

Thames Water Draft Business Plan - Reporter's Public Summary

Introduction

1. Thames Water (Thames) has prepared a Public Summary of its Draft Business Plan (DBP) in line with Ofwat's requirements as part of a series of submissions for the PR09 price-setting process. The purpose of the DBP is to inform stakeholders of proposed future service standards and to set out a supported and costed business case with associated costs, benefits and price impacts. The DBP will be used by Government Bodies and Regulators to make strategic decisions with regard to the provision of water services and prices between 2010 and 2015. Ofwat will determine prices using the Company's Final Business Plan (FBP) to be submitted in April 2009 which will incorporate feedback on DBP.
2. Thames' DBP is a well researched comprehensive series of documents. The DBP fully describes how the Company will meet the first five years of its longer term strategy and sets out its approach to business planning, the supporting studies, the projected activities, outputs and costs and the associated price implications necessary to properly finance the business. Because of uncertainties in a number of areas the plan will need refining for the FBP.

Reporter's Role

1. The Reporter's role is to provide independent opinion to Ofwat on the Company's regulatory submissions by checking compliance with regulatory requirements and advising Ofwat of material discrepancies. Ofwat approves Reporter appointments and regulates their activities through an agreed protocol.
2. The purpose of this Summary is to provide independent commentary on Thames' public summary of its DBP, to confirm or otherwise whether the Company processes used were adequate, whether the plan is well founded and whether the public summary is consistent with the full DBP submission.
3. We have extensively audited the DBP in line with Ofwat's requirements. Our audit included checks on Thames' processes, controls and assurance arrangements and our team of experts and specialists examined the underlying customer research, performance assessments and analysis. We checked the submitted data, compliance with Ofwat requirements and challenged the Company on areas of materiality and have provided a detailed commentary to Ofwat.
4. We have also provided feedback to the Company's management and presented our findings to the Directors on 5 August 2008 prior to their endorsement of the Company's submission.

Liaison with Regulators

1. Throughout the preparation of DBP, we have maintained an ongoing dialogue with Ofwat and an open liaison with the Quality Regulators (Drinking Water Inspectorate, Environment Agency and Natural England). We attended Ofwat's Director-level review of the DBP and met the Quality Regulators to confirm their support for the quality enhancement schemes.
2. We have liaised with the Company's financial auditors and its other independent advisers to establish the validity of assumptions and supporting data and shared information on audits.

Cooperation from the Company

1. We confirm having received full co-operation from management and staff at all levels with full access to data. We have received all the documentation requested to enable us to conduct our audit and are aware of no information having been withheld by the Company.
2. We have had an ongoing liaison with the Directors and provided feedback on underlying strategies during preparation of the DBP. We presented our findings to the Company's Board meetings in July and August 2008.

Context

1. Following the change of ownership in 2006, a new management team was appointed with an objective of delivering substantial improvements against historic performance across the business and transforming Thames Water into a leading, customer-driven regional provider of water services.
2. In addition to introducing a fresh business ethos, substantial service improvements were delivered in both 2007 and 2008 marking a reversal of the previous declining operational performance and clear improvements in asset serviceability. Notable among the early achievements were acceleration of the capital programme, improved environmental compliance and reduced leakage in London.
3. A new impetus was also given to business strategy and asset ownership and the 2009 price review presents an opportunity for Thames to examine in detail its overall strategy and to realign the business to stakeholder objectives.
4. In order to inform strategy, the Company has engaged in wide-scale customer surveys, analysed performance constraints, undertaken extensive surveys and commissioned comprehensive studies to examine all facets of its business.
5. In autumn 2007, Thames published its Strategic Direction Statement *'Taking Care of Water'* capturing an initial review

of performance & stakeholder expectations and setting out a 25 year business strategy with implications on service levels and prices. Over the past 12 months the Company has furthered these studies in scope and detail in order to provide a comprehensive foundation for the Draft Business Plan published in August 2008.

6. These studies, sourced by both internal and external professionals, sought evidence to support the scale, timing and quantum of the future investment and the impact on prices, business performance and overall price levels. The work has been internally challenged and some key investigations externally reviewed to ensure their appropriateness to the DBP.
7. As a consequence of the Company's rigorous approach to understanding and planning its business, a significant increase in future expenditure over the next five years has been identified when compared with historic levels. The larger programme causes above-inflation price rises which, further customer research indicates, is supported by customers.

Reporter's Opinion

1. We have audited and reviewed all elements of the Draft Business Plan and confirm that:
 - Thames has fully reviewed the services it provides and its operating environment. The plans for future services are guided by stakeholder consultations and information from regulators on expected requirements.
 - The Public Summary is consistent with the DBP and is based on comprehensive studies that the Company has carried out to inform the process. The numerical information and assumptions for the Public Summary are drawn from the DBP.
 - Costings are based on historic costs and are appropriate for the purpose of business planning.
 - The Company has made an assessment of future operating and capital cost efficiencies although there are residual uncertainties due to the current economic climate which will need revisiting before April 2009.
2. We have noted specific uncertainties and risks relating to the regulatory and quality frameworks together with some interpretations, some of which will not be clarified until after the 2009 Determination of Prices. Where possible these will need to be addressed before April 2009 or an appropriate regulatory mechanism agreed.