



Corrigenda to the company specific appendix that accompanied the Notification by the Water Services Regulation Authority of its determination of Price Controls for Retail Activities and for Wholesale Activities for Thames Water Utilities Limited

15 May 2018

This notice contains minor corrections to the [company-specific appendix](#) to the 2014 price determination of Thames Water’s price controls that was published on 12 December 2014.

On page 248, for:

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Kg removed per day	N/a					151.8
Penalty collar	Kg removed per day						0
Reward cap	Kg removed per day						199

Incentive rates

Incentive type	Incentive rate
Penalty	Determined by reference to actual costs and benefits using reliable projections as soon as available (and to be included in annual report on outcomes performance no later than 2016-17)
Reward	Determined by reference to actual costs and benefits using reliable projections as soon as available (and to be included in annual report on outcomes performance no later than 2016-17)

Additional details

Necessary detail on measurement units	The measurement unit is kg/day of phosphorus removed from rivers through the final NEP5 schemes, when confirmed, by the end of 2015-20. Delivery of NEP5 schemes will continue to be reported and signed-off independently by the Environment Agency through its annual MD109 report. Thames Water proposes that the Environment Agency would also verify the assumed load reductions.
Frequency of PC measurement and any use of averaging	The penalty and reward apply to performance at the end of 2015-20. This will be calculated at PR19 based on actuals for years 1-4 and forecasts for year 5 of 2015-20. Performance against the commitment will be measured annually after the final requirements are confirmed in January 2016.
Timing and frequency of rewards/penalties	Rewards and penalties will be calculated at PR19, to be applied in 2020-25.
Form of reward/penalty	Adjustment to RCV
Any other information or clarifications relevant to correct application of incentive	<p>The ODIs are based on the actual costs and benefits associated with the specific solutions delivered against the commitment, which will depend on the type of solution and the benefits delivered through P reduction.</p> <p>During the 2016-17 financial year, the company will restate the committed performance level in line with the expectations of the final NEP5 as confirmed by the Environment Agency; reward caps and penalty collars will remain unchanged.</p> <p>The company will also state the expected benefits of the final NEP5 programme. The annual benefits delivered will be determined by the same method for calculating the benefits of the 2015-20 programme.</p>

Read:

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20

PC	Kg removed per day						59.3
Penalty collar	Kg removed per day						0
Reward cap	Kg removed per day						199

Incentive rates

Incentive type	Incentive rate
Penalty	Determined by reference to actual costs and benefits on completion of the price control period as the penalty rate will be a function of our actual performance against the restated performance commitment reflecting the costs and benefits foregone of any units (kg/d) not delivered.
Reward	Determined by reference to actual costs and benefits on completion of the price control period as the reward rate will be a function of our actual performance against the restated performance commitment reflecting the additional costs and benefits of any additional units (kg/d) delivered.

Additional details

Necessary detail on measurement units	The measurement unit is kg/day of phosphorus removed from rivers through the final NEP5 schemes, by the end of 2015-20. Delivery of NEP5 schemes will continue to be reported and signed-off independently by the Environment Agency through its annual MD109 report. Thames Water proposes that the Environment Agency would also verify the assumed load reductions.
Frequency of PC measurement and any use of averaging	The penalty and reward apply to performance at the end of 2015-20. This will be calculated at PR19 based on actuals for years 1-4 and forecasts for year 5 of 2015-20. Performance against the commitment will be measured annually after the final requirements are confirmed in January 2016.

<p>Timing and frequency of rewards/penalties</p>	<p>Rewards and penalties will be calculated at PR19, to be applied in 2020-25.</p>
<p>Form of reward/penalty</p>	<p>Adjustment to RCV</p>
<p>Any other information or clarifications relevant to correct application of incentive</p>	<p>The ODIs are based on the actual costs and benefits associated with the specific solutions delivered against the commitment, which will depend on the type of solution and the benefits delivered through P reduction.</p> <p>During the 2016-17 financial year, the company has restated the committed performance level in line with the expectations of the final NEP5 as confirmed by the Environment Agency; reward caps and penalty collars remain unchanged.</p> <p>The expected benefits of the final NEP5 programme are stated below. The annual benefits delivered have been determined by the same method for calculating the benefits of the 2015-20 programme.</p> <p>The final NEP5 programme of phosphorus removal from rivers equates to 59.3kg/day by March 2020. This revised target delivers £2.062m annualised benefit for £31.591m totex (annualised cost of £1.105m) by the end of AMP6. To return the company share of totex saved through this scope reduction back to customers, a downward RCV adjustment of £7.269m will need to be made at PR19 (all amounts in 2012-13 prices). This will be on top of any reward or penalty for actual performance under this performance commitment.</p>

On page 211, for:

	Unit	Starting level	Committed performance levels					
			2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Score		TBC	TBC	TBC	TBC	TBC	TBC

Additional details

Necessary detail on measurement units	N/a – measurement units will be defined as the incentive is developed.
Frequency of PC measurement and any use of averaging	N/a – frequency of measurement will be defined as the incentive is developed.

Read:

AIM sites	Baseline / Trigger	Unit	Starting level	Committed performance levels				
				2014-15	2015-16	2016-17	2017-18	2018-19
New Gauge	Baseline	MI/d	Not active	Not active	89.6	89.6	89.6	89.6
	Trigger	MI/d	Not active	Not active	60.0	60.0*	60.0*	60.0*
Pangbourne	Baseline	MI/d	Not active	Not active	31.6	31.6	31.6	31.6
	Trigger	MI/d	Not active	Not active	1.02	1.02	1.02	1.02
Axford	Baseline	MI/d	Not active	Not active	Not active	7.85	7.85	7.85
	Trigger	MI/d	Not active	Not active	Not active	166	166	166
Pann Mill	Baseline	MI/d	Not active	Not active	11.4	11.4	11.4	11.4
	Trigger	MI/d	Not active	Not active	5.6	5.6	5.6	5.6
North Orpington	Baseline	MI/d	Not active	Not active	7.16	7.16	7.16	7.16
	Trigger	MI/d	Not active	Not active	11.4	11.4	11.4	11.4

*New Gauge trigger may be subject to change if the Environment Agency installs a new gauging station or flow requirements change.

Additional details

Necessary detail on measurement units	Measurement unit is MI/d abstracted at the relevant site.
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Frequency of PC measurement and any use of averaging	PC reported at end of each financial year and reviewed through independent assurance process.
Form of reward/penalty	Reputational
Any other information or clarifications relevant to correct application of incentive	<p>The calculation follows the Ofwat Guidelines (February 2016) for calculating AIM performance.</p> <p>AIM performance in MI = (average daily abstraction during period when flows are at or below the trigger threshold - baseline average daily abstraction during period when flows are at or below the trigger threshold) * length of period when flows are at or below the trigger threshold.</p> <p>Normalised AIM performance = AIM performance / (baseline average daily abstraction * length of period when river flows are at or below the trigger threshold)</p> <p>In line with Ofwat's guidance, we will report both AIM performance and normalised AIM performance for each site individually and for all sites combined.</p> <p>New Gauge trigger may be subject to change if the Environment Agency installs a new gauging station or flow requirements change.</p>

Thames Water's performance commitments WC1 and SC1 relate to greenhouse gas emissions for Wholesale Water and Wholesale Wastewater respectively.

On page 209, read:

Additional details

Any other information or clarifications relevant to correct application of incentive	The committed performance levels are linked to actual UK emission factors, confirmed annually by Defra. The performance commitments will be updated each year to account for changes to Defra's grid electricity emissions factors. No other changes will be made.
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On page 237, read:

Additional details

Any other information or clarifications relevant to correct application of incentive	The committed performance levels are linked to actual UK emission factors, confirmed annually by Defra. The performance commitments will be updated each year to account for changes to Defra's grid electricity emissions factors. No other changes will be made.
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On page 253, in the incentive type: financial – penalty only table for:

Starting level		Committed performance level					
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Cumulative number of sites	0	0	0	5	17	24
Penalty deadband	Cumulative number of sites	0	0	0	5	17	24
Penalty collar	Cumulative number of sites	0	0	0	0	0	0

The final delivery profile will be agreed after the award of the Main Works contracts, once Thames Water has completed the process to optimise the programme.

Read:

The final delivery profile agreed after the award of the Main Works contracts and following the optimisation phase of the programme (completed in June 2016) has been agreed as follows:

Starting level		Committed performance level					
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Cumulative number of sites	0	8	10	20	21	23*
Penalty deadband	Cumulative number of sites	0	8	10	20	21	23*
Penalty collar	Cumulative number of sites	0	0	0	0	0	0

* As Shad Thames is currently scheduled to be delivered in a subsequent AMP Period it has been removed from the Table reducing the number of sites to be completed in this AMP Period from 24 to 23.

On page 253, in the incentive rates table for:

Incentive type	Incentive rate (status)
Penalty	£3.4 million per site, a year

Read:

Incentive type	Incentive rate (status)
Penalty	£3.4 million per site, a year. (Applied on a pro rata month by month basis).

On page 253, in the additional details table for:

<p>Necessary detail on measurement units</p>	<p>Thames Water will monitor the extent of programme delays.</p> <p>To monitor the delivery of T1C, Thames Water will publish details from Appendix 5 annex 4 – Detailed information on construction activities (submitted on 27 June 2014), setting out the category 2 and 3 activities by year and providing further site-specific details for example, when the site needs to be vacated for the IP to begin work. Costs and details of category 1 works have been redacted from the published document for reasons of commercial confidentiality. This delivery profile is currently subject to change as it undergoes a process of optimisation. The final delivery profile will be confirmed no later than the award of the IP contract.</p> <p>Following an assessment of special cost claims across all companies and having applied a consistent approach for incentives relating to special cost claims across all companies that recognises the benefits foregone if companies do not deliver, we have increased the value of the penalty from the draft determination and penalties will be incurred at each site for each year of delay.</p> <p>The proposed ODI is the primary regulatory mechanism for incentivising Thames Water to undertake its construction activities on the TTT in a manner that meets the expected timetable for the project. Thames Water is currently in discussions with stakeholders about the development of an Alliance Agreement for the TTT project, and the company expressed concerns in its representation that the agreement could result in double jeopardy and distort incentives.</p> <p>To the extent that Thames Water is able to demonstrate that double jeopardy has occurred for the element of the Alliance Agreement that is specific to the delay of the construction sites to which this ODI relates, Thames Water may request that we net off the penalty incurred through the Alliance agreement from this PC.</p> <p>Ofwat will receive regular reporting on the Alliance Agreement via the Liaison Committee, and therefore expects to have some degree of oversight of penalties under this agreement. These reports will be assessed by the independent technical assessor; and the Alliance Agreement. Alliance objectives and alliance</p>
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<p>Frequency of PC measurement and any use of averaging</p>	<p>commitments may not be changed without Ofwat's consent. We will make an assessment at PR19 of any information put forward by Thames Water.</p> <p>We have intervened to introduce a mechanism to recover costs for customers in the event of non- delivery of category 2 and 3 works if Thames Water does not undertake the project. The maximum amount recovered will equal the agreed expenditure for the work (£227 million), and will enable the costs to be passed back to customers in circumstances where the work has been cancelled for reasons outside of the company's control.</p>
<p>Timing and frequency of rewards/penalties</p>	<p>PC reported at the end of each financial year and reviewed through independent assurance process.</p>
<p>Form of reward/penalty</p>	<p>RCV adjustment</p>
<p>Any other information or clarifications relevant to correct application of incentive</p>	<p>The penalty rate is based on our view of the annualised average incremental cost per site of the category 2 and 3 works uplifted with estimate of infraction fines (in respect of financial sanctions that the European Court of Justice could apply in the context of infringement proceedings against the UK) as proxy for benefits foregone.</p> <p>The delay penalty will apply to each site for each year of delay. This results in an incentive penalty per site of £3.4 million a year. In the event that all sites were delayed until 2020-21, the maximum incentive penalty would be £156 million.</p> <p>As set out above, any site-specific penalties for delays incurred in 2015-20 by Thames Water, specifically relating to its activities, through the Alliance Agreement may be netted off against the penalty incurred through the ODI, subject to sufficient regulatory oversight.</p>

Read:

<p>Necessary detail on measurement units</p>	<p>Thames Water will monitor the extent of programme delays. To monitor the delivery of T1C, Thames Water will publish an update on its website of the above delivery profile, setting out the cumulative Enabling Works (category 2) and System Works (category 3 activities) completed each year.</p> <p>Thames Water have provided further site-specific details in relation to each site including the specific dates when the site needs to be delivered or made available for the Tideway to begin work to both Ofwat and Tideway in agreeing this revised profile.</p> <p>Delivery or completion of the Thames Water scope of works on the individual sites shall be established by handover of the site to Tideway. If Tideway does not accept handover of a site, Ofwat will determine whether the Thames Water scope of works may be</p>
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	<p>reasonably considered to have been completed. Where Tideway will not occupy a site, then completion of the scope of works within the agreed Thames Water scope will establish the reference point for site completion.</p> <p>Following an assessment of special cost claims across all companies and having applied a consistent approach for incentives relating to special cost claims across all companies that recognises the benefits foregone if companies do not deliver, Ofwat have increased the value of the penalty from the draft determination and penalties will be incurred at each site for each year of delay. The application of these penalties have been further revised below. This ODI is the primary regulatory mechanism for incentivising Thames Water to undertake its construction activities on the Thames Tideway Tunnel in a manner that meets the expected revised timetable for the project.</p> <p>Thames Water expressed concerns in its initial representations that the Alliance Agreement for the TTT project could result in double jeopardy and distort incentives. The final Alliance Agreement does not contain any penalties for Programme Incentives (only cost incentives) and so the question of double jeopardy does not arise in respect of access dates.</p> <p>Ofwat will receive regular reporting on the Alliance Agreement via the Liaison Committee, and therefore expects to have some degree of oversight of penalties under the Alliance Agreement. These reports will be assessed by the independent technical assessor; and the Alliance Agreement. Alliance objectives and alliance commitments may not be changed without Ofwat's consent. Ofwat will make an assessment at PR19 of any information put forward by Thames Water.</p> <p>Ofwat have intervened to introduce a mechanism to recover costs for customers in the event of non- delivery of category 2 (Enabling Works) and 3 (System Works) works if Thames Water does not undertake the project. The maximum amount recovered will equal the agreed expenditure for the work (£227 million), and will enable the costs to be passed back to customers in circumstances where the work has been cancelled for reasons outside of Thames Water's control.</p>
<p>Frequency of PC measurement and any use of averaging</p>	<p>PC reported at the end of each financial year and reviewed through independent assurance process.</p>
<p>Timing and frequency of rewards/penalties</p>	<p>Penalties will be calculated annually and applied to the total five-year position in 2015-20 as part of PR19.</p>
<p>Form of reward/penalty</p>	<p>RCV adjustment</p>
<p>Any other information or clarifications relevant to correct</p>	<p>The penalty rate is based upon Ofwat's view of the annualised average incremental cost per site of the category 2 (Enabling Works) and Category 3 (System) works uplifted with estimate of infraction fines (in respect of financial sanctions that the European Court of Justice could apply in the context of infringement proceedings against the UK) as proxy for benefits foregone.</p>

application of incentive

The delay penalty will apply to each site for each year of delay. The delay penalty shall be calculated on a pro rata month by month basis of £283,333 commencing one month after the end of the month of the date of delivery of the site agreed with Ofwat (in accordance with the revised profile set out above). This results in an incentive penalty per site of £3.4 million a year. In the event that all sites were delayed until 2020-21, the maximum incentive penalty would be £156 million.

On [page 198](#), in the composite index table for:

				Reference levels				
Sub measure	Unit	2014-15	Limits	2015-16	2016-17	2017-18	2018-19	2019-20
Planned network rehabilitation	Nr		Ref	650	650	650	650	650
Customer complaints discolouration white water	Nr per 1000 pop	0.13	Ref	0.13	0.13	0.13	0.13	0.13

Read:

				Reference levels				
Sub measure	Unit	2014-15	Limits	2015-16	2016-17	2017-18	2018-19	2019-20
Planned network rehabilitation	Km		Ref					650
Customer complaints discolouration white water	Nr per 1000 pop	0.38	Ref	0.38	0.38	0.38	0.38	0.38

On [page 200](#), in the composite index table for:

				Reference levels				
Sub measure	Unit	2014-15	Limits	2015-16	2016-17	2017-18	2018-19	2019-20
Reservoir Integrity Index	%		Ref	99.97	99.97	99.97	99.97	99.97

Read:

				Reference levels				
Sub measure	Unit	2014-15	Limits	2015-16	2016-17	2017-18	2018-19	2019-20

Reservoir Integrity Index	%		Ref	0.27	0.27	0.27	0.27	0.27
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On [page 201](#), in the composite index table for:

				Reference levels				
Sub measure	Unit	2014-15	Limits	2015-16	2016-17	2017-18	2018-19	2019-20
Water Quality Complaints for: chlorine monitored complaints for hardness	Nr per 1000 pop		Ref	0.7	0.7	0.7	0.7	0.7

Read:

				Reference levels				
Sub measure	Unit	2014-15	Limits	2015-16	2016-17	2017-18	2018-19	2019-20
Water Quality Complaints for: chlorine	Nr per 1,000 pop		Ref	0.07	0.07	0.07	0.07	0.07
Water Quality complaints for hardness	Nr per 1,000 pop			Monitored only	Monitored only	Monitored only	Monitored only	Monitored only

On [page 221](#), in the incentive rates table:

- For 5.6
- Read 4.505¹

On [page 222](#), in the composite index table, for:

				Reference levels				
Sub measure	Unit	2014-15	Limits	2015-16	2016-17	2017-18	2018-19	2019-20

¹ Note – this amendment is before any re-calibration for Thames Water's menu choice

Number of sewer collapses	Nr	338	Ref	498	498	498	498	498
Number of sewer blockages	Nr	57,632	Ref	57,362	57,362	57,362	57,362	57,362
Pollution incidents (cat 1-3)	Nr of incidents	182	Ref	203	203	203	203	203
Properties internally flooded	Nr	848	Ref	848	848	848	848	848

Read:

				Reference levels				
Sub measure	Unit	2014-15	Limits	2015-16	2016-17	2017-18	2018-19	2019-20
Number of sewer collapses	Nr	736	Ref	736	736	736	736	736
Number of sewer blockages	Nr	84,438	Ref	84,438	84,438	84,438	84,438	84,438
Pollution incidents (cat 1-3)	Nr of incidents	206	Ref	206	206	206	206	206
Properties internally flooded	Nr	1,077	Ref	1,077	1,077	1,077	1,077	1,077

On [page 235](#), in the incentives rate table:

- For £193m
- Read £196m²

² Note – this amendment is before any re-calibration for Thames Water's menu choice