



Clearwater Court
Vastern Road
Reading
RG1 8DB

IPD2022 Consultation response
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

By email

20 October 2022

Dear [REDACTED],

[Draft determination of Thames Water's in-period outcome delivery incentives 2021/22](#)

Thames Water welcomes the opportunity to respond to Ofwat's consultation dated 3 October 2022 in which you set out your draft determination on the extent to which the price controls included in Ofwat's PR19 final determination need to be adjusted to reflect Thames Water's performance for the 2021/22 charging year, under Part 3A of condition B of the Thames Water's instrument of appointment. No part of this response is confidential, and we are happy for it to be published in full.

Having assessed Thames Water's performance against its performance commitments in 2021/22, we are pleased that Ofwat's draft determination has agreed that the ODI payments and performance are as we reported in our Annual Performance Report ('APR') published in July. We acknowledge the inclusion of C-MeX and D-MeX underperformance payments.

Ofwat's consultation sets out a number of comments relating to leakage and per capita consumption (PCC) performance commitments and I would like to take this opportunity to respond these comments.

On both leakage and PCC we recognise that we are not yet fully compliant with the PR19 common performance commitment definitions. During 2021/22 we created a Leakage Reporting and Insight Improvement Programme (LRIP) to improve confidence in our data quality and processes, improve resilience, provide greater accuracy and consistency of reporting through assurance, and demonstrate how we will use insight to effectively deliver improved leakage performance expected by our customers and stakeholders. Work on LRIP continues and, to date, 18 of the 21 deliverables have been delivered. We are now transitioning these 'deliverables' into controls so they become embedded as a 'business as usual' activity. On leakage, 65 out of 76 elements are now rated as green. Of the remainder, seven are amber and four are red. On PCC, 21 out of 24 elements are rated as green. Of the remainder, two are

amber and one is red. Page 91 – 95 of our APR provides more detailed information about the reasons for non-compliance and the steps that we are taking to address this situation.

As we work towards becoming fully compliant with the Ofwat common guidance, during 2021/22, we incorporated some minor improvements to our leakage reporting methodology. So that our current performance was reported on a consistent basis (and was comparable over time), we applied these improvements to our previously reported performance and reset the 2019/20 baseline (from 671.8 MI/d at AR21 to 674.4 MI/d at AR22). We agree, as outlined in your draft determination, that this has reduced the outperformance earned for 2020/21 from £2.671m to £2.363m.

Through LRIP, data quality and reporting methodology improvements are continuing in 2022/23 as it is critical that we provide our customers with the most accurate and complete view of our leakage performance and achieve compliance with Ofwat's common guidance. It therefore remains likely that we will recalculate both our baseline and leakage outturn during this year as data quality and reporting methodology improvements are brought forward.

However (and as outlined in my email to you on 5 July 2022), we also understand the need for Ofwat to have consistent data over time so you can monitor our performance on a like for like basis. As per the requirement set out within your draft determination, we will therefore maintain the ability to report on a consistent basis with the methodology used in calculating our 2021/22 outturn for the remainder of this AMP. We accept that it will then be a matter for Ofwat to determine which leakage calculation methodology should be used for ODI calculation purposes.

To keep Ofwat updated on the delivery of our LRIP commitments we have diarised quarterly meetings between Thames Water and Ofwat colleagues.

Consideration of acceleration of ODI penalties

We appreciate the time that Ofwat spared on 13 October 2022 to discuss the possibility and practicalities of accelerating the payment of ODI penalties as a potential way to reduce the impact of customer bill increases. Upon further reflection, we will not be looking to accelerate the payment of any ODI penalties at this time. If we do decide to implement an approach that defers wholesale revenue, we will process a voluntary deferral into our final wholesale charges. Consequently, no further consideration is required on this topic for the purposes of this in-period determination.

Should you wish to discuss anything outlined in this letter in more detail, please do not hesitate to get in touch.

Yours sincerely



Jon Haskins
Director of Regulatory Delivery, Compliance & Reporting