



Notice of Ofwat's proposal to impose a financial penalty on Thames Water Utilities Limited

1. Introduction

- 1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage customers in England and Wales. CCWater has four regional committees in England and a committee for Wales.
- 1.2 We welcome the opportunity to respond to Ofwat's consultation on its proposed approach to applying a financial penalty on Thames Water Utilities Ltd (TWUL) for its failings in relation to leakage management and the consequential poor leakage performance that resulted in the company missing, by a significant margin, the leakage target that it committed to achieve by this point in time.

2. Why Leakage is important to customers

- 2.1 The Ofwat consultation clearly explains the importance of efficient and effective leakage management in relation to securing supplies/resilience and in helping to minimise the damage caused to the environment from abstraction. Leakage reduction and the more efficient use of water are both central to TWUL's plans to address the growing pressures on water supplies in its area of operation in the short and longer term. It is one of four companies in the south east of England that is conducting a compulsory water metering programme to help achieve reductions in leakage and in the amount of water its customers use each day.
- 2.2 From customer research we have undertaken in recent years, we know that customers are prepared to accept water metering, and play their part by being more water efficient, but they look to their water company to lead by example. Poor performance in relation to leakage undermines this goodwill and sense of shared endeavour, and is often cited as a barrier to customers doing more to save water. Poor leakage performance is seen as wasteful and can also be interpreted as an indicator of a more general inefficiency within a company. This presents a real problem at a time when the water sector is trying to encourage everyone to value their water supply and use it efficiently.
- 2.3 TWUL made a commitment to its customers at the last price review that it would make significant and sustained reductions in its levels of leakage throughout the current planning period (2015 - 2020). This was in direct response to the clear message it had received through its engagement with customers and stakeholders that leakage reduction was a top priority. It is therefore extremely disappointing that the company (Board and Executive) failed to give this area of operation the attention and focus required and allowed the situation to deteriorate to the extent that it did.

3. Compensation to customers

- 3.1 TWUL has proposed a range of measures to address the performance issues; and to compensate customers for missing its performance commitments, not having appropriate governance and management controls in place, and to ensure customers have not paid for inefficient, excessive expenditure in this area. This will take the form of bill reductions over the next two years, which will carry forward into the first two years of the next planning period (2020 - 2025). In total, TWUL will return £120million to customers.

- 3.2 We fully support the proposal to compensate customers in this way as it will have the most direct and immediate benefit for customers. CCWater has supported the adoption of a ‘restorative justice’ approach to enforcement by Ofwat. Instead of a fine that is paid to the Exchequer, the penalties applied to a company for a breach of duty or failure in required performance delivers a direct benefit to the company’s customers. We support the penalties and measures proposed for TWUL as they are consistent with this approach.
- 3.3 We welcome the company’s commitment to engage more with its customers on leakage issues and be more transparent on its leakage performance. The monthly update on its website is a good first step. We also welcome the company’s stated intention to recover its leakage position so that it achieves its leakage target for 2019/20, and will reduce leakage by a further 15% by 2025. We expect the company to set itself stretching targets in the coming years. Given the growing population it serves and the impacts of climate change, leakage reduction will only become even more important in the future for both the company and its customers.

Enquiries

Enquiries about this consultation response and requests for further information should be addressed to:

Karen Gibbs
Senior Policy Manager
Consumer Council for Water
Tel: 0777 817 5006
E-mail: karen.gibbs@ccwater.org.uk