



Outcomes consultation

Water 2020

Ofwat

Centre City Tower

7 Hill Street

Birmingham B5 4UA

30 January 2017

Dear Sir or Madam,

**Ofwat consultation on the outcomes framework for PR19**

We welcome the opportunity to respond to Ofwat's proposals in relation to the outcomes framework to be applied from 2020. While Tideway is not directly impacted by these proposals, we believe that appropriate 2020-25 performance commitments and incentives for Thames Water Utilities Ltd (TWUL) can make a significant contribution to the success of the Thames Tideway Tunnel scheme. As such, we have provided a targeted response to the consultation.

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

Since Tideway's licence award in August 2015, Tideway and TWUL have built up a strong track record of collaborating in order to promote high performance by both companies in their work on the Thames Tideway Tunnel. In particular, we have gained experience of negotiating effective incentives with TWUL through discussions leading to our Alliance Agreement, to which TWUL has responded well. We are keen to use this experience to help TWUL develop performance commitments that affect the Thames Tideway Tunnel, and believe that our inclusion in the process can help to ensure that TWUL's targets are both relevant and appropriately stretching. To this end, we have already started discussing with TWUL how Tideway can best be involved in the outcome setting work.

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More broadly, we believe that close involvement of a range of stakeholders in the outcomes setting process can help to drive stretching, targeted performance commitments and incentives more effectively than customer engagement alone. We see a potential role for customer challenge groups in managing the involvement of these diverse stakeholders, helping to ensure that all relevant stakeholder groups are involved in the discussions and that the weight given to their contributions reflects the degree to which their interests are aligned with those of customers.

In order to incentivise companies to carry out this type of engagement, we consider that it should be an important element of Ofwat's review of companies' business plans. The review could for example consider whether the following criteria have been met:

- Companies have achieved strong engagement with all relevant stakeholder groups;
- Evidence is provided to demonstrate that the proposed outcomes reflect this engagement;
- Customer challenge groups have been fully involved in this process, and confirm that they believe a high quality and effective engagement process has been followed; and
- The resulting performance commitments and incentives are appropriately stretching and targeted.

We would be happy to discuss these ideas at any time.

Yours faithfully

A handwritten signature in black ink that reads "Matt Parr". The signature is written in a cursive, slightly slanted style.

Matt Parr

Head of Strategy and Regulation