



Chris Weston
Chief Executive Officer
chris.weston@thameswater.co.uk

Philip Duffy
Chief Executive
Environment Agency

By email

1 March 2024

Dear Philip

Thank you for your letter of 21 February, in which you helpfully set out more information relating to the joint Environment Agency and Defra announcement on increased water company inspections.

Whilst I am only eight weeks into my role as the new CEO of Thames Water, I want to reassure you that I am committed to improving our environmental performance. I joined Thames Water because it is a business that matters – to our customers, to the communities that we serve and to the environment. Whilst I am still getting my feet under the desk, I know that I join the organisation at a critical time and there is a lot that needs to be achieved. In the short time that I have been in post, I am heartened by the passion and commitment shown by all who work at Thames Water to deliver great service and improve the environment – this provides a solid foundation from which I can build.

As I set out in a recent letter to Simon Hawkins, my three immediate priorities are the health and safety of our people (and the customers that we serve), the delivery of the reprioritised turnaround plan ('TAP2') and securing a settlement for PR24 that enables the company to drive forward long-term, sustainable performance improvement.

Over the last few years, Thames Water has made some progress in terms of embedding the foundations of a turnaround in our performance. However, we now need to accelerate the speed of performance improvement. Whilst I know that all stakeholders are keen for Thames Water to do better, it must also be recognised that we cannot solve our performance issues overnight. Many of the challenges we face have been decades in the making and will not be resolved quickly.

I am fully committed to delivering TAP2 which was signed-off by the Board in November. TAP2 will drive faster improvements in key performance areas, most acutely health and safety, leakage and pollutions. I have restructured my Executive Team to support this focus and have created a Chief Operating Officer post who will be responsible for the asset life cycle as a whole. The Director responsible for leading on TAP2 delivery now also reports directly to me.

I want to work with all our regulators to improve the environment, but I am concerned that there are currently several areas of significant disconnect across regulators and the sector, which we will need to work collaboratively to address. A great example of this, is the investment needed to deliver compliance with the Industrial Emissions Directive ('IED').

Although the IED was transposed in England and Wales by amendments to the Environmental Permitting Regulations in February 2013, there was initial uncertainty surrounding the applicability of this directive to sewage sludge treatment and management. The EA carried out a review to determine the applicability of the IED to Sewage Treatment Works ('STWs') undertaking the biological treatment of sewage sludge and set out an interim position which deferred the need for water companies to apply for IED-EPR permits. Subsequently, on 9 July 2019, Water and Sewerage Companies received an official letter from the EA formally confirming the requirement to apply for permits.

Although we received notice to apply for permits, it was unclear what investment would be required at sludge treatment centres ('STCs'). As such, any request to Ofwat at PR19 for funding to implement IED permits was rejected. The industry subsequently received notification from the EA that full compliance was expected by December 2024, despite the standards having not been finalised nor funding being allowed by Ofwat. Even though no funding was agreed, during AMP7 the industry has applied for permits and worked with the EA to establish the standards required at STCs. These requirements have only just been finalised through WaterUK and the permitting process.

We now find ourselves in a position where permits are being issued requiring full compliance by March 2025 – irrespective of the scale of investment required. For Thames Water the overall programme is estimated between £500 million - £600 million and we believe will take between 5 and 10 years to fully implement. In the meantime, we await Ofwat's decision on funding as part of PR24 (with final determinations expected in December 2024). Furthermore, the EA has started inspections against the new standards issuing non-conformances and requesting compliance by 2025, reserving the right to take enforcement action. Given we have not yet secured the funding, and practically it will take years to deliver all the investment, we currently have no option but to appeal all permits and potentially consider legal challenges.

Further, given the scale of investment needed in the water sector and the priorities regarding river health, we are surprised IED is being considered such high priority, especially when you consider the requirements have not been aligned to the periodic review process with Ofwat, as would be the case with the Water Industry National Environment Programme.

This inability for water companies, the EA and Ofwat to gain alignment on the requirements, practical timescales for implementation and the funding, has ended in conflict between the sector and the EA, with companies more focused on managing upcoming enforcement action.

I wanted to share this with you, as this is a real example which poses significant risk to Thames Water and other water companies and demonstrates the extent of work needed to gain alignment across the sector. I would very much welcome the opportunity to meet with you as a matter of some urgency to discuss this and other challenges that we currently face, the work we are doing to overcome them and the constraints that still exist. I have asked my team to contact your office to make arrangements.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Chris Weston', with a stylized flourish at the end.

Chris Weston

Chief Executive Officer