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London Assembly  
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5 November 2013

Dear Cathryn Ross

### **Thames Water Interim Determination of K**

The London Assembly Environment Committee met on 24 October with representatives of Thames Water. Among the topics discussed was Thames Water's current application for an Interim Determination of K, which is their proposal for an increase in water bills for 2014/15.

Committee Members are concerned about the impact on Londoners of any potential rise in water bills in the context of other increases in the cost of living, including other utility bills such as energy. Incomes have also been under pressure for some years – as the IDoK application points out, the recession and its aftermath have affected London significantly.

As the domestic water market is a monopoly in each area, the role of the regulator is crucial in ensuring that customers get good value and that returns on capital are fair and not excessive.

We therefore welcome your strong challenge to the IDoK application, reflected in your draft determination published last month. We encourage you to continue to examine closely the case made by Thames Water and the economic facts, to ensure that Londoners get the services and investment required without paying more than necessary to fund them. The benefit to customers is also of course a key consideration in your deliberations on a potential 'substantial favourable effect' action – which could oblige Thames Water to return to customers financial gains from economic factors such as low interest rates.

If your consideration does indicate that an IDoK is appropriate, the Committee would concur with the proposal, discussed by Thames Water at our meeting, to spread the bill impact of a period of a few years, to minimise the difficulty that Londoners have in managing the increased cost.

The Committee discussed with Thames Water some of the issues raised in your interim determination. Thames Water believes that it has best practice in handling bad debt, as far as current legislation permits, and that it has verified this with debt management experts. Your draft determination found differently and it might help to ensure that there is, and is seen to be, best practice across the industry if you can publish a level of detail about your expectations on debt management. We would hope to see debt management and other practices that minimise

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the burden of bad debt on paying customers, and support customers with genuine difficulty paying.

We also heard that efforts to manage bad debt may be constrained by the fact that landlords are not currently compelled to notify Thames Water of the details of occupiers in their properties, making it especially difficult to track down short term tenants. This suggests the potential for legislative changes that could either compel landlords to provide details of occupiers, or making landlords automatically responsible for water bills if an alternative occupier is not identified. We would be interested to hear your views on this. Given the latest estimates that Thames Water is owed £296 million in bad debts, adding around £11 to each household bill, making progress in this area could be highly significant.

Our meeting also discussed wider issues, bearing on Thames Water's plans for the 2015-20 period. The Committee understands that, as this relates to the current Price Review 2014 process, representations should be directed via the Customer Challenge Group and cannot be considered by you directly. We will therefore be writing to the CCG on other matters relating to the Thames Tideway Tunnel, leakage, metering and water efficiency.

If an electronic copy of your response to this letter could go to the Committee's project officer Rachel Roscow ([rachel.roscow@london.gov.uk](mailto:rachel.roscow@london.gov.uk)) that would be most helpful.

Yours sincerely,



**Murad Qureshi AM**  
Chair of the Environment Committee