

July 2019

Trust in water

PR19 draft determinations

Thames Water – Accounting for past delivery actions and interventions

PR19 Draft Determinations: Thames Water - Accounting for past delivery 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, the model the action relates to, 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. Table 1 also sets out any further interventions that are not resulting from an action which we are making as part of the draft determination.

Each action and 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. Actions whose numbers are preceded with an 'A' denote required actions. Actions whose numbers are preceded with a 'B' denote advised actions. Interventions not resulting from an action are preceded with a 'C' followed by a three digit code for the model the intervention is relevant to, and a two digit reference for the interventions in that model. The model codes are set out below.

Model	Code
ODIs	002
Land sales	003
WRFIM	005
Totex	006
Water trading	007
Residential retail	008
SIM	009
RCV adjustments feeder model	010
Revenue adjustments feeder model	011

Table 2 below is supplementary to Table 1 and provides additional information on our assessment of the evidence provided in response to required actions on deliverability. This constitutes our feedback on these required actions as set out in '[PR19 initial assessment of plans: Summary of test area assessment](#)'.

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

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Land disposals	TMS.PD.A1	Required	PR14 Land sales: Thames Water is required to provide additional evidence to support the forecast trajectory in table App9.	1 April 2019	Thames Water provides additional evidence to support the forecast trajectory in table App9.	No intervention required. Commentary supplied to support the forecast is sufficient.	N/A

Outcomes	TMS.PD.A2	Required	<p>PR14 Outcome delivery incentives: Thames Water submitted further evidence on the Counters Creek Performance Commitment in November 2018, which has not been assessed as part of the initial assessment of business plans. Subject to our assessment of this evidence after the end of the initial assessment of business plans, the company may be required to provide further convincing evidence that a change to the Counters Creek performance commitment is in customers' interests and/or make a substantial change to the outcome delivery incentive underperformance penalty to return money to customers in tables App5/App6/App27.</p>	1 April 2019	<p>Thames Water submitted its outcome delivery incentive amendment proposal for Counters Creek (performance commitment SB3) in November 2018. It met with Ofwat on 21 November 2018 to talk through the proposal in more detail including how our understanding of the risk of flooding in the catchment has evolved. Following the initial assessment of plans feedback, Ofwat issued a set of questions to Thames Water in respect of its proposal on 8 February 2019, and to which it responded on the 15 March 2019.</p> <p>The company met with Ofwat on 19 March 2019 to further discuss the proposal to amend performance commitment SB3 and committed to provide Ofwat with a supplementary letter by 12 April 2019.</p>	<p>The intervention is to include an underperformance payment for performance commitment SB3: properties protected from flooding due to rainfall. Thames Water does not plan to deliver the Counters Creek strategic storm relief sewer. This strategic sewer, together with other improvements over the 2015-20 period, were expected to deliver an annualised benefit of £14.2 million in the Counters Creek area. The PC set out that 'If the Counters Creek project is cancelled and will not be delivered in AMP6 or future AMPs for reasons inside company control the ODI underperformance payment will follow the same method as for non-delivery of the other sewer flooding outputs. This leads to a maximum penalty of £162m.' The company considers improvements in the Counters Creek area have so far delivered an annualised benefit of £0.9 million and that it has a high confidence that there are properties where improvements could deliver a further £1.9 million of annualised benefits before 2020. In November 2018 the company applied to change the definition of the PC as it considers that the scale of sewer flooding risk is less than expected and that the work it plans will resolve the risk. It considers that the scheme is not being cancelled. It proposes to return allowed expenditure not spent in the area to customers in full by a reduction to the RCV.</p> <p>The PC definition references a document (PCR SB3 - 27 June 2014) that sets out further details to understand the PC:</p> <ul style="list-style-type: none"> • 'We recognise any flooding programme is subject to uncertainty, as rainfall causes new flooding of properties – and this may affect the prioritisation of schemes, or even the scale of investment that is cost beneficial. We have used a matrix of benefits to manage uncertainty. The matrix below underpins this performance commitment.' • 'In the event that we deliver an annual benefit of less than £20m by the end of AMP6, a matrix is used to determine the underperformance payment rate.' The matrix is how the company has determined the lower annualised benefit of £2.8 million (£0.9 million + £1.9 million). 	<p>SB3 (properties protected from flooding due to rainfall - including Counters Creek project)</p> <p>We are intervening to include an underperformance payment of - £130.056 million (2012-13 prices, net of tax) for performance commitment SB3.</p> <p>Our intervention reduces the wastewater RCV at the end of the 2015-20 period by - £149.531 million (2017-18 FYA CPIH deflated price base).</p>
----------	-----------	----------	--	--------------	--	--	---

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
						<p>There is insufficient evidence that Thames Water understands the risk of flooding in the Counters Creek area. For instance, it has previously stated that the risk of flooding comes from rainfall over a widespread area, but in presenting evidence that the risk is less than previously thought has focused on rainfall in the more immediate area of Counters Creek.</p> <p>We consider that not delivering the 'strategic sewer' constitutes cancellation of the Counters Creek scheme. If it does constitute cancellation we consider the PC definition does not need to be changed.</p>	

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
						<p>Thames Water proposed a scheme and has not delivered it for reasons that were within Thames' control, in particular:</p> <ul style="list-style-type: none"> • how it originally assessed the benefits and its failure to appropriately check sewer flooding records; • its failure to deliver a hydraulic model that can be used to understand the risk of sewer flooding; • its failure to secure sites in advance and the delay of its stakeholder engagement; and • its involvement in setting up Thames Tideway and its failure to make timely provision for joint working on the Cremorne Wharf site. <p>The majority of the originally envisioned benefits have not been realised. The statement in the PC definition that there is a maximum underperformance payment for cancellation implies that cancellation can occur when some benefits have been achieved, as in this case. We have calculated the underperformance payment by multiplying the proportion of annualised benefits not achieved by the maximum underperformance penalty: 80% ((£14.2 million - £2.8 million) / £14.2 million) multiplied by £162 million = £130.056 million. The PC also set out that a change in scope of work delivered could impact the calculation of the ODI. Our calculation assumes that the scope of improvements that the company is planning to deliver, leading to the £2.8 million annualised benefit, was an element of the original scheme at PR14 and therefore no adjustment is necessary.</p>	

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Outcomes	TMS.PD.A3	Required	<p>PR14 Outcome delivery incentives: Thames Water is required to update its forecast for 2019-20 performance to take account of the actual 2018-19 performance for all its performance commitments.</p> <p>We expect the company to pay particular focus where we found the evidence provided in its business plan for the 2018-20 forecasts to be insufficient which was for:</p>	15 July 2019	No company action required for the draft determination.	<p>No intervention required.</p> <p>We will review Thames Water's updated data before making any interventions for the final determination.</p>	N/A
Outcomes	TMS.PD.A3a	Required	WC2: Leakage	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3b	Required	WA4: Reduced water consumption from issuing water efficiency devices to customers	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3c	Required	WB6: Security of Supply Index - Ofwat KPI	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3d	Required	WB7: Compliance with SEMD advice notes (with or without derogation)	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Outcomes	TMS.PD.A3f	Required	WB1: Asset health water infrastructure	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3g	Required	WB5: Average hours lost supply per property served, due to interruptions > 4 hours	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3h	Required	WB8: MI/d of sites made resilient to future extreme rainfall events	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3i	Required	SB3: Properties protected from flooding due to rainfall (including Counters Creek project)	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3j	Required	WC5: Deliver 100% of agreed measures to meet new environmental regulations	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3k	Required	SB5: Contributing area disconnected from combined sewers by retrofitting sustainable drainage	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3l	Required	SB6: Compliance with SEMD advice notes (with or without derogation)	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3m	Required	SC8: Deliver 100% of agreed measures to meet new environmental regulations	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Outcomes	TMS.PD.A3n	Required	SC9: Reduce the amount of phosphorus entering rivers to help improve aquatic plant and wildlife	15 July 2019	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Residential retail	TMS.PD.A4a	Required	PR14 Residential retail: Thames Water is required to resubmit the PR14 reconciliation model including the missing calculations.	1 April 2019	Thames Water resubmits the PR14 residential retail reconciliation model including the missing calculations.	No intervention required. The company's response to the action is sufficient.	N/A
Residential retail	TMS.PD.A4b	Required	PR14 Residential retail: Thames Water is required provide further evidence to support all of the forecasts in table R9.	1 April 2019	Thames Water provides evidence to support its forecasts by referring to details of its metering programme, improvements in processes to identify properties that should be in charge and increased property growth rates.	No intervention required. We consider the evidence the company provides to be sufficient to explain the forecast.	N/A
SIM	TMS.PD.A5	Required	PR14 Service incentive mechanism: Thames Water is required to provide more evidence to support the forecast trajectory in table R10.	1 April 2019	Thames Water provides an explanation for its forecast trajectory in its response to action TMS.PD.A5.	No intervention required. We consider the evidence the company provides to be sufficient to explain the forecast.	N/A
SIM	TMS.PD.C009.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to adjust Thames Water's household retail revenue as a result of its SIM performance from 2015-16 to 2018-19.	We are intervening to set the service incentive mechanism adjustment to -11.98% of household retail revenue, which is -£103.155 million (2017-18 FYA CPIH deflated price base) in total over the period. We further explain how we calculate this in the 'Accounting for past delivery technical appendix'.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Totex	TMS.PD.A6a	Required	PR14 Totex: Thames Water is required to re-submit the published model without an adjustment for Counters Creek, or alternatively provide sufficient and convincing evidence for why the adjustment is appropriate.	1 April 2019	<p>Thames Water responds to this action and submits data without the Counters Creek adjustment.</p> <p>However, following our initial assessment of plans feedback (including this specific action), Thames Water takes a different approach to returning 100% of the savings to customers (c £120 million in 2012-13 prices) for non-delivery of this performance commitment. The company is now making:</p> <ul style="list-style-type: none"> No adjustments to the totex menu. The underspend associated with Counters Creek therefore automatically returns 49.6% (i.e. 1 minus 50.4%, the wastewater totex sharing rate) of the saving to customers. A downward adjustment to the RCV to return the remaining 50.4% of the underspend to customers (- £86.351 million 2017-18 FYE CPIH deflated). 	<p>Intervention required.</p> <p>As explained in TMS.PD.A2 above, for non-delivery of the Counters Creek performance commitment we are intervening to include an outcome delivery incentive underperformance payment of -£130.056 million (2012-13 prices, net of tax). This reduces the wastewater RCV at the end of the 2015-20 period by - £149.531 million (2017-18 FYA CPIH deflated price base).</p> <p>For the draft determination, to avoid double counting when returning the allowed expenditure back to customers, we are removing the downward adjustment of £86.351 million (2017-18 FYE CPIH deflated price base) Thames Water makes to the wastewater RCV in its business plan table App8.</p>	We are intervening to change the 'Wastewater - Other adjustment to wholesale RCV' from - £86.531 million to £0.000 million.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Totex	TMS.PD.A6b	Required	PR14 Totex: Thames Water is required to ensure the values in the model are consistent with tables WS15 / WWS15 / Dmmy10.	1 April 2019	Thames Water responds to this action and submits models which are consistent with tables WS15 / WWS15 / Dmmy10.	No intervention required. The company's response to the action is sufficient.	N/A
Totex	TMS.PD.A6c	Required	PR14 Totex: Thames Water is required to update the submitted values to be consistent with PR14 final determination and previously reported actual data, or alternatively, it should provide an explanation as to why there are differences.	1 April 2019	Thames Water responds to this action and submits values consistent with the PR14 final determination.	No intervention required. The company's response to the action is sufficient.	N/A
Totex	TMS.PD.A6d	Required	PR14 Totex: Thames Water is required to provide detailed and numerical explanation of its forecasted trajectory.	1 April 2019	Thames Water responds to this action in its TW_PD_A4 Accounting for Past Delivery: cost allowances (P.6). The company's overspend on its water business is mainly driven by increased leakage costs. For wastewater it is incurring additional costs on maintaining sewer crossings and reducing sewer flooding.	No intervention required. We consider the evidence the company provides to be sufficient to explain the forecast.	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Totex	TMS.PD.A6e	Required	PR14 Totex: Thames Water is required to provide an explanation of the high underspend for the TTT control.	1 April 2019	<p>Thames Water provides a detailed explanation of the high TTT underspend in its 'TTT price control update' document.</p> <p>The main drivers of its significant underspend are procurement savings achieved through using existing alliance arrangements. The company achieved its enabling works deadlines quicker than originally planned. This resulted in lower overhead costs. In addition to this, Thames Water's final determinations allowance included costs associated with Main Works Contractors design changes in response to the enabling works which did not materialise.</p>	<p>No intervention required.</p> <p>We consider the evidence the company provides to be sufficient to explain the data.</p>	N/A
Totex	TMS.PD.C006.01	Intervention not resulting from an action	Corrected Sewerage: implied menu choice figure	N/A	N/A	<p>Intervention required.</p> <p>Thames Water rounds the sewerage implied menu choice figure to 98.000. This is consistent with the published figure on our website under the 'final menu choices'. The figure used in our PR14 final determinations was 98.043.</p>	We have replaced Thames Water's sewerage implied menu choice figure with the figure of 98.043 as used in the PR14 final determination.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Totex	TMS.PD.C006.02	Intervention not resulting from an action	Corrected Sewerage: final menu choice figure	N/A	N/A	<p>Intervention required</p> <p>Thames Water rounds the sewerage final menu choice figure to 98.000. This is consistent with the published figure on our website under the 'final menu choices'. The figure used in our PR14 final determinations was 98.043.</p>	<p>We have replaced Thames Water's sewerage final menu choice figure with the figure used in the PR14 final determination.</p> <p>Along with TMS.PD.C006.01 above, our intervention reduces the wastewater totex menu revenue adjustment from - £1.956 million to - £1.933 million (2017-18 FYA CPIH deflated price base).</p>
WRFIM	TMS.PD.C005.01	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We note the inflation factors Thames Water uses to convert the adjustments relating to the early payment of end of period outcome delivery incentive penalties from 2012-13 prices to nominal prices do not reflect the RPI data in the April submission (table App23).</p>	<p>We are intervening to recalculate the values of the adjustments relating to the early payment of the end of period outcome delivery incentive penalties using the RPI data from table App23 of the April submission. We use the RPI data from table App23 in the model.</p> <p>Our intervention decreases the total WRFIM adjustment at the end of the 2015-20 period from £131.112 million (£83.377 million for water, £46.945 million for wastewater and £0.790 million for Tideway) to £131.089 million (£83.354 million for water, £46.944 million for wastewater and £0.792 million for Tideway) (2017-18 FYA CPIH deflated price base).</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Water trading	TMS.PD.C007.01	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to disallow the water trading import incentive claim for the trade with Northumbrian Water. The principles of the water trading incentives policy were set out at PR14. The policy intent of the incentives was to encourage new transfers of water between water companies. In order to be able to claim water trading incentives, the 'PR14 methodology' set out a requirement for companies to have an Ofwat-approved trading and procurement code in place consistent with those principles. Thames Water has an Ofwat approved trading and procurement code 'Thames Water's trading and procurement code' consistent with the water trading incentives policy set out at PR14 which we approved on 11 May 2016. However, the net effect of the water trade with Northumbrian Water is to implement a reduction in the amount of water that is exported from Thames Water to Northumbrian Water under a modification of a pre-existing bulk supply agreement with Essex and Suffolk Water. Therefore, the incentive claim for this water trade is inconsistent with the criteria set out in the trading and procurement code which requires a new import agreement and with the policy intent of the water trading incentives as set out in the PR14 methodology to encourage new water transfers. Therefore, we are intervening to disallow the claim.</p> <p>Thames Water has a trade agreement with RWE Generation UK (RWE) which is a new import agreement which is consistent with the criteria set out in the trading and procurement code. It is also consistent with the policy intent of the water trading incentives policy as set out in the PR14 methodology to encourage new water transfers. Therefore, we are allowing the incentive claim in respect of the import of water from RWE.</p>	Our interventions reduce the total PR14 water trading revenue payment at the end of the 2015-20 period from £0.768 million to £0.329 million (2017-18 FYA CPIH deflated price base).

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
All models	TMS.PD.A7	Required	PR14 reconciliations: Further to the actions we have set out to address our concerns over the evidence provided in its business plan for the individual reconciliations, we will require the company to refresh all of its PR14 reconciliations to replace its 2018-19 forecast performance with 2018-19 actual performance and update the evidence for its forecast 2019-20 performance taking into account of the actual 2018-19 performance.	15 July 2019	No company action required for the draft determination.	No intervention required. We will review Thames Water's responses to its actions and further information provided for all the PR14 reconciliation models before making any further interventions for the final determination.	N/A
Revenue adjustments	TMS.PD.C011.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are standardising the discount factor used to profile revenue adjustments. Companies can choose to apply revenue adjustments either in the first year, or, spread over a number of years in the 2020-25 period to minimise the impact on bills or to generate a bill profile that is appropriate for its customers. We consider the wholesale WACC is an appropriate discount factor as this is a measure of the time value of money that is consistent with the price control framework. We are not intervening in Thames Water's choices for profiling revenue adjustments in 2020-25.	We are using our view of the wholesale WACC (3.09%) as the discount factor to preserve the net present value of the outperformance or underperformance payments due when spreading adjustments over the period.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	TMS.PD.A8	Required	<p>Thames Water should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> the drivers of its past and current outcomes performance, including financial and reputational performance commitments; lessons learnt from good and poor past and current performance; the performance gap between current performance and proposed performance in the 2020-25 business plan; and the measures planned or already in place to ensure deliverability of the 2020-25 business plan. 	1 April 2019	<p>The company submits additional evidence of deliverability for the following performance commitments over which we had material concerns:</p> <ul style="list-style-type: none"> Leakage; Water supply interruptions; Treatment works compliance; Sewage pumping station availability; The Security and Emergency Measures Direction (SEMD); and Security of Supply Index (SOSI). 	<p>We have reviewed the company's response to this action on the performance commitments over which we had the most significant concerns in our initial assessment – leakage, water supply interruptions and treatment works compliance.</p> <p>We also had concerns over the Sewage pumping station availability, The Security and Emergency Measures Direction (SEMD) and Security of Supply Index (SOSI) performance commitments. We address these within "Thames Water – actions and interventions – outcomes".</p> <p>Leakage performance commitment</p> <p>We are intervening in outcomes to protect customers by providing sufficient incentives to mitigate the risks around delivery of 2020-25 stretch. See TMS.OC.A16.</p> <p>For our assessment and rationale see TMS.PD.A8 on table 2.</p> <p>Water supply interruptions performance commitment</p> <p>Intervention required.</p> <p>For our assessment and rationale see TMS.PD.A8 on table 2.</p> <p>Treatment works compliance performance commitment</p> <p>No intervention required.</p> <p>There are sufficient incentives in place to mitigate the risks around delivery of 2020-25 stretch; we are accepting the company's proposed underperformance penalty rate in its revised business plan which is the second highest in the industry. We consider that this adequately protects customers.</p> <p>For our assessment and rationale see TMS.PD.A8 on table 2.</p>	<p>These conclusions on interventions take account of the evidence submitted for actions TMS.PD.A8 and TMS.PD.A9.</p> <p>Leakage performance commitment</p> <p>See TMS OC.A16 within the "Thames Water – actions and interventions" document for outcomes for details on the intervention.</p> <p>We also require that the company provides an action plan specifically to deliver its leakage performance commitment for 2020-25 which sets how the company will:</p> <ul style="list-style-type: none"> continuously monitor performance against its PR19 leakage performance commitment; identify drivers of leakage performance and lessons learnt from both good and poor performance; identify measures to improve leakage performance and integrate these into the business; and ensure that this is a continuous rather than and one off process. <p>Water supply interruptions performance commitment</p> <p>We are intervening to protect customers by increasing Thames Water's outcome delivery incentive underperformance payment rate to the industry average as we consider that a stronger incentive is required for the company to achieve the level of stretch in the 2020-25 business plan. This has increased Thames Water's outcome delivery incentive underperformance rate from £1.697m per minute lost per property to the industry average of £1.970m per minute lost per property.</p> <p>We also require the company to provide an action plan specifically to deliver its water supply interruptions performance commitment for 2020-25 which sets how the company will:</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
							<ul style="list-style-type: none"> • continuously monitor performance against its PR1 water supply interruptions performance commitment; • identify drivers of water supply interruptions performance and lessons learnt from both good and poor performance; • identify measures to improve water supply interruptions performance and integrate these into the business; and • ensure that this is a continuous rather than and one off process. <p>Treatment works compliance performance commitment</p> <p>N/A</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	TMS.PD.A9	Required	<p>Thames Water should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> • how Thames Water will continuously monitor performance against PR14 and PR19 performance commitments, including how this relates to section 3 of the Annual Performance Report and what evidence it will look for beyond itself and the sector; • how Thames Water will identify drivers of performance and lessons learnt from both good and poor performance; • how Thames Water will identify measures to improve performance and integrate these into its business; and • how Thames Water will ensure that this is a continuous rather than one-off process. 	1 April 2019	Thames Water provides one action plan covering all of its performance commitments.	<p>See assessment for action TMS.PD.A8 above for conclusions on interventions.</p> <p>We have reviewed Thames Water's response to this action on the performance commitments over which we had material concerns in our initial assessment.</p> <p>For our assessment and rationale of the company's action plan see TMS.PD.A9 on table 2.</p>	See assessment for action TMS.PD.A8 above for conclusions on interventions.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	TMS.PD.B1	Advised	<p>Thames Water should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> the drivers of its costs performance, including performance against cost allowances for all price controls; lessons learnt from good and poor past and current performance; the performance gap between current performance and proposed performance in the 2020-25 business plan; and the measures planned or already in place to ensure deliverability of the 2020-25 business plan. 	24 May 2019	Thames Water submits its response to this action.	Following a risk-based review of Thames Water's response to this action we will determine whether there is a need for intervention for the final determination.	N/A for draft determination.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	TMS.PD.B2	Advised	<p>Thames Water should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> • how Thames Water will continuously monitor performance against cost allowances, including how this relates to section 2 and 4 of the Annual Performance Report and what evidence it will look for beyond itself and the sector; • how Thames Water will identify drivers of performance and lessons learnt from both good and poor performance; • how Thames Water will identify measures to improve performance and integrate these into its business; and • how Thames Water will ensure that this is a continuous rather than one-off process. 	24 May 2019	Thames Water submits its response to this action.	Following a risk-based review of Thames Water's response to this action we will determine whether there is a need for intervention for the final determination.	N/A for draft determination.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	TMS.PD.B3	Advised	<p>Thames Water should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> the drivers of incidents performance and customer communication and support performance during and after major incidents, pollution incidents and where statutory and licence obligations enforced by the EA/NRW, DWI and Ofwat have not been met; lessons learnt from good and poor past and current performance; the performance gap between current performance and proposed performance in the 2020-25 business plan; and measures planned or already in place to ensure deliverability of the 2020-25 business plan. 	24 May 2019	Thames Water submits its response to this action.	Following a risk-based review of Thames Water's response to this action we will determine whether there is a need for intervention for the final determination.	N/A for draft determination.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	TMS.PD.B4	Advised	<p>Thames Water should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> • how Thames Water will continuously monitor incidents performance and customer communication and support during and after major incidents and deliver targets set by the EA/NRW in the Environmental Performance Assessment (EPA), by DWI and by Ofwat's regulations , including what evidence it will look for beyond itself and the sector; • how Thames Water will identify drivers of performance and lessons learnt from both good and poor performance; • how Thames Water will identify measures to improve performance and integrate these into its business; and • how Thames Water will ensure that this is a continuous rather than one-off process. 	24 May 2019	Thames Water submits its response to this action.	Following a risk-based review of Thames Water's response to this action we will determine whether there is a need for intervention for the final determination.	N/A for draft determination.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	TMS.PD.B5	Advised	<p>Thames Water should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> the drivers of its complaints handling performance both in terms of the number of complaints and how well complaints are dealt with; lessons learnt from good and poor past and current performance; the performance gap between current performance and proposed performance in the 2020-25 business plan; and the measures planned or already in place to ensure deliverability of the 2020-25 business plan. 	24 May 2019	Thames Water submits its response to this action.	Following a risk-based review of Thames Water's response to this action we will determine whether there is a need for intervention for the final determination.	N/A for draft determination.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	TMS.PD.B6	Advised	<p>Thames Water should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> • how Thames Water will continuously monitor performance, including with reference to CCWater analysis and targets, and those related to the delivery of C-Mex, including what evidence and best practice it will look for beyond itself and the sector; • how Thames Water will identify drivers of performance and lessons learnt from both good and poor performance; • how Thames Water will identify measures to improve performance and integrate these into its business; and • how Thames Water will ensure that this is a continuous rather than one-off process. 	24 May 2019	Thames Water has submitted its response to this action.	Following a risk-based review of Thames Water's response to this action we will determine whether there is a need for intervention for the final determination.	N/A for draft determination.

Table 2 – Past delivery deliverability assessments supplementary table

Action reference	Our assessment and rationale
TMS.PD.A8	<p>Leakage performance commitment</p> <p>Thames Water provides insufficient and unconvincing of performance drivers and lessons learnt.</p> <p>The company provides insufficient evidence that it recognises the performance gap between current outcomes performance and proposed performance in the 2020-25 plan, but acknowledges there is a mismatch between work done and leakage outcome.</p> <p>It provides insufficient and unconvincing evidence that it has identified and understood the main drivers of its past performance on leakage. The company mentions that a number of significant weather events and major incidents in the 2015-20 period had a consequence on a number of their performance commitments including leakage but also provides evidence that there were significant operational incident management problems during the freeze/thaw event in March 2018, pointing to its own organisational issues being the key driver.</p> <p>The company does not provide any further evidence that it has assessed a root cause analysis for missing its leakage performance target and acknowledges that it has been on a journey from learn from its performance. It has provided sufficient and convincing evidence that it has identified areas for improvement in this area. The company identifies a number of operational improvements and network configuration optimisation that it has implemented or is currently trialling for leakage detection, planning and dispatch, repairs and maintenance, and asset availability.</p> <p>The company has not referred to the findings of our August 2018 enforcement case on leakage, whereby we imposed a nominal penalty on the company under section 22A paragraphs (1) and (2) of the Water Industry Act 1991 for infringing the provisions in relation to its leakage reduction performance within the current price control period (2015-20) and its management of its leakage reduction operations.</p> <p>Whilst it provides evidence of measures to improve performance, there is insufficient evidence that these measures will deliver the level of stretch in the 2020-25 business plan given the company’s past performance.</p> <p>The company provides sufficient and convincing evidence of measures it has implemented, or will be implementing but does not present them in the context of proposed stretch in the 2020-25 business plan.</p> <p>The company’s new task force has been established with a remit to determine the largest and quickest opportunities for leakage reduction, development of the leakage reduction plan and analysis to understand fully any mismatches between work done and leakage outcomes. However the company does not provide any specific evidence how it will use this information to develop or adopt its leakage strategy so that it can successfully meet its obligations.</p>
TMS.PD.A8	<p>Water supply interruptions performance commitment</p> <p>Thames Water provides insufficient and unconvincing of performance drivers and lessons learnt.</p> <p>The company has provided insufficient evidence that it recognises the performance gap between current and proposed water supply interruptions performance in the 2020-25 plan.</p> <p>It provides insufficient and unconvincing evidence that it has identified and understood the drivers of its past performance. The company mentions that a number of significant weather events and major incidents in the 2015-20 had a consequence on a number of their performance commitments including supply interruptions but also provides evidence that there were significant operational incident management problems during the freeze/thaw event in March 2018, pointing to its own organisational issues being the key driver. The company does not provide any further evidence that it has assessed a root cause analysis for its past performance.</p> <p>It has provided sufficient and convincing evidence that it has identified areas for improvement in this area. The company identifies a number of operational improvements that it has implemented such as setting up a customer incident team and developing a number of tools, e.g. the ‘Event viewer’ that allows real time view of incident data.</p>

	<p>Whilst it provides evidence of measures to improve performance, there is insufficient evidence that these measures will deliver the level of stretch in the 2020-25 business plan given the company's past performance.</p> <p>The company does not directly address its past delivery problems in relation to this performance commitment, and only describes its operational incident management measures it has been implementing which relate to a number of performance commitments, one of which is water supply interruptions. This is considered insufficient because the company does not specifically explain how it plans to deliver its 2015-20 commitments for this performance commitment.</p>
TMS.PD.A8	<p>Treatment works compliance performance commitment</p> <p>Thames Water provides sufficient and convincing of performance drivers and lessons learnt.</p> <p>The company provides sufficient evidence that it recognises the performance gap between current outcomes performance and proposed performance in the 2020-25 plan. It has provided sufficient and convincing evidence that it has identified and understood the main drivers of its past performance for this performance commitment. The company identifies two main reasons for its past performance failures as a lack of effective communication between its operational teams and its contractors during major site upgrades, and not following approved procedures for undertaking operational activities. The company identified specific examples of sites where these issues resulted in non-compliance.</p> <p>Whilst it does provide evidence of measures to improve performance, there is insufficient evidence that these measures will deliver the level of stretch in the 2020-25 business plan given the company's past performance.</p> <p>The company does not address the deliverability of its 100% compliance target and only states it is continuing to make improvements to its operational and environmental learning process. We do not consider this sufficient to explain how the company will ensure successful delivery of the business plan commitments.</p>
TMS.PD.A9	<p>Leakage, water supply interruptions and treatment works compliance performance commitments</p> <p>Thames Water provides some evidence for how it will monitor performance and identify performance drivers.</p> <p>The company will establish a new reporting and monitoring framework to more accurately report performance against performance commitments and will continue to report monthly performance on this monthly to the executive, key performance commitments to the Board in the management report and quarterly performance of performance commitments to the customer challenge groups.</p> <p>The company states that going forward it will use Integrated Business Planning (IBP) to allow performance monitoring and reporting at a much more granular level enabling swift identification of where performance is on track, better or in decline.</p> <p>However, we have concerns in the following areas.</p> <ul style="list-style-type: none"> • The actions identified are common to all performance commitments, there are no specific actions with respect to continuous monitoring of leakage performance, water supply interruptions or treatment works compliance. • Most of the steps required to improve the monthly performance reporting, for example through the IBP, have still to take place therefore the company's proposed actions are not yet tried and tested and we cannot confirm if or when they will deliver the anticipated benefits. • Ownership and accountability for the new reporting and monitoring framework is unclear and reporting frequency and recipients still need to be agreed. <p>The company demonstrates some understanding of how this relates to section 3 of the Annual Performance Report, but has provided sufficient and convincing evidence that it is seeking best practice from beyond itself and the sector.</p> <p>Thames Water provides insufficient and unconvincing evidence on the processes it has / will put in place to identify drivers of performance, lessons learnt and measures to improve performance.</p> <p>The company has provided evidence at a high level on how it will use variances in the monthly performance reporting to senior management to identify drivers of performance and where necessary set up a specific project. It has stated that it will use the new "Connected Planning System" to help identify root phases however it is not clear when this system will be implemented and how successful it will be in helping to identify root causes.</p> <p>Thames Water provides insufficient and unconvincing evidence on the processes it has / will put in place to identify measures to improve performance.</p>

The focus of the company's submission is on how it will put a system in place to improve monitoring of performance and identify root causes and lessons learnt, not on how it will identify measures to improve performance.

Thames Water provides some evidence that it will ensure that this is a continuous rather than a one-off process.

The company states that it will ensure continuous improvement through "increasing use of technology, strengthened governance and enhanced performance monitoring and reporting".

However, this is not specific to leakage and the technology, governance and enhanced performance monitoring and reporting still need to be implemented and are not yet tried and tested therefore the extent to which they will assist delivery in AMP7 cannot be confirmed.

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.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gov.uk

July 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gov.uk.

