



Water today, water tomorrow

Mr Murad Qureshi AM
City Hall
Queen's Walk
London
SE1 2AA

28 August 2013

Dear Mr Qureshi

Thank you for your letter of 27 August about Thames Water's application for an additional price increase. As you appreciate, it would not be appropriate for me to comment on the application in detail, but I can assure you that we will not approve any increase in bills that Thames Water does not justify as being in their customers' interests.

Customers cannot choose their supplier, so it's our job to make sure they are protected. We have a strong track record of doing this.

- Our challenge for companies to be ever-more efficient means that bills are around £120 a year lower.
- At our last price review in 2009, Thames asked to increase average bills by 17% above inflation; we said it could raise bills by just 3% above inflation, while still investing around £5 billion - equivalent to more than £1,000 for every property and premises it serves – on infrastructure and service improvements.
- Where companies underperform, we take action. Companies have had to pay out more than £500 million, including £150 million from Thames Water, from their own pockets, where they have let customers down. This money has either gone into improving service for customers, or back to customers through keeping bills down.
- Our chairman recently called on companies to recognise the hard times customers are facing, and share unexpected gains with them. This has resulted in companies committing around £700 million, also out of their own pockets, to additional investment to further improve services.

So we will make sure customers' interests are protected. We understand your concerns about Thames' proposals. We know that household incomes are becoming ever more stretched - higher than expected inflation has been the prime driver of increases since 2010, yet household incomes have fallen in real terms. Customers tell us that keeping bills down is their absolute priority. We will challenge Thames's

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proposals and question the company strongly on its reasons for seeking this increase.

The Thames Tideway Tunnel is a significant one-off project that the Government has decided is necessary to meet EU legislation (the Urban Waste Water Treatment Directive). As part of our role to protect customers, we will make sure the costs of the Thames Tunnel are kept as low as possible. This includes the construction and operating costs – but also the cost of financing the project, which could be considerable. The application that Thames submitted recently includes a proposed price increase to meet extra costs for land acquisition for the construction phase. Once construction is completed, the land will be sold, and all the money raised – including any profit – will be returned to customers.

We do expect water companies to take steps to manage customer debt, both by making it easier for customers in difficulty to settle outstanding arrears and by pursuing those who won't – as opposed to can't – pay and we will be challenging Thames on this aspect of its application, as with others.

I hope this reply will reassure you. If you have any other questions relating to the water and sewerage sectors, then please do not hesitate to contact me.

Yours sincerely

Keith Mason

Keith Mason
Senior Director of Finance & Networks