



PR19 Methodology consultation response

Strategy & Regulation

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Dear David,

PR19 METHODOLOGY CONSULTATION

Thank you for the opportunity to respond to the consultation. We welcome the clarity that your proposed methodology for the 2019 price review provides on Ofwat's intended approach, and note the many innovative features proposed.

For ease of reference, we provide a summary of our key points below, which we would welcome the opportunity to discuss further with Ofwat as it develops the PR19 methodology and have provided detailed responses to the consultation questions in the consultation template.

Overall

We commend Ofwat's detailed engagement with the sector to inform and shape its proposals; the various working groups, for example, gave companies a valuable opportunity to contribute on a range of detailed issues and Ofwat built on feedback they gave. Whilst there is still work to be done to refine the proposed methodology, we will support Ofwat however we can, to help ensure that our customers are provided with great service and allow us to continue to innovate within a framework that encourages long term investment and balances risks and rewards appropriately.

Ofwat has set out a coherent framework that looks to incentivise companies to provide the high quality services that our customers rightly expect. We fully support that objective, and we have already embraced the strong focus on innovation and ambition, which has a common cadence with our company vision of "*Here for You: Innovating for Life in a Changing Environment*" and the principles set out by our CEO in his letter to Cathryn Ross on 24 March 2017, that we will be applying to running the business:

- listening to our customers, understanding their needs and putting those needs in the centre of our decision making;
- ensuring that our assets are maintained, renewed and optimised to give the very best whole life outcomes;
- operating our business with optimal efficiency and innovating continuously; and
- being crystal clear in all our activities, both internal and external, that we are responsible for the service we give our customers and the health and wellbeing of our assets.

For example, we are already engaged in cross-industry work in collaboration with UK Power Networks to identify customers in vulnerable situations and use innovative in-home customer engagement to promote our Priority Services and share data between our two sectors. This has the potential to benefit thousands of water and energy customers, at any stage in their lives when they may find themselves in a vulnerable situation. This project is just one item in an action plan to enhance the quality and quantity of services to customers experiencing vulnerable circumstances. To help this journey, we are starting an independent assessment and accreditation approach with the British Standards Institute and their accreditation could be used as a performance measure. We are also piloting an innovative approach to using non-financial incentives, linked to smart water meter data, to encourage enhanced water efficiency behaviours.

Customer Engagement and Customer Acceptability

This is a key element of our operating principles and we endorse Ofwat's emphasis on customer engagement and the seven principles of good customer engagement. We have been consulting with our customers continuously throughout the current price control period and have recently completed the second stage of an extensive conversation with customers entitled "Your Water Future". We spoke individually with thousands of our customers and stakeholders, across 57 days' of roadshows in a range of settings, from village fetes to targeted engagement forums. We used a range of techniques, including our bespoke, gamified, customer engagement tool available both online and via a physical interface that allows customers to see the potential impact of their service choices on their "Water World". Their views on our services, and willingness to pay, will be at the heart of our business plan. We look forward to sharing more detail of our customer engagement approach at the suggested meetings with you in January-March 2018.

Extensive engagement with our customers has given us great insight into their priorities and how acceptable they find our bills. We observe that understanding customer acceptability of their bill is a complex and ongoing process. We note that in the data tables (Table APP1) customer acceptability is currently quantified using only a single parameter. We think it would be more in line with Ofwat's ethos of continual customer engagement to adopt a more qualitative approach, with a broader elaboration of how companies have assessed customer acceptability included within the business plan.

Stretching Performance Commitments

We agree with Ofwat's aim of setting stretching performance targets. It will be important that the regulatory framework provides appropriate incentives, such that companies are able to innovate and invest efficiently for the long-term, so that customers obtain improved services with affordable bills. We provide comments on the proposals in response to the detailed questions, which we hope you will find helpful. For example, we consider that the sewerage capacity metric, developed by the 21st Century Drainage Programme, could be considered as a wastewater flooding resilience measure. We would be very happy to work with Ofwat in delivering its final methodology in this area.

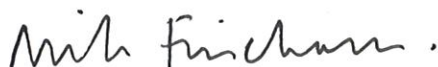
Direct Procurement for Customers

Ofwat's decision to introduce Direct Procurement for Customers ("DPC") is significant and consistent with our principle of operating our business with optimal efficiency and innovation. We see DPC as part of a long-term vision for the industry, including being a vehicle that can be used to encourage companies to cooperate on multi-region/cross border schemes, which can be more efficient and resilient for customers than traditional local solutions. We have already shown our commitment to innovate in the delivery of major projects through the TTT project, where we worked closely with Ofwat, UK Government and other stakeholders to make the TTT tender successful.

As Thames Water is potentially the company with the most qualifying DPC projects by number and by value, we see ourselves as being one of the leading companies in developing the DPC approach. We want to ensure the framework developed for DPC is robust, workable and successful, capable of delivering improved performance and enhanced customer service, without being overly complicated, expensive or administratively burdensome. To this end, we are keen to offer one of our likely projects as a candidate for a working case study, to help test and refine the theory and practice of DPC. In our detailed responses, we acknowledge that there are issues that need to be resolved, including on the accounting treatment of DPC projects in statutory and regulatory accounts (and the associated impact on company credit metrics). While some of these issues are outside company control and may take time to resolve, we are confident that, working together, sensible solutions can be found to address all of the issues.

We would be pleased to discuss any of our comments further with you. Please do not hesitate to get in touch.

Yours sincerely



Nick Fincham
Director of Strategy & Regulation

