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## **Reasons for the modification of condition B of Thames Water Utilities Limited's conditions of appointment**

### **Introduction**

#### **1.1 The Thames Tideway Tunnel (TTT)**

The Thames Tideway Tunnel (TTT) is an under-construction 25 km (16 mile) tunnel running mostly under the tidal section of the River Thames through central London, which will capture, store and convey almost all the combined raw sewage and rainwater discharges that currently overflow into the river. The TTT project is of unprecedented scale, size and complexity in the water sector in England and Wales and is the first project to be delivered under a new regulatory framework. The costs and delivery of the project are shared between:

- Thames Water Utilities Limited (Thames Water), which undertakes preparatory and interfacing works for the project; and
- Bazalgette Tunnel Limited (trading as Tideway), the Infrastructure Provider (IP) which finances and is responsible for construction of the tunnel.

#### **1.2 A separate price control for the TTT**

In 2014, Thames Water and Ofwat agreed to a modification of condition B of Thames Water's conditions of appointment, to enable Ofwat to set a separate price control for Thames Water's TTT related costs. At that time, it was considered that a separate price control would only be necessary for the period 2015 – 2020, as most of Thames Water's preparatory and interface works were due to complete in that period. It has now been agreed to extend the separate price control provisions to allow Ofwat to set a separate price control for the period 2020 – 2025. Final price determinations must be made in December 2019 so these licence modifications must be in place before then.

## Reasons for the Licence Modification

Thames Water, Ofwat and Tideway consider that a separate control is in customers' interests because it allows for greater transparency of Thames Water's TTT costs.

Additional benefits of a separate price control are:

- It provides for bespoke uncertainty mechanisms if there is a cost overrun;
- It increases Thames Water's level of accountability; and
- It gives stakeholders a greater ability to understand the delivery of TTT as a whole.

Among other things, extending the separate price control for a further five years will allow the disposals of land, purchased by Thames Water to facilitate the project, to be dealt with in a separate price control. Customers share 100% of any gains or losses in connection with these sales so there is a need for transparency.

We [consulted](#) on the proposed licence modifications but only received two responses, one from Thames Water and the other from Tideway. Both supported the decision to extend the separate price control provisions for Thames Water's TTT related costs for the period 2020-2025. We have therefore proceeded with the modification to condition B of Thames Water's conditions of appointment. These modifications came into effect on 1 October 2018.