



Our Condition R Compliance Code

Purpose

At Thames Water Utilities Limited, we are subject to legal and regulatory obligations set out in legislation and in our Instrument of Appointment (more commonly referred to as our “licence”). We take these obligations seriously and expect our employees and contractors to do the same. A failure to comply with our obligations could result in an Ofwat investigation and possible enforcement action – including the imposition of financial penalties of up to 10 per cent of our turnover. Such investigations also cause us reputational damage and harm our relationships with our stakeholders, making it harder for us to deliver for our customers, communities, and the environment.

One requirement set out in our licence is to produce this Compliance Code¹, prepared in accordance with guidance from Ofwat², showing how we comply with Condition R. Condition R sets out our obligations in relation to the water supply market to retailers holding a Water Supply and/or Sewerage Licence (“WSSL”), who we refer to in this document as “licensees”.

As a supplier of water and waste-water services in a concentrated market, our responsibilities under competition law are enhanced. In accordance with the Competition Act 1998, we must implement appropriate controls to mitigate the risk of anti-competitive behaviour.

This code is published internally for all employees and externally so both retailers and non-household customers can understand our approach to treating customers fairly.

Scope

This Compliance Code (the “Code”) sets out our arrangements to:

- Demonstrate compliance with the confidentiality obligations under Condition R;
- Protect commercially sensitive information received from, or in relation to, licensees;
- Make sure that transactions between ourselves and any associate licensee are at arm’s length;
- Provide clear information to our employees on their individual obligations; and
- Carry out our functions under the WSSL regime fairly and without unduly discriminating against customers or licensees.

Key principles

As part of this Code we will:

- Keep all information relating to licensees, their customers and our business confidential;

¹ Paragraph 7(4)(a) of Condition R of the Thames Water Instrument of Appointment requires water companies to have in place a compliance code which adheres to Ofwat guidance.

² Ofwat Guidance on Compliance Codes, July 2008 and Expectations for Company Compliance Codes IN 16/01 March 2016.

- Make sure no commercial advantage is gained from the exchange of information relating to licensees;
- Understand and act in accordance with the rules of the legal and regulatory framework affecting competition;
- Not unduly discriminate against or show undue preference to any party; and
- Take account of these principles in the continuing development of our customer and business relations.

Contents

Section	Title	What it covers
1	Arm's length trading provisions	This details the procedures we've put in place so that transactions between the regulated business and other group companies, are carried out at arm's length.
2	No undue preference or discrimination	This explains the importance that there is no undue preference or discrimination in relation to retailers and the non-household market and that there is a fair market.
3	Information handling obligations and processes	This explains the provisions highlighting the importance of taking appropriate steps in handling information so that there is no undue preference or discrimination in relation to retailers and the non-household market and that there is a fair market.
4	Monitoring procedures	This explains the steps we take so that we do not gain an unfair commercial advantage from exchanges of information required for the operation of the non-household retail market.
5	Employee training	This covers the training we provide to our employees in relation to compliance and the Compliance Code.
6	Disciplinary process	This details the procedures in place to investigate and manage any potential breach of Condition R as well as the actions we will take if breaches are found.
7	Specific compliance guidelines for managers and employees in day-to-day contact with eligible customers	This explains the principles and procedures our employees follow in dealing with eligible customers.

Background information

Our licence includes Condition R. This states that we must:

- Produce, publish and update as necessary a Compliance Code that follows Ofwat's compliance code guidance;
- Comply with confidentiality obligations and appropriately handle and protect any commercially sensitive information we receive from, or in relation to, licensees;
- Provide clear information to our employees on their obligations relating to licensees and non-household customers;

- Not unfairly or unduly discriminate between customers connected to our network, whether they are supplied by us or a licensee;
- Not obtain an unfair commercial advantage because of our activities under this Condition; and
- Make sure that any transaction between ourselves and any related licensee is carried out at arm's length.

In addition to Condition R, Condition R3 sets out our obligations in relation to the Market Arrangement Code (MAC). This is a non-statutory code that sets out arrangements for how the business retail market operates. We must be a party to, and comply with, the MAC and its principles so that we treat retailers fairly for the benefit of customers.

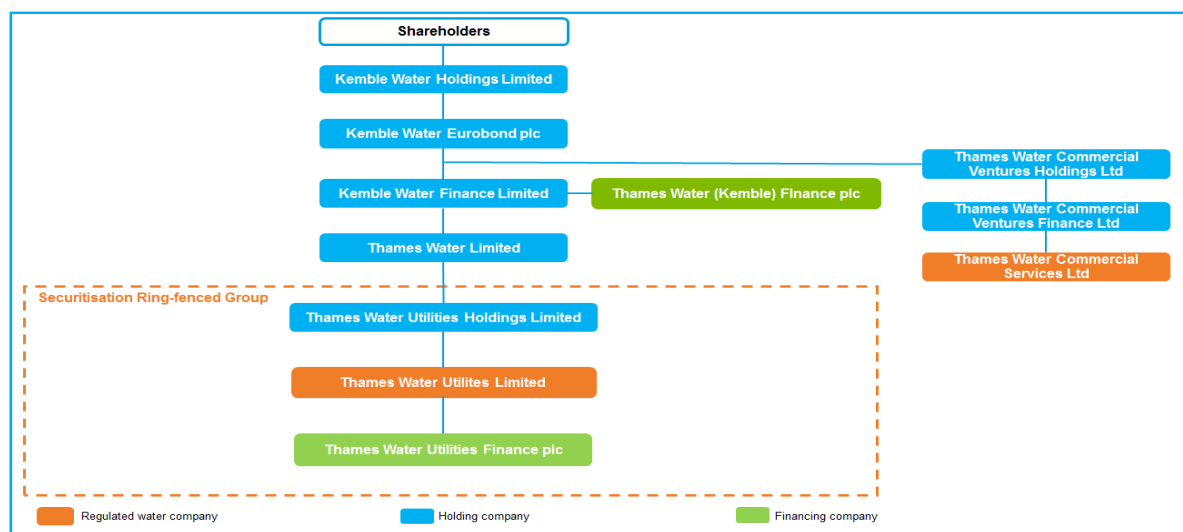
In line with our regulatory obligations, we must comply with the MAC, be a member of Market Operator Services Limited (“MOSL”) and participate in the functioning and governance of both MOSL and MAC development. This Compliance Code focuses on our obligations under Condition R relating to the use of information and arm's length trading with associated companies. This means the operation of the business retail market, as covered by the MAC and Condition R3, is outside the scope of this code.

1. Arm’s length trading provisions

Under paragraph 5(1) of Condition R, any water company related to a licensee must carry out transactions between the two at arm’s length (as though the parties are unrelated).

As of the date of this Compliance Code, the water and sewerage licence for Thames Water Commercial Services Ltd (TWCSL), a subsidiary of Kemble Water Eurobond plc (see Figure 1 below) has been revoked for operation in the business retail market³ for England and Wales.

Figure 1: Summary of Kemble Water Holdings Limited group



2. No undue preference or discrimination

In line with Condition R, we must not show any undue preference to, or undue discrimination against, actual or potential customers or any licensees. We must also not show undue preference or discrimination towards non-household retailers or their customers. We are committed to treating all retailers and their non-household customers in the same way.

We must provide all retailers with the same wholesale services and commercial information, including the same terms and conditions, price, and timeframes, unless they have paid for a variation to these factors.

Any failure to adhere to this may be deemed unfair and may undermine competition.

Licence Condition E1 was also introduced in April 2019. It prohibits undue preference towards or undue discrimination in relation to provision of certain services. This condition contains similar principles to Condition R, so we must also comply with the requirements of Condition E1.

We must not show undue preference or discrimination towards or against any person (including undue preference shown towards our business) in the provision of water resources; water

³ Notice of revocation of the water supply licence and sewerage licences of Thames Water Commercial Services Limited 21 March 2024. Ofwat publication.

efficiency services; leakage services; laying of pipes; sewer drains; new appointments and variations or the development of bioresources.

Our commitment to not show undue preference or discrimination is demonstrated in sections covered further below in this Code.

3. Information handling obligations and processes

We have established the following information handling processes when dealing with data sent to us by a licensee for any purposes:

- We will make sure that neither we, nor any related company, obtain any unfair commercial advantage from any exchange of information between ourselves and a licensee. For example, we may have access to confidential information about a licensee’s activities, which we will not use to gain an unfair advantage;
- We will not ask a licensee, or any person supplied or seeking to be supplied by a licensee, for more information than we reasonably require;
- We will only use the information a licensee provides for the purpose for which it is supplied;
- We will hold the information provided for not more than the maximum period specified in our Information Retention Schedule;
- We will take steps to protect the information that we receive from misuse by the company and prevent inappropriate disclosure to third parties;
- We will set out how we will handle such information received from, or in relation to, licensees and provide details of the person or team responsible for this information;
- We will set out our procedures for sending information to licensees. For example, we will provide a licensee with information reasonably required to:
 - Apply for, negotiate and conclude a Wholesale Contract;
 - Comply with any condition of its WSSL, or any statutory requirement imposed in consequence of its WSSL; and
 - Comply with any reasonable request for information made by Ofwat or the Environment Agency.
- We will not use the information provided to us by a licensee to unreasonably disrupt any arrangement the customer is seeking to make with the licensee;
- We will restrict access to databases that hold information relating to licensee data only to those entitled to it; and
- We will undertake any communications with a licensee related to Wholesale Services, including data exchange, through secure channels.

We have also taken the following actions to demonstrate that we can meet these obligations:

Action	Description
Created teams responsible for wholesale services within our Retail function within TWUL that is	The role of these teams is to provide a clear point of contact to the wholesale business for all licensee service access requests.

Action	Description
responsible for all market-related queries between ourselves and our licensees.	
Established secure and dedicated means for the transfer of information between ourselves and our licensees.	<p>We have created two key routes for correspondence with WSSLs to come through either:</p> <p>Our dedicated email address: wholesalemarketservices@thameswater.co.uk</p> <p>Or</p> <p>The WMS Retailer portal</p> <p>Our Wholesale Market Services team controls access to both the WMS Retailer portal and the email account. There are facilities available for the encryption of data sent to or from the email account and portal as required.</p> <p>(MOSL has established a central hub that Trading Parties are mandated to use for the processing of bilateral requests. At the time of publishing this code, the bilateral hub is in place for the vast majority of requests by volume and further incremental development of the hub is planned by MOSL to include remaining, lower volume, bilateral processes).</p>
Detailed the information we need from licensees to process communications and set out the rationale for the provision of this data to justify our need for it.	We won't ask for further information without a clear rationale. If a licensee cannot provide more information, we will continue to process requests within the timeframe we have agreed, where possible.
Detailed accountability and responsibility for handling communications to and from licensees.	Our teams responsible for wholesale services within our Retail Function are accountable and responsible for handling applications from our licensees.
Established a secure database with access controlled by the Wholesale Market Services team to manage data transfer.	Access to this database is limited to those employees who need to see the data. Managers cannot delegate access to this database without the prior approval of the Contract Manager within the teams responsible for wholesale services in our Retail Function
Tailored procedure and training for managers and other employees in day-to-day contact with licensees.	Our approach sets out how employees from the teams responsible for wholesale services within our Retail Function should behave when contacted by the licensee. See summary in Section 7.
Set out terms of a confidentiality agreement as a first step to reach agreement on the final access terms with a licensee, in advance of any information exchange.	You can find details of our confidentiality agreement at https://www.thameswater.co.uk/wholesale/document-library

We will follow these processes to make sure that we keep all information belonging to retailers and customers confidential. In this way, we will comply with our regulatory obligations and also make sure that neither we, nor our licensees, can gain an unfair advantage.

4. Monitoring procedures

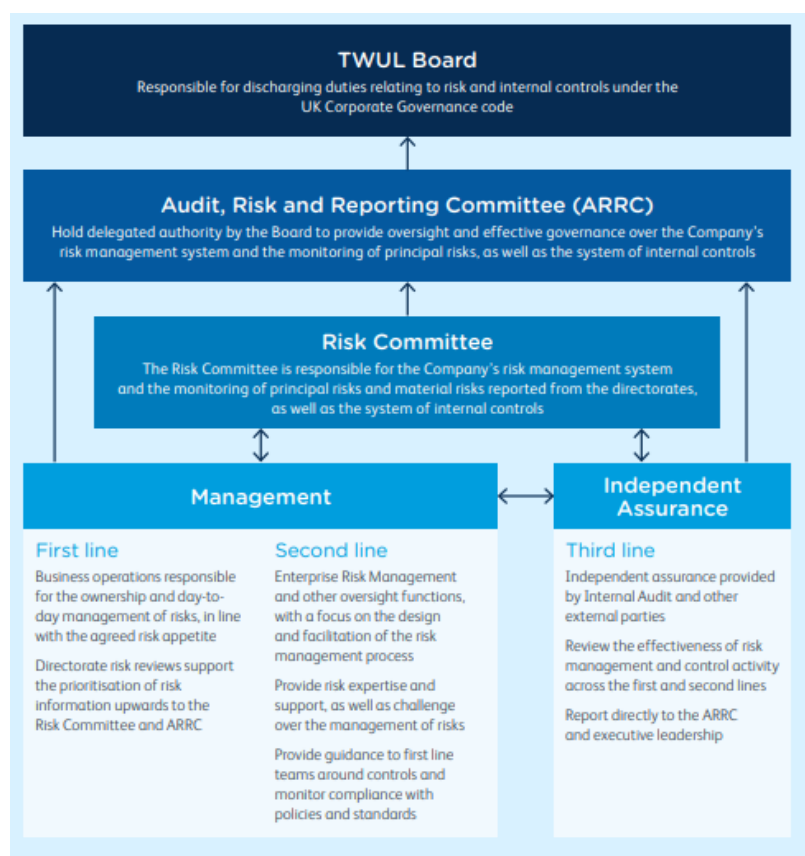
We will evaluate this Compliance Code on an annual basis to:

- Learn whether the Code is helping us to comply with the relevant obligations;
- Identify and address areas of risk; and
- Make sure our employees understand the Code and are aware of their responsibilities.

We will incorporate any changes that we need to make as part of the annual review of the Code and more frequently where necessary.

We aim to implement and base our risk management and compliance reporting framework on a “three lines model” to provide reliable assurance that we are complying with our obligations.

Figure 2 Risk Management and Reporting structure



- **1st line:** delivered by business operations, comprising internal controls, management review and self-certification;
- **2nd line:** delivered by oversight functions, comprising controls testing and/or sample testing by compliance/regulatory experts and governance expertise support and oversight; and

- **3rd line:** delivered by independent functions, comprising internal or external audit with formally defined terms of reference/agreed upon procedures.

Our teams responsible for wholesale services within our Retail Function will complete a risk assessment for our Compliance Code, annually. This process will be validated by the Retail Director. This will also inform the level and nature of assurance required (i.e. how many lines of defence are necessary) so we can:

- Understand levels of compliance;
- Minimise the risk of any potential breaches; and
- Evaluate relevant employees' knowledge of the code.

5. Employee training

Our Retail Director has identified that specific training may be needed due to:

- Routine communications to and from licensees;
- Changes to Ofwat guidance, our policies and/or processes;
- Following investigations into complaints and/or disciplinary action; and
- Changes to occupants of the roles involved in handling information from licensees.

If employees are involved in licensee-related activities, they will undergo compliance training so that they are fully aware of the compliance procedures we expect them to follow.

The Retail Director is accountable for maintaining access to appropriate training material for relevant employees.

Relevant members of the teams responsible for wholesale services within our Retail Function are also required to participate in our annual Competition Compliance training programme.

6. Disciplinary process

This section covers our internal disciplinary process and applies to all employees, contractors and business partners.

A failure to comply with this Code or any action preventing or discouraging others from complying with this Code may be considered as Gross Misconduct and, as such, the outcome of any formal disciplinary procedure could include summary dismissal.

We will investigate any alleged failure to comply with this Compliance Code, whether discovered by management, highlighted by audit, application handling, complaints from licensees, via a whistle-blower or by any other means.

In the first instance, an investigation will be undertaken. Following this initial investigation, a recommendation may be made for appropriate action and, depending on the level of non-compliance, we may then appoint an investigating manager or internal audit to carry out a more formal investigation. We will escalate any issues to the Director of Regulatory Delivery,

Compliance & Reporting, Director of Legal & DPO, Retail Director and Chief Financial Officer as appropriate and necessary.

If the investigating manager is satisfied that there is a case to be heard on completion of the investigation, a disciplinary hearing will be arranged.

Outcomes can include no case to answer, the issue of first or final written warning or dismissal and other disciplinary sanctions in line with People corporate standards.

The employee has the right of appeal against a decision.

7. Specific compliance guidelines for managers and employees in day-to-day contact with eligible customers

If a licensee approaches us to enter into a wholesale contract for wholesale services under the Wholesale Retail Code and wishes to supply premises in the area where we are the wholesaler, there is a risk we could use the information we receive from the licensee inappropriately.

To manage this risk, our teams responsible for wholesale services within our Retail Function will make sure there are clear accountabilities so that we receive the data directly into the teams responsible for wholesale services within our Retail Function, which we keep functionally separate from our retail business.

We will treat any information we receive into the teams responsible for wholesale services within our Retail Function in relation to the switching of an eligible premise as confidential.

We will train all employees within teams responsible for wholesale services within our Retail Function to recognise that this data is confidential.

We will record all applications for contracts in the secured document storage area.

We will lock and password-protect unattended computers containing data relating to the above information.

We will avoid printing the above data and information, where possible.

If we print data, we will keep it secure and at no time will it be left unattended.

We will keep all printed documents in a locked cupboard or dispose of them in confidential document shredding containers.

We will hold all information, electronically or in printed form, for not more than the period specified in our Information Retention Schedule.

Roles and responsibilities associated with Condition R Compliance

Role	Function	Purpose
Head of Wholesale Market Services	Retail	Responsible for managing information from retailers
Retail Director	Retail	Accountable for compliance with the Code by the Retail facing teams responsible for wholesale services
Regulatory Compliance Manager	Strategy & External Affairs	Responsible for documenting compliance requirements relating to statutory and company licence obligations
Director of Legal & DPO	Legal & Secretariat	Responsible for ensuring the Compliance Code is consistent with our legal obligations and Competition Compliance Policy

Useful references

If you would like any further details, or if you have a question about our Condition R Compliance Code, please contact our team on wholesalemarketservices@thameswater.co.uk

You can also find out more at thameswater.co.uk/wholesale/document-library