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Interim Head of Water Resources
Thames Water

Date: 21 August 2024

By email only

Dear

Thames Water – Water Resources Management Plan 2024

On behalf of the Secretary of State, I have now considered your draft Water Resources Management Plan (submitted 3 October 2022), the representations made in respect of that draft plan and your Statement of Response to those representations (submitted 31 August 2023) and your revised draft Water Resource Management Plan, the Environment Agency's technical advice report and your further information in support of the Statement of Response (submitted 29 April 2024).

Following the consideration of these documents, I am now satisfied that you should publish your final plan in accordance with regulation 6 of the Water Resources Management Plan Regulations 2007. For the avoidance of doubt, your final published plan will be the revised draft submitted on 31 August 2023 incorporating the changes identified in the Statement of Response and revised to incorporate the further information submitted on 29 April 2024 and Annex A (see below).

As part of giving careful consideration as to whether to approve the publication of your WRMP, the Secretary of State has concluded that the strategic need for the following projects has been demonstrated:

1. The South-East Strategic Reservoir Option, being a new 150 million cubic metres (Mm³) reservoir in Oxfordshire;
2. The Teddington Direct River Abstraction, being a new abstraction on the River Thames upstream of Teddington Weir, supported by recycled water, to provide up to 75 million litres per day in drought conditions; and
3. Any water resources solution that, through the adaptive pathways set out in section 11 (The Overall Best Value Plan) of the WRMP, is identified as forming part of the best value plan.

Accordingly, and in line with government policy articulated in the National Policy Statement for Water Resources Infrastructure, in particular paragraphs 1.4.5 and 3.1.6, the consideration, examination and reporting of any consenting application (including by an Examining Authority appointed under the Planning Act 2008) in relation to the projects can start on the basis that the strategic need for that project has been clearly demonstrated and settled and does not need to be considered further as part of that consenting application process. This is without prejudice to any decision the Secretary of State may need to make as part of any future consenting process for the projects.

Information excluded from the final plan

In accordance with section 37B(8)(b) of the Water Industry Act 1991 (the “Act”), the final plan should be published with a statement as to whether any information has been excluded from the published plan on the grounds that it is commercially confidential or would be contrary to the interests of national security. This statement should describe the general nature of the information excluded.

The Secretary of State may determine under section 37B(2)(b) of the Act whether certain information identified by the water company to Defra is or is not commercially confidential. Your draft plan included a statement that the plan did not include commercially confidential information. I will therefore not be directing you to amend your plan on these grounds unless you consider this is no longer the case. If your plan now contains commercially confidential information, please contact Defra using the address below.

When the pre-consultation draft plan was sent to the Secretary of State you also included a statement of compliance, confirming the draft plan contained no information which is not to be published on national security grounds.

If, following any further revisions of the draft plan, it now contains information that had not been identified previously in the statement of compliance as being excluded on national security grounds or which is considered to be commercially confidential, you should email using the address below, prior to publication, indicating the nature of any such information. The Secretary of State may then direct you to exclude such information from the published version of the final plan.

You should publish your final plan within 60 days from the date of this letter, informing Defra, Ofwat, the Environment Agency and, where relevant, Natural England when you publish. This is extended from 30 days to allow adequate time for both the final WRMP24 and PR24 draft determination representations to be prepared and ensure alignment between the WRMP and business plans. You should email Defra at: water.resources@defra.gov.uk, Ofwat at: wrmp@ofwat.gov.uk and the Environment Agency at: Water-Company-Plan@environment-agency.gov.uk.

Steps following publication of the final plan

Section 37A(5) of the Act requires a water company to review its plan and to send a statement to the Secretary of State of its conclusions before each anniversary of the publication date of the plan. If following conclusion of the annual review, the review indicates a material change of circumstances or if you are so directed by the Secretary of State, section 37A(6) of the Act requires you to prepare a revised plan. In any event, you are required to prepare and publish a revised plan (in accordance with the procedures set out in section 37B of the Act) within five years from the date of publication of this plan.

I have included at Annex A specific work that requires your attention as part of your reviews and preparation for the next planning round and I recommend that before you publish a final plan, you should confirm completion of work identified in the annexes with the Environment Agency, Natural England, and Ofwat and seek their approval this has been completed to the necessary standard.

I now expect you to step up the focus on delivery to match the step up in ambition of WRMP24, including concluding the delivery of WRMP19 to meet the WRMP24 starting positions.

I am copying this letter to the Environment Agency, Ofwat and Natural England.

Yours sincerely

Deputy Director, Floods and Water

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Annex A – Significant issues that you have committed to address in your published plan

(NB Issue numbers below correspond to those used in Annex A of our further information letter dated 5 February 2024.)

Issue 1: provide greater confidence that you are managing early plan risks

You have addressed some concerns regarding managing risk in the early years of the plan but there remain some outstanding issues for you to resolve. You should:

- Provide to regulators your “Leakage transformation plan” and provide ongoing updates on key indicators to demonstrate that you have a credible pathway to achieving the starting point for WRMP24. You should also demonstrate how you will offset any impacts on your supply demand balance if leakage is not on target by April 2025. We will be closely evaluating your annual review submission to see the latest progress of reducing leakage.
- Change your proposed leakage strategy so that Swindon and Oxfordshire (SWOX) leakage improvements are made without offsetting ambition in other water resources zones before your WRMP24 is published as final. Your experience shows that leakage can easily get out of control should you prioritise your focus on one area at the expense of other resource zones.
- Update your final plan to increase your proposed reporting on progress of projects relating to mitigating impacts of the River Thames flood relief scheme on your deployable output from the proposed annual timeframe to 6 monthly reporting. This will keep regulators better informed of potential issues of your supply demand balance and allow you the opportunity to give confidence to regulators that any risks are being managed.
- Update your final plan to set out your key milestones to assuring the increase of deployable output of the Gateway desalination plant, and clearly state mitigating actions you will take if work slips. Any delay will impact on the supply demand balance and risk the security of supply for London.
- Publish a clear statement in your final plan on how you will mitigate the gap between your current actual demand (as reported in the latest annual review) and your planned demand starting point in WRMP24. Discuss and agree with the Environment Agency your plan to close the gap before updating your final plan for publication.

Issue 2: justify your selection of the Teddington DRA scheme as best value, better reflect uncertainties with the scheme, and progress alternatives, should they be required.

You have set out further analysis, indicating that substantially lower costs drives Teddington DRA selection. The scheme fixes an initial supply need and provides better value to customers. Alternative schemes have the potential to provide more supply in the long term and you should continue to scope for these in parallel to Teddington. The revised draft WRMP also now reflects that there is uncertainty around mitigation requirements for environmental impacts which will be progressed through the RAPID, planning and permitting processes.

Issue 6: to provide further detail on water resources modelling.

You have now provided the further detail requested. Presentation of this information within the plan documentation requires improvement, with all the related information brought together to make this more easily accessible for stakeholders. You should improve this for your final plan.

Issue 8: to present the individual best value metric scores for your programmes, particularly those testing different sizes of SESRO.

You have presented this information, although it is currently spread throughout the plan in multiple sections and different formats. You should provide a single compendium of the metric scores in your final plan. This is important evidence for the selection of the best value plan options. You should continue to align the detail you publish on your schemes with the information provided through the RAPID gated assessment.

Ofwat has considered your response to our letter, and raise the following concerns, which are echoed by the Environment Agency:

Issues 1 and 7: Leakage ambition in the SWOX Water Resource Zone (WRZ)

You have proposed to increase leakage reduction in the SWOX WRZ but will do so by offsetting and reducing the planned leakage programme in the London WRZ. You have forecast that you would still be on track to exceed 50% leakage reduction in London WRZ and at a company level by 2050.

The EA and Ofwat's view is that the push for improved leakage reduction in SWOX WRZ was not intended to offset leakage reduction efforts elsewhere. Rather, the expectation is to improve leakage reduction in SWOX specifically, without compromising ambition in other WRZs. This is particularly critical for WRZs such as London, where absolute leakage levels remain high, even if Thames Water forecasts exceeding the 50% target by 2050 in the London WRZ and at a company level. At

PR24 draft determinations, Ofwat has also published an expectation that Thames Water will submit a revised, increased leakage ambition based on this proposal. At PR24 final determinations, Ofwat will assess the cost efficiency of the activities to meet the revised leakage ambition target in order to set an appropriate allowance. Should you not submit a revised leakage ambition target, Ofwat may set a more stretching leakage target in PR24 final determinations.

Ofwat advise that leakage improvements in SWOX are to be made without offsetting ambition in other WRZs before your WRMP24 is published as final.

Issue 11.3 – Levels of service and resilience

To support your change from a 1-in-20 to a 1-in-10 year Temporary Use Ban Level of Service (TUB LoS), you re-emphasise that WRMP19 customer engagement has been used and also links in with WRSE research from 2021. You state that WRSE research, overall, is aligned with your WRMP19 research and your strategy on TUB LoS. You also reference the Secretary of State's acceptance of your Drought Plan 2022 that implements the change in level of service.

Ofwat remain concerned that the customer research does not support the change to TUBs LoS, and includes conflicting statements, such as WRSE research stating there is little appetite to increase the frequency of the restrictions. Statements from your revised draft WRMP24 on customer engagement also indicate that there is support for prioritising resilience earlier. Your WRMP19 customer engagement also does not specifically question customers on reducing their TUBs LoS, lowering our confidence in the value of the customer engagement.

In addition to the change in TUBs LoS, we remain concerned that you have not yet achieved 1-in-200 year resilience and will not do so until 2032/33 when the Teddington DRA scheme is delivered. In the meantime, over the 2025-2030 period, you only propose to deliver two supply schemes, one of which is a temporary licence transfer. The lack of short-medium term delivery means we believe there is an over-reliance on long-term strategic resource options to achieve resilience.

At PR24 Draft Determinations, in your response to our concerns highlighted above, Ofwat have allocated Thames Water additional funding to deliver 18.06 MI/d of benefit over the 2025-30 period. This has been determined as the average MI/d demand savings across water resource zones that you have gained by reducing the TUBs LoS to customers to 1-in-10 years in your WRMP24. At this stage, the proposal does not require a change to WRMP24 in respect of the 1-in-10 year TUBs LoS that Thames have presented: the primary principle of the proposal is to return supply resilience to customers, equivalent to that which has otherwise been lost to them by reducing their level of service to 1-in-10 years. Over time the proposal could enable TUBs LoS to be improved or return back to the 1-in-20 level, but this is to be discussed with regulators as the next drought plan and/or WRMP is developed.

For your final WRMP, we expect you to make amendments to present which additional options you propose to deliver over 2025-2030 in response to Ofwat's PR24 draft determinations. Your options may come from adaptive pathways, where best value and environmental assessments have already been demonstrated.