

July 2019

Trust in water

PR19 draft determinations

**Thames Water – Targeted controls, markets
and innovation actions and interventions**

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PR19 Draft Determinations: Thames Water– Targeted controls, markets and innovation actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery); and
- advised actions for companies to do by a specific date but that are not required for our draft determinations.

Table 1 below sets out the required and advised actions, a summary of the company’s response to the action, our assessment of the company’s response, and any further interventions we are making as part of the draft determination.

Each action has a unique reference. The prefix ‘TMS’ denotes the company Thames Water. The central acronym references the test area where the action has been identified, please see the ‘PR19 draft determinations: Glossary’ for a key to these acronyms. Actions whose numbers are preceded with an ‘A’ denote required actions and actions whose numbers are preceded with a ‘B’ denote advised actions.

Table 2 below sets out any further interventions that are not resulting from an action which we are making as part of the draft determination.

Each further intervention that is not resulting from an action has a unique reference. The prefix ‘TMS’ denotes the company Thames Water. The central acronym references the test area where the action has been identified, please see the ‘PR19 draft determinations: Glossary’ for a key to these acronyms. Intervention numbers are preceded with a ‘C’.

For all other documents related to the Thames Water draft determination, please see the [draft determinations webpage](#).

Table 1: Thames Water’s response to required actions and interventions for draft determinations

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
Targeted controls, markets and innovation	TMS.CMI.A1	Required	The company’s plan does not provide sufficient explanation for the sludge production volume forecasts, particularly the step changes in volume in 2018/19 which isn’t explained. The company should provide further evidence around how the sludge volume forecast was calculated, including any assumptions made or adjustments to model outputs.	1 April 2019	Thames Water provides a revised forecast and a detailed forecast methodology, taking account of factors such as population growth and P-removal. The narrative provided alongside the data supports the revised forecast.	No intervention required.	N/A
	TMS.CMI.A2	Required	The proposed split of fixed and variable revenues for the bio-resources revenue control has not been sufficiently evidenced, particularly where cost lines are partly incremental and partly fixed. We are also intervening to ensure that the bioresources revenue adjustment is set on a broadly comparable basis to avoid setting revenue controls that may distort the development of trades. We will set out our view in the draft determinations based on the updated tables bio 1, Bio3 and Bio4. We will treat the	1 April 2019	We issued an industry query response in March 2019 setting out further details about the broad approach to be followed consistent with the methodology that would be applied to the fast track companies. Thames Water did not change its methodology from the September 2018 Business Plan submission.	Intervention required. We are intervening because our assessment of the companies’ business plans revealed an inconsistent approach between companies in their calculation of the bioresources revenue	We are intervening to set the level of the split between fixed and variable costs. Our detailed approach is set out in ‘Our methodology for

			funding of the 2020 RCV (run-off, returns and tax) as fixed for these purposes, along with revenues to recover local authority rates; some fees; and a proportion of direct and indirect costs of bioresources treatment and transport.		Thames Water sets out its approach, along with other companies and we have reviewed this evidence.	requirements to recover fixed and variable costs. This resulted in a wide range of suggested splits between the fixed and variable revenue component. As with fast track companies, a consistent approach to the fixed/variable split is essential to ensure that the company is correctly remunerated by our modified average revenue control for outturn sludge volumes that differ from its original forecasts.	the classification of bioresources costs'.
	TMS.CMI.A3	Required	The company should provide a commitment to provide a detailed work programme by end August 2019 to help assure us that the company will deliver appropriate drainage and wastewater management plans. The programme should ensure that the company can prepare and consult on its first drainage and wastewater management plan no later than the summer of 2022 to enable revised plans to be prepared in early 2023 to inform PR24 business plans.	1 April 2019	The company has provided a commitment in its 1 April 2019 submission.	No intervention required.	N/A
	TMS.CMI.A4	Required	The company should provide more evidence of alignment between the business plan and the revised WRMP, and the development of strategic options. The company should submit more evidence to provide justification for the values of Post 2020 bilateral entry capacity provided in the business plan table, WR6.	1 April 2019	The company has provided an appropriate response. The response: <ul style="list-style-type: none"> demonstrates appropriate alignment between plans; and corrects their bilateral entry figures by setting them to zero. 	No intervention required.	N/A
	TMS.CMI.A5	Required	NE London Resilience (WN+) - New 45MI/d treatment & storage. A summary of the key elements of the NE London Resilience (WN+) - New 45MI/d treatment & storage scheme. This should include all of the relevant scheme information including but not limited to the key deliverables. A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to Thames Water. An economic analysis of the scheme including a Net Present Value analysis using the standardised assumptions provided in Table A. This analysis should clearly identify any additional benefit to customers of progressing this scheme outside of DPC.	1 April 2019	The company provided a high level summary of the key elements of the NE London Resilience treatment & storage scheme including the key deliverables, projected scheme costs in its evidence provided to Ofwat on 30 April 2019. The company did not provide a Net Present Value analysis comparing the DPC versus in-house delivery for the scheme. The company's assessment of this scheme concluded that it may offer better value using a DPC process.	Action needed. A review of the technical analysis and evidence for the NE London Resilience treatment & storage scheme identified that the scheme was technically suitable to be delivered via DPC. The company did not however provide a VFM analysis as requested. The company's overall conclusion that this project is suitable for DPC process was less convincing due to the lack of a VFM analysis.	Thames Water to assess this scheme through a DPC process should the need be confirmed.

						Thames Water is to provide a VfM analysis if the need for the scheme is confirmed.	
	TMS.CMI.A6	Required	<p>NE London Resilience (WN+) - High Lift Pumping station.</p> <p>A summary of the key elements of the proposed NE London Resilience (WN+) - High Lift Pumping station scheme. This should include all of the relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to Thames Water.</p> <p>An economic analysis of the scheme including a Net Present Value analysis using the standardised assumptions provided in Table A. This analysis should clearly identify any additional benefit to customers of progressing this scheme outside of DPC.</p>	1 April 2019	<p>The company provided a high level summary of the key elements of the NE London Resilience High Lift Pumping station scheme including the key deliverables, projected scheme costs in its evidence provided to Ofwat on 30 April 2019. The company did not provide a Net Present Value analysis comparing the DPC versus in-house delivery for the scheme.</p> <p>The company's assessment of this scheme concluded that it should be further considered using a DPC process.</p>	<p>Action needed.</p> <p>A review of the technical analysis and evidence for the NE London Resilience High Lift Pumping station scheme was carried out as to the schemes suitability to progress via DPC.</p> <p>The analysis identified that the scheme was less suitable however limited evidence supported this conclusion.</p> <p>The company did not provide a VFM analysis as requested.</p> <p>The company's conclusion that this project is less suitable for DPC process was less convincing due to the lack of a VFM analysis.</p> <p>Thames Water is to produce a VfM analysis if the need for the scheme is confirmed.</p>	Thames Water to assess this scheme through a DPC process should the need be confirmed.
	TMS.CMI.A7	Required	<p>NE London Resilience (WN+) – Other</p> <p>Please explain why linking the two NE London Resilience schemes into a single DPC scheme was not contemplated.</p> <p>For NE London Resilience (WN+) - New 45MI/d treatment & storage scheme and the NE London Resilience (WN+) - High Lift Pumping station scheme appear to be geographically and/or functionally linked. We require Thames Water to supply us with an economic analysis of the combined scheme including a Net Present Value analysis using the standardised assumptions provided in Table A. This analysis should clearly identify any additional benefit to customers of progressing these schemes outside of DPC.</p>	1 April 2019	<p>The company did not provide an explanation why NE London Resilience treatment & storage scheme and High Lift Pumping station scheme could not be linked into a single scheme in its evidence provided to Ofwat on 30 April 2019.</p> <p>The company did not provide a Net Present Value analysis comparing the DPC versus in-house delivery for the single scheme.</p>	<p>No interventions required.</p> <p>The company did not provide a clear answer to this question, however.</p>	N/A
	TMS.CMI.A8	Required	<p>Raw water transfer schemes - New trunk mains.</p> <p>A summary of the key elements of the proposed Raw Water Transfer Schemes - New trunk mains. This should include all of the relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year.</p>	1 April 2019	<p>The company provided a high level summary of the key elements of the Raw Water Transfer Schemes - New trunk mains scheme including the key deliverables, projected scheme costs in its evidence provided to Ofwat on 30 April 2019.</p> <p>The company did not provide a Net Present Value analysis</p>	<p>No interventions required.</p> <p>A review of the technical analysis for the Raw Water Transfer Schemes - New trunk mains scheme was carried out on the decision not to</p>	N/A

			<p>These should clearly identify the incremental costs to Thames Water.</p> <p>An economic analysis of the scheme including a Net Present Value analysis using the standardised assumptions provided in Table A. This analysis should clearly identify any additional benefit to customers of progressing this scheme outside of DPC.</p>		<p>comparing the DPC versus in-house delivery for the scheme.</p> <p>The company's assessment of this scheme concluded that it should not be further considered using a DPC process.</p>	<p>progress the scheme under a DPC process.</p> <p>The analysis identified that the scheme was less suitable however limited information supported this conclusion. The company did not produce a VFM analysis as requested.</p> <p>The company's conclusion that this project is not suitable for DPC process was less convincing due to the lack of a VFM analysis.</p>	
	TMS.CMI.A9	Required	<p>Guildford Sewage Treatment Plant</p> <p>A summary of the key elements of the proposed Guildford Sewage Treatment Plant scheme. This should include all of the relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to Thames Water.</p> <p>A summary of the current funding options for the scheme and impact on Thames Water customers.</p> <p>An assessment of the potential for the scheme to be delivered through DPC.</p>	1 April 2019	<p>The company provided a high level summary of the key elements of the Guildford Sewage Treatment Plant scheme including the key deliverables, projected scheme costs in its evidence provided to Ofwat on 30 April 2019.</p> <p>The company did not provide a summary of the current funding options for the scheme and impact on Thames Water customers.</p> <p>The company's assessment of this scheme concluded that it could not be delivered using a DPC process due to the government funding conditions.</p>	<p>No interventions required.</p> <p>A review of the information provided concerning the Guildford Sewage Treatment Plant was carried out on the company's decision not to progress the scheme under a DPC process.</p> <p>There was little supporting evidence on the agreements or contractual arrangements that prevented this scheme from being better value for customers under DPC.</p> <p>Based on the limited information provided it was considered to be less likely to offer the best value for money for customers through a DPC procurement process.</p>	N/A
	TMS.CMI.A10	Required	<p>PR19 Mogden STW</p> <p>A summary of the key elements of the proposed capital spend at Mogden Sewage Treatment Plant for AMP7 and AMP8. This should include all of the relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each area of the scheme by year. These should clearly identify the incremental costs to Thames Water.</p> <p>An assessment of the potential for elements of the scheme to be delivered through DPC.</p>	1 April 2019	<p>The company provided a high level summary of the key elements of the Mogden Sewage Treatment Plant for AMP7 and AMP8 including the key deliverables, projected scheme costs in its evidence provided to Ofwat on 30 April 2019.</p> <p>The technical analysis indicated that the reasons for rejection were due to the large number of small upgrades which are scattered across the site of the existing works.</p>	<p>No interventions required.</p> <p>A review of the technical analysis for the Mogden Sewage Treatment Plant for AMP7 and AMP8 scheme was carried out on the decision not to progress the scheme under a DPC process.</p> <p>The analysis identified that the scheme was less suitable based on the limited information that supported this conclusion. The decision was less convincing due to the lack of detailed supporting evidence.</p>	N/A

	TMS.CMI.A11	Required	<p>PR19 Beckton STW Growth</p> <p>A summary of the key elements of the proposed capital spend at Beckton Sewage Treatment Plant for AMP7 and AMP8. This should include all of the relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each area of the scheme by year. These should clearly identify the incremental costs to Thames Water.</p> <p>An assessment of the potential for elements of the scheme to be delivered through DPC.</p>	1 April 2019	<p>The company provided a high level summary of the key elements of the Beckton Sewage Treatment Plant for AMP7 and AMP8 including the key deliverables, projected scheme costs in its evidence provided to Ofwat on 30 April 2019.</p> <p>The technical analysis indicated that the reasons for rejection were due to the large number of interfaces with existing assets as the various elements of the scheme are scattered across the site of the existing works.</p>	<p>No interventions required.</p> <p>A review of the technical analysis for the Beckton Sewage Treatment Plant for AMP7 and AMP8 scheme was carried out on the decision not to progress the scheme under a DPC process.</p> <p>The analysis identified that the scheme was less suitable based on the limited information that supported this conclusion. The decision was less convincing due to the lack of detailed supporting evidence.</p>	N/A
	TMS.CMI.A12	Required	<p>PR19 Crossness STW Growth</p> <p>A summary of the key elements of the proposed capital spend at Crossness Sewage Treatment Plant for AMP7 and AMP8. This should include all of the relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each area of the scheme by year. These should clearly identify the incremental costs to Thames Water.</p> <p>An assessment of the potential for elements of the scheme to be delivered through DPC.</p>	1 April 2019	<p>The company provided a high level summary of the key elements of the Crossness Sewage Treatment Plant for AMP7 and AMP8 including the key deliverables, projected scheme costs in its evidence provided to Ofwat on 30 April 2019.</p> <p>The technical analysis indicated that the reasons for rejection were due to the large number of interfaces with existing assets as the various elements of the scheme are scattered across the site of the existing works.</p>	<p>No interventions required.</p> <p>A review of the technical analysis for the Crossness Sewage Treatment Plant for AMP7 and AMP8 scheme was carried out on the decision not to progress the scheme under a DPC process.</p> <p>The analysis identified that for the selected option the scheme was less suitable based on the limited information that supported this conclusion. The decision was less convincing due to the lack of detailed supporting evidence and the consideration of alternative options for new assets.</p>	N/A
	TMS.CMI.A13	Required	<p>PR19 Riverside STW – Growth</p> <p>A summary of the key elements of the proposed capital spend at Riverside Sewage Treatment Plant for AMP7 and AMP8. This should include all of the relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each area of the scheme by year. These should clearly identify the incremental costs to Thames Water.</p> <p>An assessment of the potential for elements of the scheme to be delivered through DPC.</p>	1 April 2019	<p>The company provided a high level summary of the key elements of the Riverside Sewage Treatment Plant for AMP7 and AMP8 including the key deliverables, projected scheme costs in its evidence provided to Ofwat on 30 April 2019.</p> <p>The technical analysis indicated that the reasons for rejection were due to the large number of interfaces with existing assets as the various elements of the scheme are scattered across the site of the existing works.</p>	<p>No interventions required.</p> <p>A review of the technical analysis for the Riverside Sewage Treatment Plant for AMP7 and AMP8 scheme was carried out on the decision not to progress the scheme under a DPC process.</p> <p>The analysis identified that for the selected option the scheme was less suitable based on the limited information that supported this</p>	N/A

						conclusion. The decision was less convincing due to the lack of detailed supporting evidence and the consideration of alternative options for new assets.	
	TMS.CMI.A14	Required	<p>WRMP19_ML_TLT extn - Extension from Lockwood to KGV Reservoir</p> <p>A summary of the key elements of the Extension from Lockwood to KGV Reservoir scheme. This should include all of the relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to Thames Water.</p> <p>An assessment of the potential for elements of the scheme to be delivered through DPC.</p>	1 April 2019	<p>The company did not provide any detail or analysis for Extension from Lockwood to KGV Reservoir scheme in its evidence provided to Ofwat on 30 April 2019.</p> <p>This was due to the removal of one of the Teddington Direct River Abstraction (DRA) which from the business plan due to stakeholder concerns. The Extension from Lockwood to KGV Reservoir scheme was a sub-project of this larger scheme.</p>	<p>No interventions required.</p> <p>Based on the information that this scheme is no longer needed, there is no requirement for a DPC evaluation.</p> <p>Should this scheme be required in the future it will be evaluated for suitability for DPC.</p>	N/A
	TMS.CMI.A15	Required	<p>WRMP19_ML_Kempton WTW</p> <p>A summary of the key elements of the proposed capital spend at Kempton Water Treatment Works for AMP7 and AMP8. This should include all of the relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to Thames Water.</p> <p>An assessment of the potential for elements of the scheme to be delivered through DPC.</p>	1 April 2019	<p>The company did not provide any detail or analysis for Kempton Water Treatment Works scheme in its evidence provided to Ofwat on 30 April 2019.</p> <p>This was due to the removal of one of the Teddington Direct River Abstraction (DRA) which from the business plan due to stakeholder concerns. The Kempton Water Treatment Works scheme was a sub-project of this larger scheme.</p>	<p>No interventions required.</p> <p>Based on the information that this scheme is no longer needed, there is no requirement for a DPC evaluation.</p> <p>Should this scheme be required in the future it will be evaluated for suitability for DPC.</p>	N/A
	Advised actions	Advised	There are no advised actions.	N/A			

Table 2: Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
N/A	N/A	N/A

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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