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By email

Sir Robert Goodwill, Chair of the Chair of the House of Commons Environment, Food and Rural Affairs Committee

cc:

Rt Hon Philip Dunne MP, Chair of the Environmental Audit Committee

Mr Darren Jones, Chair of the Business and Trade Committee

20 July 2023

Dear Sir Robert,

On behalf of Iain Coucher and myself, I wanted to write and thank you for the opportunity to appear at the EFRA Committee on 12th July to discuss the situation regarding Thames Water and our approach to regulation.

Thames Water's issues stem from two fundamentals: poor performance and high levels of debt.

Thames have been persistently poor performers. In recent years, we have imposed [penalties of more than £50m](#) for failures to meet key performance targets to reduce pollution, manage its water treatment works, and to provide reliable water supply. Ofwat also has a large scale [investigation](#) into their management of sewage treatment works.

Thames' net asset base has grown from £1.3 billion at privatisation to £19 billion in 2023, an increase of close to £18 billion. Around £14 billion of this has been funded from debt, with the remainder from increase in equity.

Ofwat has made it very clear, Thames' financial resilience is inadequate, and have set out measures for how they should address that. While we welcome the equity injection of £500 million in March 2023, and announcement of addition equity of £750 million earlier this month, the company still needs to go further to deliver the turnaround in company performance and put itself on sound financial footing.

Ofwat will continue to engage with Thames Water and investors to encourage a resolution of their performance and financial resilience issues. And, as you would expect, we will continue to work closely with Government to prepare contingency arrangements if the company does not resolve these issues.

I also wanted to restate that bills have been, and will be, set on the basis of efficient operating costs and the efficient cost of financing – meaning Thames customers do not pay more for Thames' 80% gearing versus the notional 60% gearing.

While we have always set price controls on the basis of an efficient and prudently financed company, Ofwat has been quick to take full advantage of new powers in the Environment Act 2021. As such, we have modified company licences to raise the minimum level of financial resilience required. We have also introduced new powers to block dividends where these are not aligned to performance. These new powers, combined with the extra £11.3 million in Treasury funding, will enable us to play a more active role in driving change in the water sector.

Since privatisation, £190 billion has been invested in our water sector, which has driven improvements in service, water quality, and customer service, with reductions in the levels of pollution and water supply interruption. Capital investment in the sector is approximately double the rate pre-privatisation, and the current investment programme is running at the equivalent of £27 million a day. That said, there are clearly some big challenges to address and, as we do so, we will focus on protecting customers and renewing and strengthening our approach to regulation, cooperating closely with Government and other regulators, and adapting to the external challenges facing the sector.

The Chair of Ofwat and I will endeavour to keep this Committee, and other interested Committees, updated on further developments. Ofwat look forward to seeing the recommendations made by the EFRA Committee following the evidence sessions, and to closely cooperating with you as you conduct your inquiries.

Please do not hesitate to let me know if you have any questions or queries on any of the above.

Yours sincerely,



David Black
Chief Executive, Ofwat