



The voice for water consumers  
Llais defnyddwyr dŵr

# **CCW's response to Ofwat's 2025-30 Draft Price Determination for Thames Water**

**28 August 2024**

## 1. Introduction

The Consumer Council for Water (CCW) is the statutory consumer organisation representing household and non-household water and sewerage consumers in England and Wales. We welcome the opportunity to respond to Ofwat's Draft Determination for Thames Water.

### Executive Summary

#### Overall view

Customers of Thames Water have for too long been on the receiving end of poor performance. This can be seen across Ofwat's range of performance commitments<sup>1</sup>, and the high levels of customer complaints the company receives<sup>2</sup>. CCW's Water Matters annual tracking research shows that Thames is significantly lower than the industry average on measures of customer satisfaction, fairness of charges and customer trust<sup>3</sup>.

In this context, it is right that Ofwat requires a detailed and transparent performance turnaround plan with closer monitoring of the company. This should lead to quicker and more frequent interventions if necessary.

We support Ofwat's cautious approach through the delivery mechanism to only allow funding of investment and service improvements where deliverability is assured, alongside close monitoring of the company's financial resilience.

We are pleased to see that no special allowances have been made to accommodate Thames' capital financing risks, so the company's allowance for returns and other financeability decisions are consistent with the rest of the draft determinations

We are assured that due to Ofwat's efficiency challenges customers will not pay more than is necessary for the service they receive and are not charged twice for work which should have already been delivered.

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<sup>1</sup> See [Ofwat's Service Delivery Report for 2022-23](#), which shows Thames are comparatively poor against 8 of the 12 service performance levels used in the report, and falling behind on their PR19 investment programme

<sup>2</sup> [CCW's household customer complaints report for 2023](#) shows Thames as a standout poor performer.

<sup>3</sup> [CCW Research Report Water Matters 2023 Summary of findings for Thames Water](#)

We also agree with Ofwat's assessment that Thames' business plan was inadequate in a number of areas and that the resulting financial penalty and adjustments to cost-sharing rates are justified.

This assessment provides further commentary on where CCW supports Ofwat's interventions, and also where we think further challenge or changes are necessary.

We recognise that in order to improve service performance for customers and the environment, the draft determination has to balance delivering for customers and the environment efficiently whilst securing the capital investment that is required to make this happen.

The extensive monitoring, the requirements for further delivery assurance, and the potential regulatory interventions this implies do appear to be one step before special administration of Thames becomes a reality if the company continues to fail.

For Thames to exit the turnaround oversight regime, it will need to deliver a transformation in its operational performance on a sustained basis and deliver its investment programme in accordance with its obligations whilst achieving financial resilience. This is a high bar to clear, and while CCW broadly agrees with the interventions Ofwat has made, it remains unclear what may happen if the company fails to meet these challenges. Thames cannot be allowed to continue to be a perpetually poor performer as this would fail to address customers' expectations of regulation in the sector.

It is also vital that the outcome sees Thames deliver the commitments in its price determination and demonstrates to customers what they are getting that is tangibly better than now in terms of service performance and environmental improvements.

Customer trust in the sector has declined in CCW's annual Water Matters surveys<sup>4</sup>, and Ofwat's recent research<sup>5</sup> has found that only 38% trust their water company to provide them with good value for money. Additionally, joint research between CCW and Ofwat shows that less than a quarter (23%) of people trust their water company to do what's right for the environment<sup>6</sup>. PR24 must be a strong driver for Thames to address these worrying trends.

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<sup>4</sup> [Water Matters 2024 - CCW](#) shows significant shifts across nearly every metric that we use to measure people's views. In many cases, these were the lowest scores recorded in the thirteen years of Water Matters.

<sup>5</sup> [Wave Five of Ofwat's Cost of Living research](#) (undertaken in March)

<sup>6</sup> [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

We are disappointed that it has not been possible to understand how customer preferences have been considered in Ofwat's decisions. It has also been difficult to find information that customers want to see. The information has had to be collated from the vast amount of data files and documentation published.

Although the overview documents are an improvement on previous years, they should have additions made so that customers can see the targets companies should meet and how much they have been given to deliver these improvements. We want companies to demonstrate a culture of transparency and regularly update customers on their progress against this in order to improve customer satisfaction and trust.

### **What we support and why**

- We welcome Ofwat's challenge to the company's proposed costs, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged. Thames customers should also not pay for any proposed improvements that have been funded for previously.
- We support the application of the delivery mechanism as Thames' recent history of poor performance means that there is a risk of customers paying 'up front' for investment and service improvements that Ofwat has not been assured are fully deliverable.
- Thames' revisions to its affordability support, including an uplift in social tariff funding from a customer-supported cross subsidy, are a step in the right direction which should enable the company to deliver its commitment to eradicate water poverty by 2030.
- Ofwat's decision not to allow Thames any uplift or additional special allowances under the assumed rate of return, the notional capital structure or ODI rates to drive service delivery improvements. Thames customers should not have to pay more or compensate Thames for capital financing decisions it has made in the past.
- Confirmation that Thames investors can only earn high returns when it has delivered its commitments to customers and the environment. We also support the challenge to the company's executive pay and pension deficit proposals.

- As Thames customers placed a high priority on the reliability of their water supplies<sup>7</sup> and protection of the environment<sup>8</sup>, CCW supports investment in water resources and the environment programme over 2025-30.
- We support the introduction of Price Control Deliverables and other protections in place to remunerate customers in the event of delivery failure or delay.
- We welcome Ofwat's challenges to Thames Water's performance commitment levels to deliver more stretching improvements than the company proposed in areas we identified in our assessment of the business plan.
- Ofwat's proposal to set assumed energy costs at a baseline reflecting the Government's industrial use index, and 'true up' at PR29 if companies' actual costs are lower or higher. This protects customers from the risk of paying too much 'up front'.
- The reduction of notional gearing to 55%<sup>9</sup> as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing<sup>10</sup>, as it allows for greater transparency and governance in the company's financial structure.
- The introduction of BR-MeX to incentive better customer service for business customers.
- The absolute zero target for the serious pollution incidents PC and the proposed introduction of a new measure for serious water supply interruptions.

### **What we have concerns with and want to see in the Final Determination**

- It is unclear what will happen if Thames fails to provide the assurance required. CCW would like Thames to share the information it's required to provide under the delivery mechanism and other monitoring with us, and for Ofwat to consult CCW and other stakeholders before any further revenue increases are allowed. It is important that the consumer body is also assured that Thames can deliver its commitments.

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<sup>7</sup> [Summary of Thames' business plan page 7](#)

<sup>8</sup> Page 14: [PowerPoint Presentation \(thameswater.co.uk\)](#)

<sup>9</sup> Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

<sup>10</sup> In the same way that FTSE index companies have listed equity

- Our analysis shows that Thames' bathing water quality and carbon emissions targets will see the company remain in the lower quartile of performance. We think this should be more ambitious given the level of spend on the environment programme - one of customers' highest priorities, according to the company's research<sup>11</sup>.
- CCW supports the monitoring of Thames's operational performance, financial resilience and the delivery assurance they need to provide, although we believe Ofwat is already in a position to have access to some of the required information. We would also welcome Ofwat's further engagement with CCW on how our range of performance metrics and customer service monitoring can contribute to this monitoring.
- We fully support the concept of C-MeX. However, we are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the range of C-MeX components. This is a missed opportunity to incentivise a reduction in customer complaints.

We do support the inclusion of the other measures of customer experience in C-MeX. This includes the increased weighting on customer contact surveys and use of cross sector comparators.

- We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations and would like to see it reinstated. The principle of this mechanism should act as an extra safeguard against financial windfalls and an added incentive to reduce high risk gearing.
- In the absence of a performance commitment to track the harm caused by storm overflow spills, we want to see a clear plan from the company which demonstrates its delivery of the storm overflow reduction programme prioritises the spills that cause most frequent harm to rivers and bathing water.
- We wish to see further detail on how the smart metering programme will help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.
- Proposed enhanced Outcome Delivery Incentive (ODI) rates, which could see customers paying more for areas of service they may view as a company's basic responsibility.

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<sup>11</sup> Page 14: [PowerPoint Presentation \(thameswater.co.uk\)](https://www.thameswater.co.uk)

## 2. Our detailed comments

### Customer acceptability and affordability

CCW is delivering research to test the package of bill changes, service improvements and investments in the Draft Determination for customer acceptability and affordability.

We will be using surveys to test the Draft Determination with a sample of around 500 of Thames household customers, and will conduct in-depth interviews with a small sample of non-household customers.

The household customer surveys will follow the same CCW and Ofwat guidance companies used for testing their business plans with household customers. This will ensure there is consistency and comparability in the results from the business plan testing.

Our research will provide a definitive measure of customers' views of the Draft Determination and how Ofwat's decisions have impacted customer views.

While the results are not available in time for this response (as discussed and agreed with Ofwat), when Thames tested its business plan in 2023 it revealed only 16% of customers found the plan affordable, while 62%<sup>12</sup> found the package of improvements acceptable.

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what Thames needs to achieve (and at a lower price) are more acceptable and affordable for customers.

We will provide the results of the research to Ofwat in September 2024, as the results are not available in time for inclusion in this consultation response.

### Bill profile and Delivery Mechanism

The Draft Determination proposes an increase of 23% on the average combined water and wastewater bill over the 2025-30 period. This increases to 35% over 2025-30 when forecast inflation is taken into account<sup>13</sup>.

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<sup>12</sup> Page 2: [Acceptability and affordability testing quantitative September 2023 \(thameswater.co.uk\)](#)

<sup>13</sup> Based on Office of Budget Responsibility economic forecast March 2024

This is substantially lower than the 44% (before inflation)<sup>14</sup> increase proposed by Thames in its revised Business Plan from spring 2024. We welcome Ofwat's challenge to the company's proposed costs, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged. Thames's customers should also not pay for any proposed improvements that have previously been funded.

The bill increase for both water and wastewater bills weighs slightly more heavily on the earlier years of the price control period<sup>15</sup>. Thames found that its customers prefer a 'smoother transition' in bill changes<sup>16</sup>, so we would like to see Ofwat address this in the Final Determination. If the increase remains weighted onto the early years, customers will expect to see improvements in service delivery and environmental performance sooner.

There is some uncertainty for customers as Ofwat has also proposed a delivery mechanism. This will see the revenue recovered from customers being dependent on the company's delivery of Performance Commitments and its investment programme.

The company has been challenged to provide proof and assurance that it is able to deliver its commitments before further revenue is allowed. If Thames meets this challenge, it will see the average combined bill increase by a further £5 in 2027-28<sup>17</sup>.

CCW supports the application of the delivery mechanism as Thames's recent history of poor performance<sup>18</sup> across both Performance Commitments and investment delivery means there is a risk of customers paying 'up front' for investment and service improvements that Ofwat has not been assured are fully deliverable.

By assigning £944m of totex under the delivery mechanism<sup>19</sup>, customers can be assured that further increases will only be allowed if the company is on track with its turnaround plan and provides convincing proof that it can deliver the improvements customers want to see.

The added protection is welcome as customers should not pay more to a company that perpetually fails and does not show signs of improvement.

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<sup>14</sup> [Key facts and data from water company plans - Ofwat](#)

<sup>15</sup> The combined average bill before inflation will increase by £32 from 2024-25 to 2025-26, compared to £28 in 2026-27 and 2027-28, falling to an £18 increase in 2028-29 and £16 in 2029-30.

<sup>16</sup> [Thames' business plan customer engagement appendix page 53](#)

<sup>17</sup> [Page 4 footnote: Overview-of-Thames-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>18</sup> As shown in Ofwat's Annual Service Delivery Reports

<sup>19</sup> Page 7: [Overview-of-Thames-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)



However, this does create a degree of uncertainty. Both Ofwat and Thames need to be more upfront with customers when they talk about the bill increases. Customers should be aware that from year three (2027-28), the average bill may increase by a further £5.

It is also unclear what will happen if Thames fails to provide the assurance required. CCW would like Thames to share with us the information it's required to provide under the delivery mechanism. Ofwat should consult CCW and other stakeholders further before any further revenue increases are allowed. It is important that the consumer body is also assured that Thames can deliver its commitments.

### **Affordability support**

Ofwat has not challenged the company's proposed affordability support (via an increase in its customer-subsidised social tariff take-up and other measures). This will see the number of households receiving a social tariff increase from the current 306,000 to 530,000 by the end of 2029-30<sup>20</sup>.

However, since the publication of the business plan, Thames has increased the capacity of its customer base to support a higher level of cross subsidy to expand the reach of its social tariff.

This was based on customer research<sup>21</sup> reviewed and challenged by CCW and the company's Customer Challenge Group. This means the cross subsidy will increase from £23 to £53 per household in 2022-23 prices. In addition, Thames's Rising Block Tariff should generate further funding for social tariffs.

This now means that Thames expects to be able to eradicate water poverty by 2030 (even before the moderating effect of the Draft Determination on bills). CCW very much welcomes this.

Thames's shareholders plan to contribute £31million to affordability support, split between hardship funds and matched payments for customers repaying debts<sup>22</sup>. We support this contribution.

In the Draft Determination, Ofwat has highlighted levels of company funding for non-social tariff support. However we note that in doing so it has not distinguished between funding which is specifically committed from profits and that which is being funded as a choice within cost-to-serve allowances, and so paid for by customers. In the interests of transparency we would welcome Ofwat being clear about this in the Final Determination, and ensuring company commitments can be compared and tracked on a like-for-like basis.

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<sup>20</sup> Page 1 & 3: [TMS01 PR24 Business plan \(thameswater.co.uk\)](https://www.thameswater.co.uk/TMS01-PR24-Business-plan)

<sup>21</sup> [Social tariff June 2024 \(thameswater.co.uk\)](https://www.thameswater.co.uk/Social-tariff-June-2024)

<sup>22</sup> Page 13: [Overview-of-Thames-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](https://www.ofwat.gov.uk/Overview-of-Thames-Waters-PR24-draft-determination.pdf)

## Costs and financing

We are pleased to see that Thames has not received any uplift or additional special allowances under Ofwat's assumed rate of return and Weighted Average Cost of Capital assumption. So Thames' allowances are consistent with other companies and the notional capital structure Ofwat has used. Similarly, no exceptions have been made in Ofwat's ODI rates to drive service delivery improvements.

Thames's current financial position and uncertainty over its ability to attract further capital financing are due to decisions the company and its owners made in the past. Customers should not be expected to compensate for that.

Ofwat believes that its Draft Determination should be financeable and deliverable for Thames, and should attract the borrowing and equity it needs to deliver a step up in performance.

This needs to be the case as it is untenable for customers for Thames to continue performing poorly with no prospect of improvement.

However, Thames's financial position with its large debt pile and barriers to capital finance means there is a degree of risk over whether financing can be raised to deliver its substantial commitments to customers and the environment. This means there is uncertainty over what will be delivered and the future of the company, with special administration a possibility if there is continued failure.

### Cost efficiency challenge

Ofwat reduced Thames' proposed totex by £5bn, to £16.9bn<sup>23</sup>. Customers expect Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

Much of the investment delivers benefits in the long term so we agree that the recovery of these costs should be spread over the long term. However Ofwat's draft determination increases the 'pay as you go' (PAYG) rates for water resources, water network and wastewater network compared to the business plan. This appears to be because the PAYG rate includes a share of the cost of historical expenditure, as well as a portion of the £16.9 billion expenditure planned for 2025-30<sup>24</sup>. However, this is unclear so we would like to see more clarity as to why the rates are slightly higher than the plan.

We support Ofwat's additional interventions covering:

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<sup>23</sup> [Thames' Draft Determination summary page 5](#)

<sup>24</sup> [Key dataset 2 \(costs, part delivery and risk & return data\)](#)

- Confirmation that Thames's dividend policy means investors can only earn high returns from great performance in delivering for customers and the environment.
- The rejection of Thames's proposal to recover pension deficit costs from customers. We agree that this is responsibility of the company and its shareholders.
- The challenge to the company to amend its executive pay policy to show that this is aligned to overall performance delivered for customers and the environment.

### Financial resilience monitoring

Given Thames Water's current financial position, CCW also supports the proposed financial resilience monitoring of Thames. This should provide CCW and other stakeholders with transparency and opportunity for Ofwat intervention.

However, should a combination of the financial resilience monitoring, the turnaround plan and the requirements under the delivery mechanism fail to provide the assurance that the company can finance and deliver its commitments at a fair cost, the Draft Determination is light on what would happen next.

Perpetually poor service to customers and the environment cannot be tolerated. CCW wants clarity on what is the next option should these measures fail to meet customers' expectations.

### Energy costs

We support Ofwat's proposal to set assumed energy costs at a baseline reflecting the Government's industrial use index, and 'true up' at PR29 if companies' actual costs are lower or higher.

This protects customers from paying too much up front for what is a significant base cost driver (approx. 15% of base costs are for energy) in what is a volatile wholesale energy market. Ofwat's use of the Government index should also incentivise companies to achieve cost efficient deals from their suppliers.

### Assumed Rate of Return and Weighted Average Cost of Capital

Ofwat has increased the allowed rate of return to 3.72% (compared to the 3.23% initial view in the final methodology)<sup>25</sup>. We recognise that with a high cost investment programme, an increase in equity financing cost assumptions (in the Weighted Average Cost of Capital) is the main driver of

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<sup>25</sup> Page 9: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

the increase in allowed returns as equity needs to increase if the enhancement investment is to be delivered in a financially sustainable way.

The bill impact this can lead to is a concern for CCW given customer affordability pressures, but its effect has been mitigated by the totex efficiency challenges Ofwat has applied.

Ofwat's Draft Determinations make a case that the increase in the assumed cost of equity should retain investment, help address risks associated with highly geared companies<sup>26</sup>, as well as reflecting market conditions.

It is in this context that we support the reduction of notional gearing to 55%<sup>27</sup> as higher leveraged capital structures have risks for customers.

A lower notional gearing assumption increases the weight of the more expensive equity component in Ofwat's notional capital structure, while a higher cost of equity directly increases the cost associated with equity financing.

Together, these factors can lead to higher allowed returns and may appear to be giving some assistance to less financially resilient companies that may have a greater challenge in raising the required equity.

If customers are being asked to pay more to secure the financing needed, it is essential that companies deliver the improvements set out in the Draft Determinations and customers see tangible improvements in their local environment and the service they receive.

Ofwat must also provide assurance that the company can deliver efficiently and demonstrate to customers that they will see and experience improvements in return for paying higher costs to enable this investment.

In an uncertain economic climate, we also do not wish to see a return to the level of financing windfalls in the past when companies were able to raise capital at a lower cost than assumed<sup>28</sup>.

For the Final Determinations Ofwat needs to consider both the need to attract finance to allow companies to deliver for customers and the environment, and safeguard against risk of high outperformance caused by unexpected changes to inflation, interest rates or other factors by ensuring customers receive a share of any possible windfalls in the future.

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<sup>26</sup> Page 16 of [Ofwat's Financial Resilience Monitoring Report 2022-23](#) shows 11 companies are above h notional gearing level.

<sup>27</sup> Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

<sup>28</sup> For example, the financing windfalls highlighted in the National Audit Office review of economic regulation I the water sector (2015) see [here](#)

### Supporting new equity issuance

Given the significant increase in investment in this price review, we agree with Ofwat's position that companies must demonstrate that their chosen option for raising finance is in the best interest of customers and the environment<sup>29</sup>.

Companies will need to raise new equity and we agree that there are potential benefits to customers if companies have an equity listing<sup>30</sup>, as it allows for greater transparency. This will be welcome as equity raised from private ownership structures can be opaque and complex. This is particularly a concern when dividends are paid.

We agree that non-listed companies should not be disincentivised from obtaining an equity listing because of the costs involved. We agree that in order to receive funding companies must demonstrate that any costs associated with obtaining listed equity are efficient and ensure the delivery of customer supported investment.

### Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations<sup>31</sup>. While Ofwat has not had to 'activate' the mechanism since price controls were set at PR19, it may give the impression that Ofwat changed the rules part way through the price control and that if there had been any outperformance since 2020, this would not have been shared with customers as a 'true up' at this price review.

We acknowledge that two thirds of the £4.6 billion equity injected into the sector since 2021 has been to strengthen financial resilience and reduce gearing<sup>32</sup>, but Thames Water still has gearing at over 70%, which may carry financial risks<sup>33</sup>.

The presence of the sharing mechanism coupled with the notional gearing of 55% may help discourage excessive gearing by reducing the financial incentives for companies to take on high levels of debt, and therefore adds to the range of options Ofwat has to protect financial resilience. Ofwat should reintroduce this mechanism, calibrated to account for changes in forecast inflation that were unforeseen when it was last set at PR19.

Customers should also benefit from the lower costs associated with high gearing, especially since they bear some of the risks if a highly geared company encounters financial difficulties.

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<sup>29</sup> Page 71: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

<sup>30</sup> In the same way that FTSE index companies have listed equity

<sup>31</sup> [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

<sup>32</sup> Confirmed in separate correspondence from Ofwat to CCW.

<sup>33</sup> Page 16: [PowerPoint Presentation \(ofwat.gov.uk\)](#)

## Cost sharing rate

Customers are likely to welcome Ofwat's proposed 40/60 cost sharing rates which will see Thames Water bearing a higher proportion of any overspends against cost allowances, or returning more of any underspends back to customers.

## **Customer influence**

Outside of the brief mention within the quality assessment summary there is little explanation of the extent to which Ofwat has assessed the quality and extent of the company's customer engagement and challenge of the business plan, or how it may have influenced its Draft Determinations.

In the main '*Delivering Outcomes for Customers and the Environment*' document, the only mention of customer engagement having any influence is where it states that customer support may be used in support of a bespoke performance commitment.

There is also a line in the 'Your Water Your Say' report that suggests that a larger suite of evidence has been considered:

*"Evidence from 'Your water, your say' surveys forms part of the suite of evidence of customers' and stakeholders' views that we have considered for our Draft Determination".*

However, we cannot find the larger suite of evidence in the supporting published documents.

Given the scale of research and engagement that took place to inform the company's business plan, including the work of the Customer Challenge Group in pushing the company to go further, summarising this effort in a few lines sends a signal that customers' views have not been adequately considered by Ofwat.

This is particularly disappointing considering the requirements placed on companies in relation to transparency about the use, or otherwise, of evidence from customer engagement in its decision making. In its 2022 position paper "*PR24 and beyond: Customer engagement policy*" Ofwat stated in its section on board assurance of customer engagement under the Transparent heading that "*companies should be able to demonstrate how they have taken account of evidence from customer engagement. Companies should be able to explain why they have not taken account of evidence from customer engagement or research wherever this is the case.*"<sup>34</sup>

Ofwat has not followed its own guidance in its Draft Determinations. It is not clear to what extent customer engagement evidence has impacted on its decision making. We continue to believe that meaningful customer research and engagement must be a key part of decision making for future

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<sup>34</sup> [Ofwat PR24 and beyond Customer engagement policy – a position paper February 2022 Page 11](#)

investment. However, the lack of information about how Ofwat has considered this evidence could lead companies to question whether the extensive engagement they carried out was worthwhile.

## **Customer experience**

### C-MeX

We support the Customer Experience measure (C-MeX) to measure and incentivise improvements in customer satisfaction with both contacts and non-contacts through the use of surveys and cross-sector comparators. We support the increase in the financial value of this incentive for 2025-30, so it is comparable to other ODIs, and the greater weighting in the satisfaction of customers who have had reason to contact the company.

Ofwat's move to set C-MeX targets based on the UKCSI all-sector upper quartile as a benchmark for a company's customer satisfaction should see every company incentivised to improve to a level comparative with customer satisfaction with other sectors.

However, the Draft Determinations lacks specific annual targets for companies, to show the level of stretch needed from current C-MeX targets to reach the UKCSI benchmark, so we would like Ofwat to confirm that it will consult CCW further on this.

We are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the range of C-MeX components.

Our annual complaints reports<sup>35</sup> show a continued increase in customer complaints in the last three years. High volumes of complaints are evidence of a poor experience by many customers and can be an indicator of more fundamental problems.

Measures of customer satisfaction alone may not adequately incentivise companies to resolve customer issues first time to prevent complaints and address the causes of complaints. As such, we want to see 25% of the value of C-MeX based on a measure of the volume of complaints a company receives.

Ofwat raises concerns in the Draft Determinations about the reliability and accuracy of complaint data as reported by companies, as the basis of its decision to exclude a complaints volume metric. However we have demonstrated to Ofwat how CCW has delivered greater consistency in data reporting through the development of our guidance to companies, and new complaint assessments. Including telephone and other complaints (in addition to written complaints) in our data suite means a full picture is possible of company performance. After a shadow period, we first published this

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<sup>35</sup> [Household customer complaints report 2023 - CCW](#)

information in our 2023 complaints report<sup>36</sup>. By the start of the 2025 period, we will have three years of complaints information, which includes telephone and other ways to contact. Written complaints data has, of course, been reported on for many years.

The Draft Determination also says that Ofwat has ongoing concerns about data quality across all PCs, and commits to greater scrutiny to ensure data is robust and can be trusted. We fail to see how complaints data quality represents a greater risk of data inconsistency than other data sources, and would like Ofwat to reconsider including a complaints volume metric in C-MeX. Otherwise this is a missed opportunity to address the trend of rising complaints to incentivise poor performing companies to improve, because complaints volumes can be seen as evidence of the wider decline in customers' trust with the sector.

Alternatively, Ofwat could consider a separate performance commitment on the volume of complaints. Ofwat could signal its intention to include this from 2026 onwards in the Final Determination, if it needs time to develop targets for each company.

#### Business customer experience

We support the introduction of BR-MeX to incentivise companies to deliver a better customer service experience for business customers. We are pleased to see the associated rewards and penalties align with the value of other ODIs.

The 50/50 balance between the retailer and business customer experience in England is appropriate as both elements should reflect how wholesale companies are directly and indirectly serving customers (via the retailer).

However, we note that an alternative model could be 50% customer experience, 25% retailer experience, and 25% retail market performance (MPF) metrics.

In this scenario, we agree it is appropriate for the customer experience element not to be diluted, and remain at 50%. With respect to the inclusion of the current MPF metrics, we agree that these have a clear customer impact given the importance of good quality asset data, and bilateral requests being responded to on time.

However, other MPF metrics outside of BR-MeX could be subject to change in terms of the performance levels and targets set. We believe Ofwat should apply the same flexibility to the metrics included in BR-MeX.

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<sup>36</sup> [Household customer complaints report 2023 - CCW](#)



We support BR-MeX being an absolute target for 2025-30 as it has no past performance data. However, it may be appropriate to move towards relative targets for future periods to more strongly incentivise poor performers once there is more data available.

### Operational incidents

The household and business customer experience measures for England and Wales no longer include a proposal to include a separate component for non-contact operational incidents due to concerns over how to define the scope of customers and survey them.

We recognise that this is a risk, but suggest that the proposed new common PC for serious supply interruptions may mitigate this. As well as measuring the volume and frequency of 12 hour+ incidents, we suggest that this should be an opportunity to survey customers' experiences as part of this. In this way it will also be a measure of customers' experiences with the companies in the context of longer supply interruptions.

### **Statutory investment programme**

#### Environment programme

Under its 2025-30 Water Industry National Environment Programme (WINEP), Thames needs to deliver an 18% reduction of phosphorus pollution in rivers<sup>37</sup> and reduce pollution incidents by 50% from its average 2020-23 levels. The company will also invest £517million to reduce storm overflow spills by 55%<sup>38</sup>.

We recognise that the environment and drinking water quality programmes are driven by legislation, but we have seen from Thames's customer engagement and the research to test the business plan that customers broadly want to see the improvements these programmes should deliver<sup>39</sup>.

#### Storm overflows

As the performance commitment to track the reduction of storm overflow spills does not include a measure of the harm caused by spills, we want to see a storm overflow prioritisation plan from Thames to show it is prioritising the spills that cause most frequent cause harm to rivers and bathing water. Such a prioritisation plan should be transparent to customers so they can be assured that the worst storm overflows being improved first.

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<sup>37</sup> [Thames' Draft Determination summary page 2](#)

<sup>38</sup> Page 2: [Overview-of-Thames-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>39</sup> Page 14: [PowerPoint Presentation \(thameswater.co.uk\)](#)



It is important for companies to trial new approaches to identify and share successful new innovations that may be lower cost and more sustainable in the long term. We wish to see more allowance for nature based solutions in the final determination,

#### Drinking Water Quality programme

We support investment in reducing lead pipes as this addresses both water quality and a public health risk. The industry will be doing more to co-ordinate lead reduction trials in 2025-30 so they can share learnings on what has most success in terms of customer engagement and uptake of lead reduction schemes, particularly in properties and private supply pipes. This should be a good basis for making further significant progress in PR29.

The other allowances under the drinking water quality programme, while higher than the equivalent at PR19, appears to be a pragmatic approach to addressing risks and offers protection for customers through the use of the PCD mechanisms.

We welcome the programme also seeking to address the causes of customer contacts about drinking water. This should be an area that directly improves the service so customers will hopefully see the improvement delivered.

#### Security and Emergency Measures (SEMD)

Water supply security is a primary statutory responsibility for companies. We support setting a common security (SEMD) non-delivery PCD to protect customers. Failure to deliver in this area is failing customers who expect their companies to deliver resilient services. The PCD covers both physical security and emergency planning, which are both key aspects of ensuring these essential services are resilient.

#### **Discretionary investment programme**

Discretionary investment is limited in this determination due to the high cost of the statutory investment programmes, as trade-offs have been made to protect customer affordability.

In this context, Ofwat must ensure companies provide assurance that any deferred investment does not lead to risk to service delivery in the intervening period, and indicate what future bill impacts may be when companies have to 'catch up' at a later date. We also have a concern that deferred schemes may be more urgent and costly when it comes time to deliver them.

#### Asset health deficit programme

The Draft Determination allows Thames to invest £502 million<sup>45</sup> to improve the condition of its assets and increase the resilience of its infrastructure, along with £1 billion to improve the health of its assets<sup>46</sup>.

Customers will ask why Thames was allowed to build up a backlog of required asset replacement and maintenance due to a lack of investment in the past. However, as catch-up is needed and the company's research shows Thames's customers want to see the service improvements new and renovated assets should deliver, we support the allowance in the Draft Determination.

We also support the customer protections Ofwat has applied to ensure costs are efficient, the assurance the company needs to provide that it can deliver before additional funds are allowed, and the PCDs and other mechanisms in place to return money to customers in the event of failure or delay.

### Net zero

Companies in England made a public commitment to achieve net zero carbon emissions by 2030<sup>47</sup>. This is not achievable under allowances in the draft determination, but the net zero commitment is still in the public domain. If this pledge is no longer achievable, companies need to be clear with customers on what progress will be made to 2030, when net zero will be fully achieved, and what the cost and bill impact implications will be of delivering this commitment.

### **Water resources and demand management**

Customers placed a high priority on the reliability and resilience of water supplies<sup>48</sup> in the customer engagement Thames carried out to inform its business plan, so we support the £669 million allowed to invest in its water resources over 2025-30.

This should help protect the region from drought, build new sources of water supply, and help customers save water, and aligns with the company's Water Resources Management Plan. We support the challenge to Thames to deliver a 19% reduction in leakage and develop water supplies for an additional 43 million litres of water per day<sup>49</sup>.

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<sup>45</sup> [Thames' Draft Determination summary page 14](#)

<sup>46</sup> Page 2: [Overview-of-Thames-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>47</sup> [Water industry reaffirms pledge to work in the public interest | Water UK](#)

<sup>48</sup> Page 14: [PowerPoint Presentation \(thameswater.co.uk\)](#)

<sup>49</sup> Page 2: [Overview-of-Thames-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

## Water Resource Management Plan

Company research shows that customers place a priority on the security of their supplies<sup>50</sup>, so we support the twin track approach in the Water Resource Management Plan (WRMP) of increasing and maximising availability of water supplies, whilst also reducing the demand for water through reduced consumption and leakage.

We agree that the water transfers and new resource proposals<sup>51</sup> in the WRMP address the priority customers placed on water supply resilience, and that costs allowed should be proportionate to the development of these solutions that can be achieved in 2025-30. Alongside this we support the Strategic Water Resource Solutions (SROs) with the delivery penalties in place to protect against failure.

We also agree with the added protection/resilience it potentially provides for flexibility (for example, if demand reduction is not delivering, supply schemes can be fast tracked and vice versa). This will be needed if companies' limited control over how their customers choose to use water (particularly during droughts and reference the huge peaks in demand during 2022) means there are limits on how far they can go with demand management.

We support the added protection for customers through the use of PCDs to incentivise delivery, which also avoids the risk of companies benefitting from external factors such as more favourable weather conditions etc. or other contributing risk factors changing.

## Smart meters

We wish to see further clarity about the £187 million on smart metering<sup>52</sup> to help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.

While it is positive to see that Ofwat has provided minimum expectations about what companies should consider (i.e. optimal technologies, rather than low cost and reduced functionality), and the frequency for data to be collected, more detail is required to show how this will be rolled out in a way that benefits the areas more at risk of water scarcity first, as the Draft Determination shows that Ofwat has challenged the company's proposed costs but not how the programme will be prioritised and delivered.

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<sup>50</sup> Page 2: [PowerPoint Presentation \(thameswater.co.uk\)](https://www.thameswater.co.uk)

<sup>51</sup> Covering the Teddington to East London transfer, the South East strategic reservoir, the Severn to Thames interconnector, and the River Tame to Queen Mary Reservoir transfer.

<sup>52</sup> Page 10: [Overview-of-Thames-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](https://www.ofwat.gov.uk)

We have called for universal smart metering for businesses to give customers better information and control over their usage. However, Ofwat appears to have set a single unit cost for metering to cover household and non-household. This seems likely to lead to companies avoiding large meters or those where installation is difficult as they would not be cost effective to tackle and would result in less money to deliver the rest of the programme.

There is an issue with long unread meters in the non-household retail market, often due to their inaccessible location. Replacing these meters could be costly but failing to do so, and choosing simpler installations instead, would fail to address a major issue for non-household customers.

### Water Efficiency Fund

CCW supports the aims of Ofwat's proposed Water Efficiency Fund - we agree there is an urgent need for a new approach to increase the focus on demand management.

We have submitted responses to both of Ofwat's consultations<sup>53</sup>.

### **Performance Commitments and Outcome Delivery Incentives**

Performance Commitments (PCs) need show evidence of significant improvements on current performance for a range of measures that matter to both customers and the environment.

As such, we welcome Ofwat's challenges to the company's PC targets to deliver more stretching improvements than it proposed in areas we highlighted in our assessment of the business plan.

Ofwat has intervened to increase the stretch and 2029-30 end targets for water supply interruptions (52% stretch), external sewer flooding (61% stretch) and total pollutions (59% stretch)<sup>54</sup>. This would place Thames in the upper quartile of these measures if targets are achieved. CCW also supports the absolute target for serious pollution incidents.

We remain concerned about the company's bathing water quality target which will see the company remain in the lower quartile of performance. This should be more ambitious given the level of spend on the environment programme and customers' priorities.

Similarly, Thames' greenhouse gas emissions targets (5% combined reduced target for 2025-30<sup>55</sup>) is low compared to other companies. This should be revised so the company is challenged to be consistent with other companies' carbon emission reductions.

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<sup>53</sup> Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

<sup>54</sup> [Key dataset 1 \(outcomes\)](#)

<sup>55</sup> Page 8: [Overview-of-Thames-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

### Serious Supply Interruptions

We support Ofwat's proposal for a new 2025-30 PC to track serious supply interruptions (of 12 hours or more). This should provide added transparency of company performance and an added incentive for companies to reduce lengthy supply interruptions which can have considerable impacts on businesses and households.

### Leakage

Leakage reduction is a customer priority. As such we welcome companies' efforts to continue to reduce leakage as it helps to improve the resilience of water resources, to protect the environment and also supports companies in reducing their GHG emissions from treating and pumping water.

The scale of investment to reduce leakage is higher at PR24 than it was at PR19, so there needs to be clear correlation between the allowance given and the level of ambition in the company's leakage reduction PC.

For Thames, the target of 19% reduction<sup>56</sup> against the 2024-25 baseline would place Thames in the upper quartile of performers if achieved.

### Sewer flooding

The absolute target of 13% reduction applied to the internal sewer flooding PC is lower than the equivalent target set at PR19. While we accept trade-offs have been made to protect customer affordability in the light of a high cost environment programme, Ofwat's joint research with CCW<sup>57</sup> clearly shows the impact sewer flooding can have on households, businesses and communities, so this should be more challenging with relative targets and related investment and base costs applied to better incentivise the comparatively poor performers.

We support Ofwat's exclusion of exceptional weather in the sewer flooding PC design as including it may disincentivise companies from addressing sewer flooding risks in periods of prolonged/heavy rainfall.

### Business demand

This is the first time there has been a PC on water wholesale companies to specifically reduce business water demand. It reflects the inclusion of business water demand in the Environment Act water demand reduction target.

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<sup>56</sup> Page 10: [Overview-of-Thames-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>57</sup> [Customer experiences of sewer flooding - CCW](#)

We are pleased to see that separate targets have been set for businesses and welcome the introduction of measured collaborative working between retailers, wholesalers and other parties to achieve the reduction in business demand.

PCs show a reduction of 16% for business demand by the end of the AMP<sup>58</sup> compared with 2019/20 baseline, which is good ambition in the context of Defra's expectation of an overall reduction in business usage of 9% by 2037.

#### Drinking Water Quality customer contacts

We are aware that some companies have challenged the use of the Drinking Water Quality customer contact PC as they rely on customer contacts to alert them to drinking water taste, odour and appearance issues, which they otherwise may not know about. In this context, it may lead to companies discouraging customer contacts.

However, a high level of drinking water quality customer contacts can be viewed as evidence of the level of drinking water quality issues affecting customers (as customers are most likely to contact a company only if there is a problem), so we support this PC to give transparency and incentivise companies to address customer issues effectively.

Ofwat could develop a separate metric in this PC to track repeated contacts from the same customer and/or location, so there is greater distinction between overall contacts and those where the company has failed to respond effectively.

#### Outcome Delivery Incentives

Outcome Delivery Incentives (ODIs) should drive companies to improve in areas of service where they are currently comparatively poor and/or where robust evidence shows customers want to see improvement.

In this context we support:

- No exceptions made to Thames in terms of the rates compared to other companies.
- ODI rates that are proportionate to the size of the company's regulated capital value, so incentives are sufficiently strong to prevent failure but not disproportionate to the allowances needed to deliver customer-supported investment.

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<sup>58</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-1-V4.xlsb>



- The top-down approach to setting rates with alignment to evidence of customer valuations of levels of priority for different areas of service. This means the eight PCs that more directly affect customers<sup>59</sup> have a higher value, which we support.
- The removal of caps and collars for more established PCs, with an aggregate sharing mechanism in place to ensure any higher rewards for outperformance beyond PC targets are shared with customers. Established PCs have more historical performance data to inform target setting which means more confidence in the level of stretch and ambition set, so the protections from caps and collars are not needed to mitigate against uncertainty.
- The new reporting methodology Ofwat proposes which will provide greater transparency, accuracy and assurance on how companies are performing.

We do not support the use of enhanced ODI rates for six PCs<sup>60</sup> to provide additional outperformance payments to higher performing companies. Even with the aggregate sharing mechanism in place, customers will still be asked to pay higher rewards than under rather 'standard' rates in this scenario.

While this may encourage companies to go further and set the bar higher for others to follow, asking customers to pay more for an area of company performance that customers may regard as a basic responsibility by companies does not justify bigger rewards.

### **Long term context**

The five-year package of investment and PC targets should act as a milestone towards delivering a longer term set of outcomes. While there is some evidence that the five-year determination acts as a milestone towards longer term outcomes (for example, through the allowance of development costs for long term investment projects and progress towards carbon emissions reduction), it's unclear to what extent the company's Long Term Delivery Strategy and adaptive planning informed decisions and the investment costs (and subsequent bill impacts for customers) that may follow in PR29.

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<sup>59</sup> Water supply interruptions, Customer contacts about water quality, Leakage, Per capita consumption, internal sewer flooding, External sewer flooding, total pollution incidents, Storm overflows – these PCs have ODI rates of +/- 0.6% of RoRE (compared to +/- 0.5% for 'standard' ODIs).

<sup>60</sup> Water supply interruptions; leakage; per capita consumption (PCC); internal sewer flooding; external sewer flooding; and total pollution incidents

## **Enquiries**

Enquiries about this consultation should be addressed to:

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