
21 Bloomsbury Street, London WC1B 3HF

Nicola Cocks
Clearwater Court
Reading
Berkshire
RG1 8DB DHQ

1 April 2020

Dear Nicola

Reconciliation of the SEMD - Securing our sites (Legacy projects) performance commitment at the 2024 periodic review

Firstly I should note that this letter does not necessarily require an immediate response. We recognise that the circumstances relating to COVID-19 may mean that you need to focus on more pressing matters at this moment.

This letter is to notify you that, in our 2019 final determination, we did not specify the SEMD - Securing our sites (Legacy projects) performance commitment (PC) in the way we intended. This letter sets out what the issue is and explains that we expect to consider the error at the 2024 price review when setting price limits for the 2025-30 period.

The error concerns the SEMD - Securing our sites (Legacy projects) performance commitment, which we refer to in this letter as the “legacy projects PC”. There is another performance commitment, SEMD - Securing our sites (2020-25 projects), that this letter refers to as the “2020-25 projects PC”.

How did we become aware of an error?

We became aware of an error after considering a query Thames Water sent in January 2020, following our 2019 final determination. Thames Water considers that two documents are inconsistent. These documents are:

- the 'PR19 final determinations: Thames Water – Delivering outcomes for customers additional information appendix' that this letter refers to as the additional information appendix; and

- the 'PR19 final determinations: Thames Water - Outcomes performance commitment appendix' that this letter refers to as the performance commitment appendix.

In the additional information appendix (p9), we state: "We update the definition of [the 2020-25 projects PC] to make clear that the delay ODI rate should apply for each year in the 2020-25 period", but in the performance commitment appendix' (p68), we state that it has an end of period adjustment. The query asked us to confirm that the performance commitment appendix is correct and that it should be an end of period adjustment.

We confirm that the 2020-25 projects PC has an end of period adjustment, which means it will be reconciled at the next periodic review. However, we have identified an error, which the rest of this letter sets out.

What is the error?

We intended to make a change from our draft determination, so that the delay ODI rate for the legacy projects PC applies for each year in the 2020-25 period, rather than only for 2024-25 as it did in the draft determination. We did not implement this correctly in our final determination.

1. We did not delete the words "only applies for 2024-25" from page 70 of the performance commitment appendix for the legacy projects PC. This would have changed the text against the heading "Incentive type" from:

"Underperformance payments only applies for 2024-25. In addition at PR24 we will recover allowed costs of any underperformance expected in 2024-25 using a rate of £0.3741m per unit"

to:

"Underperformance payments. In addition at PR24 we will recover allowed costs of any underperformance expected in 2024-25 using a rate of £0.3741m per unit"

2. The text in the additional information appendix, "make clear that the delay ODI rate should apply for each year in the 2020-25 period", should have referred to the legacy projects PC, rather than the 2020-25 projects PC.

What was our intention?

At the draft determination we did not have a delivery profile and therefore applied 5 years of delay of benefit for any schemes not delivered in 2024-25. In response to

draft determinations, Thames Water provided a delivery profile. For final determination we calculated the ODI rate in the standard way and intended to apply the rate for any delays each year.

This intention is implied by the fact that we reduced the ODI rate for the legacy projects PC to around one fifth. The intention is also implied from the wording in the additional information appendix that led to Thames Water's query. The wording in the additional information appendix is not clear, as the reference to the ODI rate applying 'each year' should have applied to the legacy projects PC, rather than the 2020-25 projects PC.

Why are we not correcting the error now?

We have set out a process to correct unambiguous errors in annex 2 of the company's performance commitment appendix. We are using this for errors which are straightforward to detect and correct, within the context of the final determination documents. Because this error is not so straightforward to detect and correct, we will not correct the error in the performance commitment appendix in the 2020-25 period. We will address it at the 2024 price review in considering the 2025-30 period.

Next steps

We encourage Thames Water to meet and exceed its performance commitments in the 2020-25 period. If it does, no underperformance payment will apply and so we will not need to consider this issue further at the 2024 price review.

If no SEMD legacy projects are delivered in the first four years of the 2020-25 period, and if the calculation were to be made, as we intended, for each of these four years, it would increase the underperformance payment by £13.1 million (2017-18 prices) at the 2024 price review.

If Thames Water underperforms in the years 2020-21, 2021-22, 2022-23 or 2023-24 we will consider the appropriate action to take in the 2024 periodic review. This may mean that we reduce revenues in the 2025-30 period to take account of the underperformance in each of these years.

Yours sincerely



David Black

Senior Director, Water 2020