCG consider particularly worthy of note are its creation of a core document, What Customers Want, which Thames people have used as the source document for their planning processes; the use of a so-called "line of sight" document, which summarises how customer needs and wants are translated into costed business plans; and the development of an innovative interactive customer tool, which enables users to create baskets of wants within certain parameters, make trade-offs and shape their "water world". The scale and depth of the various customer engagement exercises are also to be commended.

As noted, Thames has demonstrated throughout the planning cycle that it is willing to listen to customers, and indeed the CCG, and evolve its plans accordingly. Areas where Thames has responded by increasing or stretching its targets include its approach to leakage in PR19 and its proposed lead pipe replacement programme.



Thames has also made some longer term promises around such topics as ceasing abstractions from chalk streams, halving leakage and zero pollution incidents which are to be welcomed.

That said, the CCG has challenged Thames on various elements of its research, its thinking and its planning over the last few years. The CCG has been heavily involved in the way that Thames has approached its customers, critiquing its thinking, its proposed materials and the methodologies used. The CCG has also given Thames feedback on how it has translated research findings into actions.

When considering the plan from a customer point of view, it is important to say that Thames asked its customers to set the threshold for the affordability and acceptability of the plan and that the 2020 - 2025 plan exceeded those boundaries. This is an important part of demonstrating that customers are committed to the plan that is being proposed.

The CCG continues to challenge Thames; this document lists some strategic challenges which are still outstanding, some challenges which the CCG believes will continue into PR19 and into AMP7 and finally a list of performance commitments where the CCG feels that Thames has not wholly followed the views of customers.

Challenges which fall into the first category include how Thames will reduce its leakage beyond the target it has set itself for AMP7, and whether customers would regard achieving 50% leakage reduction by 2050 as being too slow, whether flat targets can ever be considered stretching and the appropriateness of using an Net Promoter Score (NPS) measure to gauge the success of the Priority Register Scheme.

Challenges which will continue through the PR19 and into AMP7 include how Thames can take a more nuanced approach to customer segmentation, how the Priority Register Scheme is implemented and whether Thames can do more to engage customers in co-creation and participation.

Challenges which fall into the final category are largely around how well Thames has reflected the detail of customer feedback when it has created Performance Commitments and Outcome Delivery incentives. The CCG feels that this is an important part of listening to customers.

Of course, whether Thames delivers on its promises during the remainder of AMP6 and then into AMP7 remains to be seen. Thames serves a very large region, with

differing topology and a varied customer base and as a result, Thames inevitably faces very significant challenges.

In summary, though, the CCG believes that Thames has run a very sound research and engagement programme and that it has listened to its customers. Thames now knows what its customers want and, overall, the plan now seems designed to deliver against its customers' wants and needs.

## Appendix 4: Current operational performance

**Table 4.1: PR14 Performance Commitments**

Please indicate in the table below which PR14 performance commitments have been met and which have not been met over the PR14 period. This table is not for Service Incentive Mechanism (SIM) data, for which table 4.2 has been provided. For financial ODIs please also indicate total forecast outperformance payment or underperformance penalty for the PR14 period.

No.	ID (eg W-A1)	Performance commitment	2015-16  PCL met? <sup>5</sup>	2016-17  PCL met?	2017-18  PCL met?	2018-19  PCL met? (forecast)	2019-20  PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties)  £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
1	PR14TMSW SW_WA1	WA1: Improve handling of written complaints by increasing 1st time resolution	No	Yes	Yes	No	Yes	-	-

<sup>5</sup> **PCL met?** - if the performance commitment level (PCL) for the reporting year was met, or is forecast to be met, enter 'Yes'. If the PCL for the reporting year was not met, or is forecast not to be met, enter 'No'. If a PCL has not been set for the reporting year enter "-" (hyphen).

No.	ID (eg W-A1)	Performance commitment	2015-16  PCL met? <sup>5</sup>	2016-17  PCL met?	2017-18  PCL met?	2018-19  PCL met? (forecast)	2019-20  PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties)  £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
2	PR14TMSW SW_WA2	WA2: Number of written complaints per 10,000 connected properties	Yes	Yes	No	No	No	-	-
3	PR14TMSW SW_WA3	WA3: Customer satisfaction surveys (internal CSAT monitor)	Yes	Yes	No	No	No	-	-
4	PR14TMSW SW_WA4	WA4: Reduced water consumption from issuing water efficiency devices to customers	-	-	-	-	Yes	-	0.0000
5	PR14TMSW SW_WA5	WA5: Provide a free repair service for customers with a customer side leak outside of the property	Yes	Yes	Yes	Yes	Yes	-	-
6	PR14TMSW SW_WB1	WB1: Asset health water infrastructure	No	No	No	No	No	-14.0250	-9.3500
1	PR14TMSW SW_WB2	WB2: Asset health water non-infrastructure	Yes	Yes	Yes	Yes	Yes	0.0000	0.0000
8	PR14TMSW SW_WB3	WB3: Compliance with drinking water quality standards (MZC) - Ofwat/ DWI KPI	Yes	Yes	No	No	No	0.0000	0.0000
9	PR14TMSW SW_WB4	WB4: Properties experiencing chronic low pressure (DG2)	Yes	Yes	No	Yes	Yes	-	-
10	PR14TMSW SW_WB5	WB5: Average hours lost supply per property served, due to interruptions > 4 hours	Yes	Yes	No	Yes	Yes	-4.4200	0.0000
11	PR14TMSW SW_WB6	WB6: Security of Supply Index - Ofwat KPI	Yes	No	No	Yes	Yes	-9.0600	0.0000
12	PR14TMSW SW_WB7	WB7: Compliance with SEMD advice notes (with or without derogation)	-	-	-	-	Yes	-	0.0000

No.	ID (eg W-A1)	Performance commitment	2015-16  PCL met? <sup>5</sup>	2016-17  PCL met?	2017-18  PCL met?	2018-19  PCL met? (forecast)	2019-20  PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
13	PR14TMSW SW_WB8	WB8: MI/d of sites made resilient to future extreme rainfall events	-	-	-	-	Yes	-	0.0000
14	PR14TMSW SW_WC1	WC1: Greenhouse gas emissions from water operations	No	Yes	Yes	Yes	Yes	-	-
15	PR14TMSW SW_WC2	WC2: Leakage	Yes	No	No	No	Yes	-21.6000	-27.0000
16	PR14TMSW SW_WC3	WC3: Abstraction Incentive Mechanism (AIM)	-	Yes	Yes	Yes	Yes	-	-
17	PR14TMSW SW_WC4	WC4: We will educate our existing and future customers	Yes	Yes	Yes	Yes	Yes	-	-
18	PR14TMSW SW_WC5	WC5: Deliver 100% of agreed measures to meet new environmental regulations	-	-	-	-	Yes	-	0.0000
19	PR14TMSW SW_WD1	WD1: Energy imported less energy exported	No	No	No	No	Yes	-	-
20	PR14TMSW SWW_SA1	SA1: Improve handling of written complaints by increasing first time resolution	No	No	No	No	Yes	-	-
21	PR14TMSW SWW_SA2	SA2: Number of written complaints per 10,000 connected properties	Yes	Yes	Yes	Yes	Yes	-	-
22	PR14TMSW SWW_SA3	SA3: Customer satisfaction surveys (internal CSAT monitor)	No	No	No	No	No	-	-
23	PR14TMSW SWW_SB1	SB1: Asset health wastewater non-infrastructure	Yes	Yes	Yes	Yes	Yes	0.0000	0.0000

No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>5</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
24	PR14TMSW SWW_SB2	SB2: Asset health wastewater infrastructure	Yes	Yes	Yes	Yes	Yes	0.0000	0.0000
25	PR14TMSW SWW_SB3	SB3: Properties protected from flooding due to rainfall (including Counters Creek project) <sup>6</sup>	-	-	-	-	Yes	-	-
26	PR14TMSW SWW_SB4	SB4: Number of internal flooding incidents, excluding those due to overloaded sewers (SFOC)	No	No	Yes	Yes	Yes	-10.8850	4.9500
27	PR14TMSW	SB5: Contributing area disconnected from combined sewers by	-	-	-	-	Yes	-	0.0000

<sup>6</sup> 'We are delivering an alternative approach that will provide at-risk properties with greater localised protection, sooner, and for a lower cost than could be delivered by a strategic sewer. We believe, therefore, that there should be no ODI penalty. We do recognise, however, that as a result of our alternative solution we will save a considerable amount of money (£124.1m).' Half of this underspend will be automatically returned to customers at the end of this AMP through the totex sharing mechanism and assuming we will be able to agree with Ofwat that no ODI penalty applies, we propose to return the remainder of the underspend to customers at the end of this AMP. We think this is the right thing to do, as our change in approach is due to better information about flooding in the Counters Creek catchment. We will suggest a mechanism for implementing this solution in our ODI amendment proposal to Ofwat, which we will submit later this year. The forecast underspend is based on the amount we have spent since 2015 and our project forecasts for 2018/19 and 2019/20, compared to the final determination baseline for Counters Creek.

No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>5</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
	SWW_SB5	retrofitting sustainable drainage							
28	PR14TMSW SWW_SB6	SB6: Compliance with SEMD advice notes (with or without derogation)	-	-	-	-	Yes	-	0.0000
29	PR14TMSW SWW_SB7	SB7: Population equivalent of sites made resilient to future extreme rainfall events	-	-	-	-	Yes	-	0.0000
30	PR14TMSW SWW_SB8	SB8: Lee Tunnel including Shaft G	Yes	-	-	Yes	Yes	0.0000	0.0000
31	PR14TMSW SWW_SB9	SB9: Deephams Wastewater Treatment Works	-	Yes	-	Yes	Yes	0.0000	0.0000
32	PR14TMSW SWW_SC1	SC1: Greenhouse gas emissions from wastewater operations	No	Yes	Yes	Yes	Yes	-	-
33	PR14TMSW SWW_SC2	SC2: Total category 1-3 pollution incidents from sewage related premises	Yes	Yes	Yes	Yes	Yes	0.0000	0.0000
34	PR14TMSW SWW_SC3	SC3: Sewage treatment works discharge compliance	No	No	No	No	No	-2.3070	-1.1535
35	PR14TMSW SWW_SC4	SC4: Water bodies improved or protected from deterioration as a result of Thames Water's activities	-	-	-	-	No	-	-
36	PR14TMSW SWW_SC5	SC5: Satisfactory sludge disposal compliance	Yes	Yes	Yes	Yes	Yes	-	-
37	PR14TMSW SWW_SC6	SC6: We will educate our existing and future customers	Yes	Yes	Yes	Yes	Yes	-	-

No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>5</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
38	PR14TMSW SWW_SC7	SC7: Modelled reduction in properties affected by odour	Yes	Yes	Yes	Yes	Yes	0.1571	0.1008
39	PR14TMSW SWW_SC8	SC8: Deliver 100% of agreed measures to meet new environmental regulations	-	-	-	-	Yes	-	0.0000
40	PR14TMSW SWW_SC9	SC9: Reduce the amount of phosphorus entering rivers to help improve aquatic plant and wildlife	-	-	-	-	Yes	-	0.0000
41	PR14TMSW SWW_SD1	SD1: Energy imported less energy exported	No	No	No	No	No	-	-
42	PR14TMSTT T_T1A	T1A: Successful procurement of the Infrastructure Provider (IP)	Yes	-	-	Yes	Yes	-	-
43	PR14TMSTT T_T1B	T1B: Thames Water will fulfil its land related commitments in line with the TTT programme requirements	Yes	Yes	Yes	Yes	Yes	-	-
44	PR14TMSTT T_T1C	T1C: Completion of category 2 and 3 construction works and timely availability of sites to the IP	Yes	Yes	Yes	Yes	Yes	0.0000	0.0000
45	PR14TMSTT T_T2	T2: Thames Water will engage effectively with the IP, and other stakeholders, both in terms of integration and assurance	-	Yes	Yes	Yes	Yes	-	-
46	PR14TMSTT T_T3	T3: Thames Water will engage with its customers to build understanding of the TTT project. Thames Water will liaise with the IP on its surveys of local communities impacted by construction	-	No	No	No	No	-	-
47	PR14TMSH HR_RA1	RA1: Minimise the number of written complaints received from customers (relating to charging and billing)	Yes	No	Yes	No	Yes	-	-
48	PR14TMSH	RA2: Improve handling of written complaints by increasing first time	No	No	Yes	Yes	Yes	-	-



No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>5</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
	HR_RA2	resolution - charging and billing							
49	PR14TMSH HR_RA3	RA3: Improve customer satisfaction of retail customers - charging and billing service	Yes	Yes	Yes	Yes	Yes	-	-
50	PR14TMSH HR_RA4	RA4: Improve customer satisfaction of retail customers - operations contact centre	No	No	No	No	No	-	-
51	PR14TMSH HR_RA5	RA5: Increase the number of bills based on actual meter reads (in cycle)	No	Yes	Yes	Yes	Yes	-	-
52	PR14TMSH HR_RA6	RA6: Service incentive mechanism (SIM)	No	No	-	-	-	-	-
53	PR14TMSH HR_RB1	RB1: Implement new online account management for customers supported by web-chat	Yes	Yes	Yes	Yes	Yes	-	0.0000
54	PR14TMSH HR_RC1	RC1: Increase the number of customers on payment plans (excluding Thames Tideway Tunnel)	Yes	Yes	Yes	Yes	Yes	-	-
55	PR14TMSH HR_RC2	RC2: Increase cash collection rates (excluding Thames Tideway Tunnel)	No	No	No	Yes	No	-	-
<b>Total cumulative financial ODI</b>								<b>-62.1399</b>	<b>-32.4527</b>

**Table 4.2: PR14 Service Incentive Mechanism (SIM) Performance**

<b>SIM Performance</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
Total annual SIM score (out of 100)	77	77	78

## Appendix 5: PR19 proposed performance commitments

**Table 5.1: Common Performance Commitments**

No.	Common performance commitment <sup>7</sup>	ID (eg W-A1)	2019-20 forecast performance level <i>(where relevant)</i>	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change <i>(leakage and PCC PCs)</i>
1	<b>Water quality compliance</b> – the DWI’s Compliance Risk Index (CRI), a score greater than or equal to zero, where zero is least risk	BW06	6.58	0.00	Under	In-period	
2	<b>Water supply interruptions</b> – average supply interruption greater than 3 hours (minutes per property)	BW03	00:10:35	00:09:59	Out & under	In-period	
3	<b>Mains bursts</b> – number of water mains bursts per 1,000 kilometres of total length of mains	BW01	281	281	Out & under	In-period	

<sup>7</sup> This table includes all PR19 common performance commitments with the exception of C-Mex and D-Mex, as the design of these is different.

No.	Common performance commitment <sup>7</sup>	ID (eg W-A1)	2019-20 forecast performance level <small>(where relevant)</small>	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change <small>(leakage and PCC PCs)</small>
4	<b>Unplanned outage</b> – proportion of unplanned outage of the total company production capacity (%)	BW02 <sup>8</sup>	18.0	17.0	Out & under	In-period	
5	<b>Leakage</b> – megalitres per day (M/d), three-year average	BW04	690	568	Out & under	In-period	-17.68%
6	<b>Per capita consumption</b> – average amount of water used by each person that lives in a household property (litres per person per day), three-year average	BW05	142	136	Out & under	In-period	-4.23%
7	<b>Risk of severe restrictions in a drought</b> – percentage of the population the company serves that would experience severe supply restrictions (e.g. standpipes)	DW01	77.10	76.90	NFI		

<sup>8</sup> The numbers provided have been prepared on the same basis as the APR table 3S shadow reporting). We are currently unable to fully comply with the reporting definition as we cannot distinguish between our historic planned and unplanned outage records. This is because our management focus has historically been on the impact of outages on deployable output. We have decided that that, for the purposes setting targets for AMP7, we should continue to follow the shadow reporting methodology as closely as possible and only set targets based on the auditable data that we have available. Our targets therefore currently include both planned and unplanned outage, which means that our targets are higher than other companies.

No.	Common performance commitment <sup>7</sup>	ID (eg W-A1)	2019-20 forecast performance level <small>(where relevant)</small>	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change <small>(leakage and PCC PCs)</small>
	or rota cuts) in a 1-in-200 year drought						
8	<b>Treatment works compliance</b> – % compliance with environmental permits at water and wastewater treatment works (EA’s Environmental Performance Assessment definition)	CS01	99.2	100.0	Under	In-period	
9	<b>Internal sewer flooding</b> – number of incidents per year (sewerage companies only)	CS03 <sup>9</sup>	1244	1052	Out & under	In-period	
10	<b>Sewer collapses</b> – number per 1,000 kilometres of sewer (sewerage companies only)	CS02	4.0	4.0	Out & under	In-period	

<sup>9</sup> As per Ofwat query 615 we have used absolute numbers for CS03 as it is clearer for customers. The normalised equivalent for 2019/20 is 2.13 and for 2024/25 is 1.80

No.	Common performance commitment <sup>7</sup>	ID (eg W-A1)	2019-20 forecast performance level <i>(where relevant)</i>	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change <i>(leakage and PCC PCs)</i>
11	<b>Pollution incidents</b> – category 1-3 pollution incidents per 1,000km of sewerage network, as reported to the Environment Agency and Natural Resources Wales (sewerage companies only)	ES01	28	23	Out & under	In-period	
12	<b>Risk of sewer flooding in a storm</b> – percentage of population at risk of sewer flooding in a 1-in-50 year storm (sewerage companies only)	DS01	10.25	9.90	NFI		

## Appendix 6: Expenditure

**Table 6.1: Totex<sup>10</sup>**

Total expenditure	Price Base	PR14 final determination 2015-2020	Proposed for PR19 2020-2025
Water network plus (£m)	2017-18 FYA (CPIH deflated)	3726.496	5063.19233
Water resources (£m)	2017-18 FYA (CPIH deflated)		595.012
Wastewater network plus (£m)	2017-18 FYA (CPIH deflated)	4199.386	4309.236
Bio resources (£m)	2017-18 FYA (CPIH deflated)		687.932
Residential retail costs (£m)	Outturn (nominal prices)	769.433	832.212

<sup>10</sup> Our PR19 expenditure proposal of £11.5bn (excluding the TTT price control) is £2.8bn higher than the equivalent PR14 final determination of £8.7bn. The principal drivers being an additional £0.6bn wholesale expenditure required to embed a sustainable level of operational performance in AMP6, together with the impact of an additional £2.1bn investment to deliver a step-change in the level of resilience in AMP7.

**Table 6.2: Direct Procurement for Customers (DPC) proposals**

No.	Project name	Total project cost (£m) 2019-20 to 2049-50 2017-18 FYA (CPIH deflated)
1	Abingdon Reservoir <sup>11</sup>	314.910
2	Deephams Re-Use	21.240

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<sup>11</sup> This has been populated on the basis of our revised draft Water Resource Management Plan as at the time of financial modelling on 10th July. Since that date minor changes have occurred to our Water Resource Management Plan, which are still subject to public re-consultation. One of these changes is the alignment with Affinity Water on the need for a reservoir from 2037 for the South East. This has moved our assumed start date forward one year from 2038 and it is assumed that costs with Affinity will be shared 1/3<sup>rd</sup> (Affinity), 2/3<sup>rd</sup> (Thames Water). We have modelled the impact of aligning the data to the new timescales and do not believe that the impact is material for the purposes of our DPC project evaluation – technically or on a value for money basis.



## Appendix 7: Trust, confidence and assurance

Please explain how the company's full Board has demonstrated that its governance and assurance **processes will deliver operational, financial and corporate resilience** over the next control period and the long term.

Please explain how the company's full Board has assured themselves that the business plan will enable trust and confidence, including how the company's Board has taken account of the decisions Ofwat set out in its decisions for **PR19 business plans to [put the sector in balance](#)**.

The Board has recently undertaken a comprehensive review of its governance to ensure it is set up in the best way to make sure the company delivers for our customers and that our governance is transparent and 'best in class'. We have reviewed our corporate strategy, supply partnerships and brand purpose. We finalised our "One Thames" restructure of the business to increase focus on delivering great end-to-end service for our customers. We have also adjusted where we focus our supply chain partners to get the most out of their strengths. This provides the foundations for robust governance and assurance ensuring that we deliver operational, financial and corporate resilience.

The Board was clear at the outset of the planning process that assurance needed to be an integral and embedded part of the process and that effective ownership and assurance by the Board of the business plan would be key to ensuring that it will deliver what customers and stakeholders expect.

The Board has had full ownership of the plan development and its assurance, by:

- engaging with the outcomes of the customer research;
- taking full ownership of the company's corporate strategy and its execution, including a strong focus on resilience;
- developing a sound corporate governance structure, including changes to improve compliance with best practice Board leadership, transparency and governance principles;
- participating in a schedule of in-depth engagement with the company's Executive team that went well beyond the business as usual frequency of Board meetings;

- taking full ownership of the assurance approach and assurance plan for the submission. This included making sure that learnings from past shortcomings in the quality of our submissions are applied and challenging the Executive team to ensure shortcomings identified in the assurance process were addressed, commissioning additional independent external assurance where appropriate.

The Board fully understands that increasing resilience is a key objective for customers and so we have developed an investment package of resilience measures totalling £2.1bn that addresses the challenges and increased volatility that both water and waste services will face in the years ahead.

We have also put together a financial package that increases our equity buffer by £2.1bn over AMP7 mainly through dividend restraint. We have put a clear dividend and remuneration policy in place and taken a long term view on financial resilience. This package has the clear support of our customers and enhances our credit metrics over the next five years.