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## PR24 and beyond: Long-term delivery strategies and common reference scenarios

Dear [REDACTED]

Thames Water welcomes the opportunity to respond to this discussion paper, and for the chance to be involved in the development of the scenarios and guidance. We support the direction of travel to setting company business plans and price controls in the context of long-term strategies and adaptive planning. This supports the route that we have been following as a business in setting out our Vision for 2050 and using this to set the scene for our PR24 planning.

Scenarios are a useful way to test a range of drivers against long-term strategies and inform a conversation about the right trajectory for company plans and adaptive pathways. It is important that the scenarios are used for an informed conversation, rather than for setting a common or default mid-level for companies, that does not take into account the geographical and socio-economic differences that companies operate within.

There will be a period of learning for companies to apply these techniques in practical and common ways. We would expect an approach that allows companies to learn and adapt how to apply these techniques in PR24 and then expect the quality of the long-term delivery strategies to be considered as part of the submission in future price reviews. Although WRMP, DWMP and PR24 planning processes are significantly underway and so the level of adoption of these proposals that is possible is limited in some areas, we can start to work as an industry to make common reference scenarios and adaptive planning form the basis for PR29 planning.

In this consultation response, we set out some areas we would like to further explore based on the approach set out in the discussion paper. The workshop on the 17<sup>th</sup> December was a useful session to start to clarify how the proposals set out in the consultation should or could be applied. We hope to continue to be involved in such conversations, to help the simple application of these methods.

We will focus our response on some of the issues raised by our initial observations the consultation document raises in turn:

- The importance of simplicity and ease of compliance
- Level of prescription
- Base vs enhancement
- Specific points on the scenarios

### **The Importance of Simplicity and the Ease of Compliance**

We agree with the high-level approach proposed by Ofwat, in following an adaptive planning process and the importance of setting out five-year business plans, in the context of a long-term delivery strategy.

The adaptive pathways and future scenarios modelling should be applied at a strategic level. There is a risk that using adaptive pathways may create a step change in the complexity of the price control process. Complexity carries its own risk, combined with any local variations specific to a water company.

The workshop on the 17<sup>th</sup> December was a helpful first conversation in clarifying how these proposals could be applied in a way that supports the aims set out and but reduces complexity and the burden on companies. It is important, that as set out in that workshop, a flexible approach to ‘good enough’ is applied that allows companies to use existing work where detail exists and apply high level views or ‘thought experiments’ to achieve requirements beyond this.

An important example of this is in relation to the WRMP, and, more particularly, in the DWMP planning processes where the remaining time ahead of publication of the regional plans won’t allow for detailed modelling of the full implications of the scenarios set out at this stage.

A practical example of an area where it may be possible to limit any increase in complexity is to review the level of detail required in the proposed data tables to be completed. There is a risk that requiring the completion of too many data tables may constrain how this approach is applied.

We look forward to further clarification and engagement on the practical and simple application of the proposals set out in the discussion document.

### **Level of Prescription**

We understand the need for some level of commonality between companies to allow for comparison in the price review process. However, it is important to allow companies the freedom to develop their own strategies that reflect the differences in the geographical areas and socio-economic circumstances that companies operate within.

We support the use of adaptive pathways in planning given the level of uncertainty facing the sector. We think the primary purpose of adaptive planning must be to inform short-term decisions and help determine when you need to make step changes in investment or approach. Ofwat’s emphasis should be on assessing companies’ AMP8 plans according to whether they are robust to future uncertainty. In other words, having considered future uncertainties and the way that strategies will need to adapt, the focus should be on ensuring that we do the right things in AMP8. We should build the right foundations for the future and not inadvertently “close the door” on potential future actions. There will be many alternative pathways, and even more options associated with those pathways. This requirement could easily lead to a disproportionate effort spent justifying uncertain choices beyond AMP8, when all that is actually required is confidence that the AMP8 plan is robust to and sensible in the light of different plausible possible futures.

## Base vs Enhancement

The approach set out in the discussion document focuses on enhancement spending. We are developing our response to the Assessing base costs at PR24 consultation but would like to highlight here that our view is that some future scenarios may require a step change in capital maintenance, such that the past could not be considered a good guide to the future. The need to maintain network resilience in the face of climate change could be an example of this. We would need to include any such step change in our business plan. We consider that it would be appropriate to consider the robustness of that element of the plan in respect of different scenarios, whether that element of our plan was considered by Ofwat to be base expenditure or an enhancement. We are concerned that Ofwat's focus on scenarios, in the context of enhancement cases, misses its relevance to such potential elements of company plans.

## Specific Comments on the Scenarios

We understand the desirability of having a set of common scenarios for the industry to be used alongside a company's own specific scenarios. We understand that the scenarios are designed to test the long-term delivery strategies and can be applied in appropriate combinations, rather than testing and producing alternative pathways based on the high and low of each scenario. We think this application is important in reducing complexity of this approach. In this section we raise some more detailed points regarding the specific scenarios.

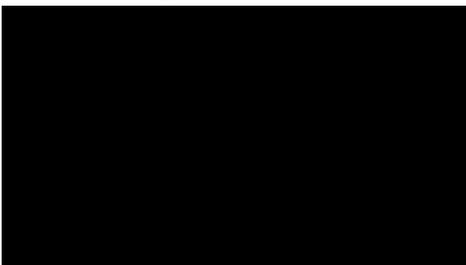
Demand: the demand scenario has a good alignment with the regional planning scenarios and developing pathways. There are some important variations with the regional planning process to consider. WRMP and DWMP employ a range of growth scenarios, the WRMP is required to use the 'high' growth scenario only. WRSE has developed a range of growth scenarios. It is important that this process provides companies with the flexibility to take account of changes in demand that significantly affect their plans. An example of this is the increase in data centres and the impact on demand.

Environmental scenario: there is no wastewater component in the environmental destination common reference scenario. We think this is a major gap in the scenario, especially in the light of what we know about the increased likelihood of extreme rainfall events and storm surges with climate change. We strongly suggest this area merits further consideration and discussion.

## Conclusion

We welcome further discussion on this topic. If you have any queries on the response, please do not hesitate to contact 

Best regards,



Director of Strategy and Regulatory Affairs