



Green Economic Recovery: Regulatory assessment process submission Executive summary



31 January 2021



Executive summary

We are very excited to answer the Green Economic Recovery (GER) call from the Government, the Environment Agency (EA), the Drinking Water Inspectorate (DWI), Ofwat and CCW. At the heart of our GER programme is a proposal to roll out 810k additional smart meters to our customers in addition to the 700k which are in flight as part of our AMP7 delivery plans.

In addition, we are progressing plans for other projects that support GER, but that do not require additional funding through the GER process. These include: a project in the River Chess and River Windrush catchments to improve river quality; increasing renewable energy generation through new solar PV, biomethane and district heating schemes; and delivering the WINEP amber schemes.

Taken together these schemes will create an additional 500 jobs in the South East, help to reduce water demand, support further bill reduction, improve water supply resilience and improve the environment.

If our GER proposal is approved, and we are able to roll out a total of 1.5m smart meters in AMP7, then this will help to reduce abstraction in sensitive chalk streams in our region. It will also potentially support Affinity Water in its bid to reduce ~400MI/d of chalk stream abstraction by transferring some of Thames' water into Affinity through new or existing infusion points in North London.

We estimate that the direct benefits of accelerating smart metering through this proposal are:

- We would create ~500 jobs for those with little training or experience, as well as those who are currently out of work. In addition to these jobs our programme would also provide opportunities to work with our environmental charity partner Groundwork London to deliver water efficiency visits. Our Smarter Home Visits advisers are trained to spot signs of vulnerability and raise awareness of our support measures for those unable to afford their bills.
- Our customer research shows that metering is considered the fairest way for customers to pay, with bills reflecting actual water usage. This is also supported by CCW which considers metering as, "the fairest basis for water services charging". Approximately 50% of households will benefit from lower bills following the transfer onto a metered tariff. Our existing support measures for affordability and vulnerable customers, including WaterHelp and WaterSure, will continue to benefit customers through their metering customer journey.
- Accelerating our smart metering programme would convert a further 258,000 previously unmeasured customers to metered billing, increasing the end of AMP7 meter penetration from 61% to 68% and taking total smart meter penetration from 29% to 50%. It would also open our successful water efficiency assistance programme to a further c700k households (c.19% of our total customer base).

- Our long-term plan is to ensure all our customers are metered, which will be key to meeting Government aspirations of a national average usage of 110 litres/per/day by 2050. This is a key part of WRMP¹, which is vital to establishing supply resilience. Accelerating our metering programme would ensure customers and the environment across our region would benefit more widely and more quickly than would otherwise be the case.
- Meter installation in the Thames Valley would increase six-fold in AMP7. This would reduce the amount of water abstracted from the environment by between 30 and 60MI/d. Without such measures, our region's highly valued chalk streams will remain more vulnerable to damage thorough abstraction during periods of low flow and drought.
- Specifically, we plan to install over 72,000 smart meters in critical chalk stream water resource zones, delivering at least 10.6 MI/d demand reduction benefit by the end of AMP7, and providing vital water resource headroom. Through this programme we would highlight to customers in chalk stream catchments where meters are installed that reductions in usage will have a positive impact on the local environment.
- Our programme would also enable delivery of additional environmental benefits, including a forecast reduction in CO2 emissions by an additional 965 tCO2e over AMP7 due to a reduction in pumping and treating water into supply. This would contribute to the UK's carbon reduction targets. A further 196k tCO2e could be saved over AMP7 through reductions in hot water use in customers' homes².

Our plan is to achieve these benefits with limited or potentially no impact on customer bills in AMP7. We have considered a number of alternatives to immediate bill increases and our preference is to deliver our GER programme with no customer bill impact in AMP7 and full adjustment to our stated RCV. We are keen to work with Ofwat through our financeability analysis as part of the GER assessment process. We set out further details of the options we have considered and how any customer bill impacts can be mitigated in AMP7 in our proposal.

We recognise the need to provide confidence that our GER costs are deliverable, efficient and provide value for customers. We are keen to work with Ofwat over the coming weeks during the GER assessment process in order to build confidence in our costs and enable them to be sufficiently assessed for efficiency.

Our GER proposal is based on our actual unit rates, which we believe represent efficient costs. However, when we consider the additional GER volume and account for the fact that the proportion of work that is completed in Thames Valley will increase compared to our current programme then we may be able to find additional efficiencies. Our GER costs excludes additional overheads. While we expect to incur some marginal overhead, our assumption is that this will be offset by the potential efficiency opportunity highlighted above.

We already have five years' experience delivering large-scale smart meter installation programmes, meeting and exceeding WRMP water saving targets for metering and water efficiency, whilst staying within budget.

¹ <https://www.thameswater.co.uk/about-us/regulation/water-resources#current>

² source: Energy Saving Trust.

- Our AMP6 smart metering programme delivered 97MI/d in demand reduction savings against a 45.5MI/d AMP6 target, and came in £7m under budget.
- While Covid-19 guidance on safe working practices and social distancing required us to reduce our meter installation activity in this first year of AMP7, we have a plan to recover and indeed be ahead of our AMP7 plan by July 2021.

We propose, as part of this programme, that we use a Gated delivery process. This would allow formal reviews to take place at key points of the programme. This would involve Defra, the EA, the DWI, Ofwat and CCW and would enable Thames Water to demonstrate our progress in terms of delivery on the GER metering programme and our turnaround plan on performance. We would ask Ofwat to undertake a detailed assessment of our progress and provide a recommendation for all five lead regulators and government departments to consider. Continued investment in the accelerated rollout would depend on us demonstrating on-track performance. Since we are already working successfully with Ofwat on Gated processes for conditional allowances in AMP7, we propose a similar approach for the accelerated smart metering rollout.

Our proposals reflect strong and widespread stakeholder support for the rapid rollout of metering, and the use of smart metering.

- The NIC, in its report 'Preparing for a drier future' (2018)³, calls for the "...systematic rollout of smart meters".
- In correspondence following its inquiry last year into water supply and demand management, the House of Commons Public Account Committee called for Defra and Ofwat to put greater pressure on water companies, "to accelerate the installation of smart meters"⁴.
- The 'London Environment Strategy' (2018)⁵ states that, "the Mayor supports London's water companies in increasing the number of properties that have smart water meters". It also highlights the value of water meters, especially new smart meters, in helping customers to "better understand their water use behaviour and so contribute to reducing household consumption. Smart meters also provide customers and water companies with the ability to quickly identify leaks in their household."
- The coalition of 18 environmental organisations representing more than six million people that makes up the Blueprint for Water coalition called in the run up to PR19 for water companies to, "significantly step up their demand management programmes" with "ambitious water efficiency measures" including, "increasing overall metering of households as well as the proportion of smart meters"⁶.

³ <https://nic.org.uk/studies-reports/national-infrastructure-assessment/national-infrastructure-assessment-1/preparing-for-a-drier-future/>

⁴ <https://publications.parliament.uk/pa/cm5801/cmselect/cmpublic/378/37802.htm>

⁵ <https://www.london.gov.uk/what-we-do/environment/london-environment-strategy>

⁶ https://assets.publishing.service.gov.uk/media/5ed0f26ee90e0754cf07cb48/Blueprint_for_Water_submission.pdf

Our GER proposal has the support of Waterwise, the UK's independent non-governmental organisation (NGO) on water demand reduction, whose Managing Director, Nicci Russell, is also Chair of Defra's new Senior Demand Management Group:

'I'm delighted to put Waterwise's support behind Thames Water's submission for green recovery, to increase and accelerate their rollout of smart water meters. More than doubling its smart meter rollout in the regulatory period between now and March 2025 - accelerating the water efficiency plans it has already set out in its WRMP - will bring forward the water efficiency, leakage and customer engagement benefits. As Chair of Defra's new Senior Demand Management Group, I'm extremely supportive of this kind of ambition. Waterwise always encourages water companies to aim as high as they possibly can in supporting customers to make the water we have go further.'

Nicci Russell - Managing Director, Waterwise (14th January 2020)

We are excited about the opportunity to accelerate our smart metering programme and to play our part in delivering additional benefits to our customers and the wider economy.

