

January 2017

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# Response to Ofwat's consultation on outcomes

*The Thames Water Customer Challenge Group's response to Ofwat's consultation on the outcomes framework for PR19*

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[ccg@thameswater.co.uk](mailto:ccg@thameswater.co.uk)

## **The Thames Water Customer Challenge Group's response to Ofwat's consultation on the outcomes framework for PR19**

The Thames Water Customer Challenge Group (CCG) is pleased to have the opportunity to outline our thinking on these important topic areas. Setting the framework for outcomes is a critical part of the PR19 process and early and open discussion of these key issues is helpful. The Customer Challenge Group would observe that there is a recurring theme emerging throughout our responses to these questions, namely the importance of transparency, clear communication and precisely and well- articulated commitments and measures. Getting this right is key and the CCG is pleased that Ofwat's commentary suggests it recognises this crucial issue.

These responses represent the views of the Thames Water CCG.

### **Q1. What is your view on the use of improved information, including comparative performance information, to make performance commitments more stretching?**

The Thames Water CCG firmly believes that improved use of information by companies, customers and CCGs is essential if customers are to receive the best service in the long run. Having better information – and, crucially, better comparative information - is core to companies making more informed decisions; it can help customers guide companies better during the planning process and it can enable CCGs to challenge more effectively both during the planning cycle and once the new cycle is underway. However, as a CCG who has listened to customers we do recognise that customers do not always demand comparative information, not least because they have no choice in their supplier. Some do find it particularly useful though and yet others feel that year on year comparisons on a company by company basis are of more relevance. This suggests to us that one size emphatically does not fit all in customer terms and that the ability to see comparative data articulated in a number of ways (company by company, over years etc) is of real value so that customers (and indeed CCGs) can mine a rich seam of data as they wish. The Thames Water CCG therefore particularly

welcomes the introduction of the Discover Water website; it hopes that companies will embrace this wholeheartedly and support it and also that Water UK should be encouraged to promote it as widely as possible (eg through social media) to demonstrate that increasingly useful data is now available.

That said, the Thames Water CCG recognises that comparative data can be misleading and confusing if not carefully handled, and that – at worst – it may give companies the opportunity to hide behind regionally driven excuses. Any movement towards genuinely comparable statistics is therefore especially welcomed. A proliferation of data – even useful comparative data – is not helpful either, so the CCG welcomes, too, the suggestion of a few key metrics (see below Q.2).

**Q2. What is your view on the common performance commitments we are suggesting for PR19?**

It is hugely encouraging to see that Ofwat are seeking to make this a much clearer process for customers and that they are therefore proposing a few key measures that should be a point of focus. However, 10 measures still seems to the Thames Water CCG to be a long list in customer terms. If a way could be found to reduce the number of measures and articulate them in customer friendly language that would be a further helpful step. One suggestion might be to combine the asset health measures in some way, not least because the distinction between a pipe burst and a sewer collapse may not be totally relevant to customers. Another might be to remove the abstraction incentive mechanism, which is clearly a very important measure but which may not have the same relevance at this level of communication; Ofwat itself already seems to feel it would be challenging to find a comparable measure. The Thames Water CCG further assumes that Ofwat (or CCWater) will be undertaking customer research to ensure that the measures that are selected are the ones that really matter to customers and that the commitments and explanations surrounding them are articulated in customer friendly language and are consistently expressed. They should also use the opportunity to explore these issues with future customers.

We will discuss below the new customer experience measure and also the leakage measure in more detail. These and the other measures proposed appear to us to address customer concerns that we have observed; we are pleased with the idea of the new resilience measure as research we have seen suggests getting resilience

right is an increasing concern to customers, especially if thinking beyond the 5 year window.

Having said that the process would benefit from fewer measures, the Thames Water CCG would observe that the particular topic of so-called vulnerable customers (and affordability) should be somewhere in this list of key metrics. Ofwat might want to consider whether some overarching targets in this important area can be embedded in the customer experience measure in some way.

### **Q3. What is your view on how we might apply comparative assessments at PR19?**

One approach which Ofwat might wish to consider is setting fully comparable (yet still challenging) measures across all water companies. Water companies could then have additional genuinely stretching ODI targets which would be bespoke for each company depending on their particular circumstances, including, of course feedback from their customers. These stretch targets could be incentivised as part of the ODI process and would contribute to (indeed probably would be the mechanism that could potentially deliver) the “frontier shift” which Ofwat describes in its document. This would overcome the arithmetic impossibility (and demotivating challenge) of all water companies striving to be “upper quartile” but would give each company the chance to make some real contributions in terms of important changes in customer service. Each commitment will almost certainly need a different and appropriate metric; some will need to be driven by performance against history, some will be more forward looking. One important part of this is ensuring that companies are given enough flexibility to deliver the commitment in their own way. This is not easy to do, but getting this framework right is essential – Ofwat has rightly remarked on the way that incentive structures in PR14 have already begun to deliver change for customers and this is to be commended. But it does mean that the targets have to be “right”.

### **Q4. To what extent do you agree with our proposed approach to leakage performance commitments to PR19?**

Leakage is perhaps the single issue where the Thames Water CCG has observed the most concern and passion from customers. Customers are rightly perturbed that while major investment programmes are proposed to manage water

resources and plan for demand issues, leakage continues at levels which they intuitively find unacceptable. That said, customers take an apparently reasonable view and recognise that the existing infrastructure is in many cases ageing and increasingly not fit for purpose and that special efforts may be needed to tackle this issue. However, it is very important that measures are used that are clear and unambiguous. We do recognise that this is a sensitive area for water companies, where comparisons may not feel “fair” given the different prevailing circumstances, however, the CCG feels strongly that measures such as leakage per property per day or leakage per kilometre of mains pipe are the clearest and most customer friendly available. It may be that there are additional metrics used but clear and simple measures should be at the heart of the commitment process. Using a measure such as the Sustainable Economic Level of Leakage which combines a forward view on efficiency undoubtedly has some merit but is not especially customer friendly and should probably only be used in combination with other metrics. The CCG would also observe that not all leakage is related to ageing infrastructure but that other factors such as geology may come into play and this needs to be recognised also when creating performance commitments.

On a linked note the CCG feels very strongly that there should be a much greater focus given to wider ranging demand management initiatives that go well beyond education and smart metering and which deliver lasting behavioural change. That said, the CCG would like to reiterate the importance it places on the potential effectiveness of metering (both smart and otherwise) in this process. Only a combination of leakage management and strong demand management will enable challenging targets to be met in the coming years.

**Q5. What factors should we take into account in our guidance on setting performance levels for bespoke performance commitments at PR19?**

The Thames Water CCG broadly welcomes Ofwat’s thinking in this area especially the emphasis on customer engagement to shape the commitment and also the greater transparency that is implied. The CCG agrees that greater clarity around marginal costing can only be of value to the process. The importance of ensuring that companies recognise the issues around affordability – but do not hide behind it - is a point well made. Again, ensuring that the commitment can be clearly described measured and monitored is critical.

**Q6. What is your view on our development of a new customer experience measure for PR19?**

The Thames Water CCG would agree that it is timely to consider a new customer experience measure building on the learning to date with SIM. The opportunity for a more nuanced set of metrics which recognises evolving channels of communication is not to be missed. The CCG would consider that the measure should go somewhat beyond basic customer service, including some sort of thinking about other areas so that the full range of experience is measured, even when customers have not been in dialogue with their water company. The idea that some sort of trust measure should be included is an attractive one. The CCG considers that loyalty is not a relevant metric; customers would find this puzzling given that they have no choice in their supplier. The CCG feels that a combination of measurement metrics would be appropriate in order to get a more rounded perspective on what customers feel. So might the use of technology to see how people are feeling about their water company and their experience at particular points. The CCG would expect that out of sector experience would be used to inform and challenge companies, but a direct comparison measure does not feel appropriate to the CCG at this point.

The CCG believes that it will be important to distinguish between the retail and wholesale experience and that this should be factored into the measure.

Complaints should remain a useful indicator of performance, although how people make contact via social media should also be factored into this thinking as ways of communicating between company and customer evolve.

Some form of recognition of vulnerable customers should be included, although perhaps as a separate measure. This should include service and affordability perceptions.

The CCG would also agree that other segments such as developers and retailers should be included also, perhaps on a similar basis to the vulnerable customer group.

The Thames Water CCG looks forward to further debate on this crucial topic.

**Q7. What is your view on the options for increasing the power of reputational and financial ODIs at PR19?**

Incentivisation undoubtedly changes and shapes corporate behaviour and what has happened thus far within PR14 suggests that this is true for the water sector. The Thames Water CCG believes that there is a case for both reputational and financial ODIs. Customer feedback that we have seen, however, suggests that customers do not always understand ODIs and how they are constructed and also feel a certain degree of concern that they are paying for companies doing their day job. Explaining ODIs and only using incentivised DIs to deliver genuinely incremental service has to be key. The Discover Water website will play an important part in this.

Research that we have seen also suggests that customers might not value the uncertainty of in period changes (increases). We have not seen research which says whether customers would value in period reductions.

**Q8. What is your view on our proposals for better reflecting resilience within the outcomes framework?**

Customers expect that water companies will consider resilience and related issues as part of their planning process. They also, in the experience of the Thames Water CCG, recognise that planning and delivering resilience may well go beyond the 5 or 10 year time horizon. So Ofwat's comments in this area are to be welcomed. Finding ways to embed resilience across the performance framework seems to be a sensible next step; perhaps of even more importance however is the suggestion of a more "joined up" approach across a number of agencies and players. This is very much to be encouraged. The CCG believes that good customer engagement in this area will be of immense benefit in creating plans which more properly address risk and seek to understand customer appetite and willingness to pay for some critical investments. It also urges companies to ensure that their resilience and other planning recognises the importance of investing in long term asset health and feels that this is an essential part of ensuring a successful outcome for customers.

**Q9. What is your view on the options and our preferred approach to asset health outcomes?**

Ofwat's approach seems to the Thames Water CCG to be driven by a determination to bring greater transparency in this area. The combination of greater transparency and a few key measures should enable customers, stakeholders and CCGs to challenge more effectively. The Thames Water CCG

would, at this point, be in favour of a partial standardisation approach which enabled some sort of shared standard to be created but also left room for companies to tackle asset health issues that were particular to their region. The question of ODI rewards is perhaps a little less obvious. Customers seem to think that there are certain things that companies should do as part of “the day job”. Getting asset health right is to an extent one of them. However, if a case can be made to customers that some asset health investment would lead to a materially better customer experience some sort of ODI might be appropriate.

**Q 10. To what extent do you agree with our proposals for making performance commitments more transparent to customers?**

As may be obvious from previous answers, the Thames Water CCG considers that greater transparency with regard to performance commitments can only be a good thing, especially when considering reputational incentives. The principle that performance commitments should be clear, unambiguous, complete and precise can only be applauded. Too many performance commitments can only make effective monitoring and delivery of those commitments less clear. The Thames Water CCG would agree, also, that there should be an improvement in clarity around the articulation of sub- measures also.

However, while having clear commitments is one thing, communicating them is also important. The Thames Water CCG welcomes the suggestion that water companies should explain how they plan to communicate performance information to customers, stakeholders and CCG ensuring that they reach the widest range of customers through the creative use of all effective channels. The CCG considers that there is a much greater role for online communication. There is also an important role for the Discover Water website here.

The Thames Water CCG is keen that learning from the experience of PR14 should be taken into account when planning for the future and would suggest that companies should perhaps be required in their response to Ofwat to say how successful their communications with customers have been in this regard.

The CCG believes that there is real room for some scheme specific performance commitments and agrees broadly with the justifications Ofwat put forward. However, the CCG believes that it is not possible to be fully prescriptive in this regard, given that these will be schemes that are put forward for arguably good reasons. Describing the outcomes effectively will be key, though and it is likely

that there will be a recognition that the scheme either takes longer than a plan period to deliver or has intergenerational benefits. In these schemes, clarity of articulation and an avoidance of over complex sub measures are of particular importance. And, crucially, these schemes should be discussed with customers as part of the research process to ensure that they really are valued.

The Thames Water CCG would make a further observation, which is that customers would also like greater transparency about the returns that shareholders are making as well as how much the companies and shareholders are investing themselves in resilience and such areas as social tariffs; this is an topic which comes up at research groups, but also we are aware of it as an issue through other channels such as letters to the Mayor of London. This is an important area of transparency for customers and we feel would bear further examination.

Thames Water Customer Challenge Group

January 2017

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

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