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The Rt Hon Andrea Leadsom MP  
From the Secretary of State

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Neil Parish MP  
Chairman of the Environment, Food and Rural  
Affairs Committee  
Committee Office  
House of Commons  
London SW1A 1AA

10 January 2017

Dear Neil

Thank you for your letter of 14 December 2016 on behalf of the Environment, Food and Rural Affairs Committee noting recent problems with burst water mains in London. I am writing to set out the steps my Department is taking to ensure a robust regulatory regime for water companies, which minimises the effect of such incidents, prevents further such incidents taking place, and improves the overall health of the water network.

### Minimising the impact of burst water mains

#### *The policy framework*

The Government takes the resilience of the water industry very seriously. Water companies are required to have plans in place to maintain essential services at all times and to protect critical assets.<sup>1</sup> The plans cover the full range of threats and hazards, and extend to the provision of alternative water supplies should piped supplies be lost. Future work to enhance the capability of the industry is set out in our Water Sector Security and Resilience Plan.<sup>2</sup>

All customers of water companies are entitled to guaranteed minimum standards of service, as laid down by the Government. These rights are known as the guaranteed standards scheme<sup>3</sup> (GSS) and where a company fails to meet any of them they are expected to make a specified payment to affected customers. This includes supply interruptions (planned or unplanned e.g. necessary works, leaks, bursts, etc.) and commences after the initial 48 hours and each 24 hours thereafter.

<sup>1</sup> [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/85925/semd98.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/85925/semd98.pdf)

<sup>2</sup> [www.gov.uk/government/publications/sector-security-resilience-plan-2016](http://www.gov.uk/government/publications/sector-security-resilience-plan-2016)

<sup>3</sup> [www.ofwat.gov.uk/households/supply-and-standards/standards-of-service](http://www.ofwat.gov.uk/households/supply-and-standards/standards-of-service)



## *Recent incidents*

Thames Water experienced six trunk main bursts between October and December 2016, causing flooding and supply interruptions for over 250 properties. Its response to these incidents was in line with its established plan.

Thames Water's immediate priority after the bursts was to ensure each site was safe and assist the customers affected. Thames Water operational staff were on site immediately and loss adjusters visited residents and businesses to ensure they were not left out of pocket. Thames Water was able to minimise the impact on water supplies in the affected areas by rerouting water around its network to restore supplies.

Thames Water is now in the process of re-lining or replacing the pipes where the bursts occurred. The mains have been shut and will not reopen until the work is complete.

## **Preventing further incidents from taking place**

### *Thames Water review*

A series of mains bursts in quick succession is not a common occurrence and Thames Water's Chief Executive Officer has ordered an immediate forensic analysis of all trunk bursts in the last 12 months and a broader review of Thames Water's 7000km network of trunk main assets.

Thames Water's analysis will be independently led by Paul Cuttill, a leading utilities expert, and conclude in February. It will cover:

- the causes of each burst (asset condition, location and environment, any patterns of failure);
- the impact on customers, wider community and cost;
- the immediate response (what went well, what could be improved); and
- whether changes are needed to network configuration, pumping and control regimes.

Both the Government and Ofwat have asked Thames Water to provide them with the findings of its analysis. Ofwat has also written to Thames Water to set questions on asset maintenance that will need to be included within the scope of Thames Water's forensic analysis. A copy of Ofwat's letter is enclosed.

Thames Water's broader, deeper review of its trunk main assets will begin in January and conclude this summer. It will examine historical bursts, asset assessment, maintenance and monitoring, risk and emergency response. It will also include a specific plan and recommendations that will be made publicly available.

Thames Water's recent performance stands apart from a general downward trend in mains pipe bursts across the water industry. Between 2013/14 and 2015/16, the average number of bursts per 1000km of pipe fell from 151 to 130 bursts. Thames Water has also reduced the average number of bursts (from 297 to 201 mains pipe bursts for every 1000km of pipe over the same period), but it remains much the worst performer in the industry.

## *Investing to improve the network*

Much of Thames Water's cast iron water pipe network dates from the Victorian era. At least five of the six recent bursts were from trunk mains laid between 1850 and 1900. Substantial investment is needed to improve or replace Victorian water mains.

Ofwat, the independent economic regulator, sets the regulatory framework within which water companies carry out and finance their functions. Every five years Ofwat undertakes a price review, in which companies agree business plans setting out the revenue that they will need and the performance commitments that they will deliver. Their plans include financial incentives for different levels of performance. Independent customer challenge groups scrutinise the performance commitments and incentives and provide assurance to Ofwat that they are appropriate.

Thames Water is investing around £4.5 billion in network and service improvements in the five years to 2020, including the repair or renewal of 881 km of water mains plus a further 45 km of the biggest mains in places where bursts would have most impact. The company's business plan<sup>4</sup> for the 2015-2020 period includes incentives on:

- the **overall health of water infrastructure** (including mains bursts and supply interruptions greater than 12 hours), with penalties of £4.675 million per year for every reduction in health status;
- the **extent of supply interruptions** greater than four hours, with penalties of £5.335 million per 0.01 hours lost per property served per year (annual average across all customers);
- levels of **leakage**, with penalties of £0.45 million per megalitre per day (annual average).<sup>5</sup>

Recent bursts will affect each of these incentives. Ofwat will not formally know Thames Water's performance against its commitments and incentives for 2016-17 until the company publishes its annual performance report in July. In 2015-16, the company was penalised by £4.675 million for deteriorations in the health of water infrastructure assets, although it received a reward of £3.125 million for reducing supply interruptions. The net penalty is accrued and returned to customers at the next price review in 2019.

## *Future enhancements*

The scale of the issue will require further significant investment beyond 2020. The Government expects Thames Water to develop a much stronger grasp of the resilience challenges facing its network so it can better prioritise water main replacement. Thames Water will use the forensic analysis and trunk main review to feed into development of its business plan for 2020-25 and its longer term investment strategy.

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<sup>4</sup> <http://ourplan.thameswater.co.uk/>

<sup>5</sup> We note that these bursts are unlikely to have a significant impact on annual levels of leakage.



## Improving the overall health of the water network

The Government places strong priority on securing resilient water and sewerage services that meet the needs of people, businesses and the environment now and in the future.

The Water Act 2014 placed a new duty on the Government and Ofwat to further the resilience of water and sewerage systems and services.<sup>6</sup> In March 2016, the Government set out its plans for supporting long-term resilience in the water sector,<sup>7</sup> including its intention to steer Ofwat to challenge water companies to plan and invest to better meet the needs of current and future customers through a new Strategic Policy Statement. The Government will consult on this later this year.

Ofwat is now in the process of adapting its regulatory approach to embed this focus on resilience. In December 2014, it set out how it would take its new duty forwards, following the report of an independent task and finish group.<sup>8</sup> It is now shaping its plans for the next price review, and is currently consulting on proposals including the introduction of resilience planning principles, performance commitments that better reflect resilience, stronger incentives to support resilience and improved expectations on how companies should address asset health.<sup>9</sup>

I trust that this provides you with reassurance regarding the Government's commitment to the resilience of the water industry.

Best wishes,



**Andrea Leadsom MP**  
**Secretary of State for the Environment, Food and Rural Affairs**

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<sup>6</sup> [www.legislation.gov.uk/ukpga/2014/21/section/22/enacted](http://www.legislation.gov.uk/ukpga/2014/21/section/22/enacted)

<sup>7</sup> [www.gov.uk/government/publications/water-sector-improving-long-term-resilience](http://www.gov.uk/government/publications/water-sector-improving-long-term-resilience)

<sup>8</sup> [www.ofwat.gov.uk/publication/towards-resilience](http://www.ofwat.gov.uk/publication/towards-resilience)

<sup>9</sup> [www.ofwat.gov.uk/consultation/consultation-outcomes-framework-pr19](http://www.ofwat.gov.uk/consultation/consultation-outcomes-framework-pr19)