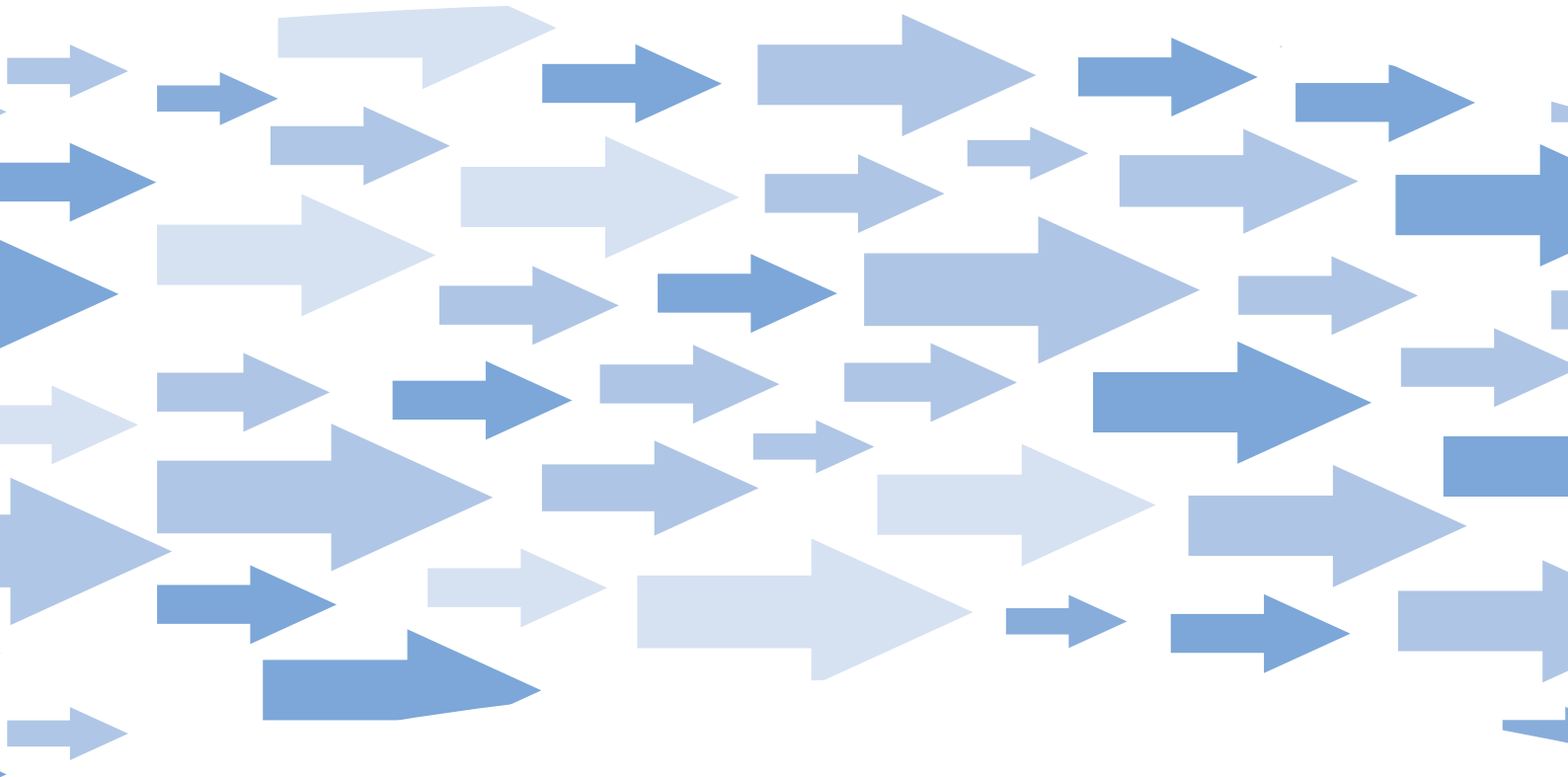


Ofwat forward programme 2006-07 to 2008-09



Ofwat forward programme 2006-07 to 2008-09

June 2006



Our vision

A water industry that delivers a world-class service, representing best value to customers now and in the future.

Our mission

To regulate in a way that provides incentives and encourages the companies to achieve a world-class service in terms of quality and value for customers in England and Wales.

How do we do it?

By:

- Setting price limits at levels which:
 - enable well-managed companies to finance the delivery of services in line with relevant standards and requirements;
 - provide incentives for companies to improve efficiency and service delivery; and
 - share the benefits between customers and investors.
- Ensuring that we are aware of stakeholders' views and priorities by consulting with customers' groups, the industry and others, and undertaking customer surveys.
- Promoting the development of effective competition to allow, where practicable, further choice for customers.
- Working with the quality regulators to make sure that Ministers have the information they need to set the quality improvement programme within a long-term framework.
- Taking into consideration all of our statutory duties, for example in relation to sustainable development.
- Ensuring that customers' tariffs are fair and do not unduly discriminate or show preference to any class of customer.
- Handling disputes and complaints involving the companies economically, effectively and fairly.
- Monitoring the companies' performance and taking action, where necessary, to protect the interests of customers and other stakeholders.
- Openly and transparently publishing information, which allows customers and other stakeholders to have their say in regulatory decisions.
- Making sure that Ofwat delivers best value in its regulatory role, and by valuing and encouraging the development of its entire staff.
- Assessing company performance by making appropriate comparisons between the regulated companies, drawing on relevant information from other sectors and from international comparisons where available.

Contents

Foreword	5
1. Emerging issues	6
1.1 Regulatory uncertainty	6
1.2 Long-term issues	6
1.3 Security of supply	7
1.4 Sustainable development	7
1.5 Price review 2009	8
1.6 Market competition	9
1.7 Consumer Council for Water	9
2. Protecting consumers	10
2.1 Tariffs and charges schemes	10
2.2 Vulnerable consumers and social issues	10
2.3 Disputes and complaints	11
2.4 Levels of service to consumers	12
2.5 Consumer objective	13
2.6 Reducing sewer flooding	13
2.7 Maintaining serviceability	14
2.8 Improving drinking water quality and the environment	15
2.9 Water Framework Directive	16
2.10 Supply and demand for services	17
2.11 Reducing leakage	18
2.12 Sustainable development	18
2.13 Company reporters and auditors	19
2.14 Special investigations	20
3. Company finance and incentives	23
3.1 Comparative competition	23
3.2 International benchmarking	24
3.3 Financial performance and regulatory accounts	24
3.4 Independence of the regulated businesses	25
3.5 Financial restructuring	25
3.6 Mergers	25
3.7 Interim determinations of price limits	26
3.8 Promoting competition	27

Ofwat forward programme 2006-07 to 2008-09

4. Resources, communications and governance	29
4.1 Resource management	29
4.2 Information management	29
4.3 Governance	30
4.4 Joint working	30
4.5 Keeping stakeholders informed	30
4.6 Better regulation	31
4.7 Freedom of Information	32
Appendix 1: Ofwat structure	33
Appendix 2: Summary of issues arising from the consultation	34
Appendix 3: List of respondents	36
Appendix 4: Ofwat milestones 2006-07	37

Foreword

I am pleased to introduce Ofwat's first forward programme following the establishment of the Water Services Regulation Authority in April this year. We have an ambitious programme of work. We consulted on this programme in draft and I am grateful for all the contributions we received to our thinking. The Board has reviewed the programme and agreed it as appropriate for the coming period. In the year ahead the Board will carefully consider Ofwat's strategy and regulatory approach.

Initially, we face important short-term challenges. South-east England faces the worst drought for 80 years and more. Companies have been taking action to meet this threat and seeking the support of customers in conserving water. We keep their performance under review. Concerns about security of supply also present longer-term challenges. We will be developing our approach to such issues as leakage control, the implications of the Water Framework Directive, the affordability of services and long-term financing of major investment in the medium term in preparation for the next periodic review of price limits in 2009. These issues are covered further in chapter 1.

The opportunity for water supply price competition under the Water Act 2003 began in December 2005. We want the new market to be a stimulus for competition and to provide better value for eligible large user customers. We will monitor how competition develops and in the medium term work with Defra on its review of the supply threshold. Customers who cannot choose their supplier should not be unfairly disadvantaged by the new regime.

During the past year the independent Consumer Council for Water was launched successfully. We look to develop a positive and constructive relationship with the Council. We will also build effective communications and relationships with other key parties involved with our work. Some of these will be formalised in memoranda of understanding.

In June we received from the companies their annual returns. These returns report on the first

year covered by the 2004 price determination. We will analyse the performance of the industry and take action as appropriate. In particular, we will review progress on the early start programme of capital investment. We will publish our analysis and findings in our standard reports. Details of these and other outputs are set out in chapters 2 and 3.

The special investigations involving Severn Trent Water Ltd, Southern Water Services Ltd and Thames Water Utilities Ltd continue. We issued an interim report on the first investigation into Severn Trent in March this year. We will consider what further action is required in the Severn Trent case when the Serious Fraud Office has completed its work. For the customer service investigation we have notified Southern and Severn Trent that, subject to our continuing investigation of the issues, we think it appropriate to levy a fine on both companies for the service failures. Companies must provide accurate information and run systems that consumers and regulators can trust so that Ofwat can continue to protect consumers.

We aim to provide value for money to consumers and will keep a firm control of our own expenditure, subject to such additional pressures as rising litigation. The new Board has established its rules of procedure and other governance arrangements. The aim is to provide a strong and transparent process of decision making, with appropriate powers delegated to the senior team. There is more detail in chapter 4.

Ofwat looks forward to working with fellow stakeholders including Government, consumer representatives, the companies themselves, fellow regulators and environmental and consumer interest groups on the delivery of this programme and the development of our approach to the issues.



Philip Fletcher
Chairman and acting Chief Executive

1. Emerging issues

This forward programme covers the main areas of Ofwat's work over the next three years. Routine planned work is set out in chapters two to four. This chapter provides background on the emerging issues over the next two to three years. The policy approaches, timetable and outputs will be developed further during the coming year.

1.1 Regulatory uncertainty

From 1 April 2006 the statutory duties of the Director General of Water Services transferred to the Water Services Regulation Authority (Ofwat). The role of the Director General has been replaced by a Board, which takes responsibility for the economic regulation of the water and sewerage industry. The Board comprises:

Non-executive Chairman: Philip Fletcher

Non-executive Directors: Penny Boys,
Peter Bucks,
Jane May,
and Lord Whitty

Chief Executive: To be appointed

Executive Directors: Melinda Acutt
and Keith Mason.

Until the Chief Executive is in post, Philip Fletcher will be acting Chief Executive.

The Board met for the first time on 3 April 2006. The rules of procedure, including decisions for the Board, were published on our website in June. Our code of practice on how we make decisions will be published for consultation in September (see chapter 4).

The Board in its first year will consider our strategy and determine any policy changes or new strands of work. We will consult stakeholders and make regulatory impact assessments (RIAs) where it is appropriate to do so.

Our aim is to reduce regulatory risk and build on our reputation and track record. It is incumbent on the companies to make their own contribution, not least by providing reliable information to the regulator. In line with our new statutory duty we will continue to adopt the principles of better regulation and best practice.

The workshop on 25 April was an opportunity for stakeholders to meet some of the Board members and to set out what they considered should be our priorities. We will hold a seminar on 6 July 2006 which will give Managing Directors of the companies a further opportunity to meet Board members.

The Board looks forward to discussing with stakeholders the broad range of issues affecting our work.

1.2 Long-term issues

Our aim is that current and future generations receive a service that meets consumer expectations on the grounds of quality of service and value for money. To help achieve this aim requires a regulatory approach that takes long-term issues into account.

The issues of sustainable development, climate change and security of supply are likely to have major implications for our work. Our approach is to factor the long-term issues into our decisions based on the best available information.

As with any long-term perspective, there is considerable uncertainty, and a balance of judgement is needed to avoid unnecessary investment or exposing consumers to unacceptable risk. In the coming year we will further develop our long-term strategy covering the full range of interdependent regulatory issues.

1.3 Security of supply

The drought in south-east England, London and East Anglia presents a serious challenge for companies and regulators in providing services and in seeking the help of consumers. Our objective is to take any necessary action within our duties to help safeguard supplies in drought affected areas. Our approach integrates supply and demand assessment, leakage control, and promoting efficient use of water by consumers, to provide supply security and environmental protection that is best value to consumers, taking account of local circumstances.

We support the outcomes of Secretary of State David Miliband's meeting with companies, CCWater and regulators on 1 June 2006 and will continue to work closely with the other key stakeholders including the Environment Agency on this important matter.

We recognise that security of supply is fundamental to consumers and requires long-term planning. Over the longer term both demand and resource availability may be affected by climate change and demand is likely to grow in the drought affected areas, where population growth is forecast. We have to consider the implications of a possible third successive dry winter. This will increase pressure on water resources and infrastructure. We will work with Government

and companies to assess the impact and make sure that appropriate and efficient steps are taken to secure supplies whilst safeguarding the environment. We are a member of Defra's Water Saving Group and are working to encourage efficient use of water.

Our approach to the economic level of leakage (ELL) is sufficiently flexible and sustainable to cover short-term, environmental and wider social concerns. We will promote greater understanding of this approach, which is not solely concerned with economics but addresses the best solution for reducing leakage based on social, financial and economic factors.

The recent House of Lords Science and Technology Committee's report into water management is timely and the Board will consider any actions we need to take in response to its recommendations. Our consideration will reflect any new thinking on ELL.

1.4 Sustainable development

Since April 2005 we have had a duty under the Water Act 2003 to contribute to the achievement of sustainable development. We already act in accordance with this principle.

Our policy development builds on the guiding principles in the Government's sustainable development strategy 'Securing the future'. We will assess economic, social and environmental factors including supply, demand and climate change, affordability and timescales.

Our starting point was to consult on this new duty. In our consultation paper, 'Contributing to sustainable development – a consultation on Ofwat's approach' we asked a series of

open questions rather than setting a rigid framework.

We will fully evaluate the consultation responses. We will also take into account the emerging themes and concerns on this key issue before developing our policy and approach.

1.5 Price review 2009

The next price review will commence in the autumn of 2007. Over the next fifteen months we will develop our outline approach to the review. This will build on lessons from the independent review of the 2004 price review (PR04) chaired by John Baker.

The emerging issues include:

- In January 2006 we consulted on the period of time to be covered by the 2009 price review and a number of related policy issues. We are analysing the responses to the consultation. We will publish a summary of the responses to this consultation and how we plan to take the issues raised forward.
- To enable companies to present charges schemes for approval in January 2010 and issue bills for the period from 1 April 2010, we need to set price limits for the period for 2010 and beyond no later than the end of November 2009. We will consult later this year on the stages to reach the price limits following discussion with Defra, Welsh Assembly Government, Environment Agency, Drinking Water Inspectorate and CCWater.
- We recognise the issues around the interaction of the Water Framework Directive (WFD) and PR09. We are working with Defra and the Environment Agency as well as companies and other stakeholders

to understand the implications of river basin plans and subsequent programmes of measures for customers. We are working to determine both costs and benefits to secure value for consumers and the environment in a manner that is fair, proportionate and consistent with the polluter pays principle.

- The financing of substantial capital programmes which has led to increased gearing across the industry. In February 2006 we issued with Ofgem a discussion paper, 'Financing Networks'. This considers key issues around the role of equity for regulated companies, implications for regulators and approaches to make sure companies can finance their functions. The consultation closed on 19 May. The responses will help inform further study and debate on this matter, which will be important in developing our policy for the next price review.
- We recognise that some customers, particularly those on low fixed incomes, find it difficult to pay their bill. This issue is more pressing where bills are already high or where increases are needed to fund further investment. We will continue to work with Defra, CCWater and other stakeholders to make sure that the needs of low-income customers are carefully considered as we move towards the next price review.
- Whether companies' licences need to be modified as part of the PR09 process, particularly in relation to interim and substantial effects determinations.

1.6 Market competition

The new water supply licence regime started in December 2005. To date we have issued five new licences. At present, only the largest customers who are likely to use at least 50 megalitres of water per year, around 2,200 in number, may choose their water supplier. Defra is committed to reviewing in 2008 the threshold in the light of the experience of the new regime. We will advise Defra in due course and discuss this matter with interested parties. We will seek to promote competition actively, removing or reducing barriers to entry and encouraging progress, particularly in the new water supply licensing regime.

We wrote to companies in April this year (MD215) to encourage them to increase the pace of their negotiations with licensees. We will monitor closely the progress of the new regime and if necessary resolve disputes and take action to avoid unnecessary delays.

1.7 Consumer Council for Water

The new independent Consumer Council for Water (CCWater) was established on 1 October 2005 with a transfer of staff and resources from Ofwat. We welcome the independence of CCWater. We are working with CCWater to develop a memorandum of understanding (MoU) to guide how we work together going forward. The MoU will be laid before Parliament and published on our website, once agreed.

We will work to share the knowledge and expertise that we have accumulated, and work collaboratively wherever possible to maximise the effectiveness of both organisations and avoid unnecessary duplication of effort.

We will continue to develop a constructive relationship with CCWater so that consumers have an input to the regulatory regime and that we take due account of consumer views in reaching decisions. We will co-ordinate our work programmes with CCWater to identify areas of common cause.

Outputs	Period
Hold a seminar for Managing Directors of water companies	6 July 2006
Publish a summary of responses to consultation on the length of the price review period for 2009	Quarter 3
Publish MoU with CCWater on website	Once agreed

2. Protecting consumers

We have a duty to protect consumers. Each year we monitor the quality of service delivered to consumers by companies and take action if required. We publish the results of the analysis of this information in our five annual reports on company performance.

2.1 Tariffs and charges schemes

Objective

Our statutory role is to approve each company's charges scheme. We will make sure that companies' charges comply with their price limits, reflect costs and are neither unduly preferential nor unduly discriminatory so that customers pay the correct price for the service they receive.

Approach

To meet our objective, we will:

- Follow our established policy set out in MD152, 'Approval of companies' charges schemes in 2000-01'.
- Review and approve companies' 2007-08 charges schemes in consultation with CCWater.
- Contribute to the Defra review of household charging mechanisms and participate in the steering group for cross-industry research on future methods of charging.
- Review our policy on the structure of household charges in the light of the Defra/UKWIR review of household charging mechanisms and discussions with Welsh Assembly Government and other stakeholders.

- Update register of 'special agreements', in April and November.

Outputs	Period
Special agreements register	April and November
Publish the outcome of our review of companies' charges schemes for the current year in our 'Water and sewerage charges' report	May 2006, 2007 and 2008
Approve charges each year	February 2007, 2008 and 2009
Publish the 'Water and sewerage bills 2007-08' leaflet on average bills	Quarter 4

2.2 Vulnerable consumers and social issues

Objective

To protect the interests of all consumers, including the vulnerable, those in debt and those who receive resale services. To engage effectively with CCWater and other stakeholders on these issues.

Approach

To meet our objective, we will:

- Continue to develop policy on affordability and play an active role in advising Government on debt and affordability issues.
- Continue to monitor debt levels, debt recovery activity and commercial disconnections.
- Monitor the introduction of the new powers (from 1 April 2006) requiring water resellers to provide more information to purchasers.
- Encourage companies to make services accessible to those requiring special assistance.
- Continue to encourage companies to promote availability of the vulnerable group tariff as part of our monitoring process.
- Review our debt guidelines with CCWater.
- Participate in the Defra-led affordability pilot study to assess the benefits of targeting assistance to low-income customers. Results are expected in summer 2007.
- Continue to work with Defra, Welsh Assembly Government and other stakeholders to review the effects on various customer groups of different ways of charging.
- Participate in the Water UK steering group to undertake further debt research in 2006-07.
- Work with Defra, Water UK and CCWater to organise a workshop promoting good practice in the way in which companies offer the vulnerable group tariff.

- Continue to contribute our thinking to the Public Utilities Access Forum and Water UK's Debt Focus Group.

Outputs	Period
Pre-consultation workshop on review of debt guidelines	May 2006
Publish on our website data on commercial disconnections, domestic debt recovery activity and debt levels	August 2006
Monitor and publish on our website annual data on the numbers of customers registered with companies as requiring special assistance and those receiving the vulnerable group tariff	September 2006
Consultation on review of debt guidelines	June – September 2006

2.3 Disputes and complaints

Objective

To handle those complaints falling within Ofwat's jurisdiction, fairly, efficiently, and within agreed time limits where possible.

Although CCWater deals with most complaints by customers about the service provided by their water or sewerage company, we have particular responsibilities in relation to complaints about:

- regulatory policy;
- connection charges;
- requisition of water mains;
- sewers and lateral drains;
- adoption of and financial arrangements relating to self-laid mains supplying water for domestic purposes;
- a company's refusal to install an optional meter;
- sewer appeals;
- trade effluent appeals;
- pipe laying in streets and in private land;
- guaranteed standards scheme (GSS) payments; and
- allegations of breach of duty by a company.

Approach

To meet our objective, we will:

- Meet performance standards for all categories of dispute and complaints within our jurisdiction and reduce the number of outstanding cases.
- Provide advice on complaint handling to CCWater on a case-by-case basis or through workshops.
- Formally review companies' complaints procedures with input from CCWater.

Performance standard

80% of non-investigated cases dealt with within 10 working days

65% of investigated cases resolved within 3 months (65 working days)

80% of investigated complaints resolved within 6 months (130 working days)

2.4 Levels of service to consumers

Objective

To safeguard the quality of services that companies provide to their consumers and encourage companies to make improvements where necessary.

Approach

To meet our objective, we will:

- Take action to secure improvements where service falls below regulatory expectations.
- With CCWater, continue to monitor more qualitative aspects of service through assessments of company practice.
- Continue to hold companies to account for the reliability of the information we collect, and look for opportunities to improve the quality of information from companies, for example on the recording of complaints received by telephone.
- Consider the future approach to the overall performance assessment (OPA) for price setting beyond 2009-10 once the review of the length of PR09 is complete.
- Continue to work with stakeholders to develop OPA performance measures. This will reflect the changes in the way the Drinking Water Inspectorate and the Environment Agency report performance.
- Update the OPA to reflect the outcome of the consultation 'Reflecting security of supply in the OPA', which closes on 3 July. The output will be published by quarter 3.
- Recommend to Defra any changes to the GSS arising from our 2005-06 consultation.

Outputs	Period
Monitor and publish information on the levels of service provided in our 'Levels of service for the water industry in England and Wales' report including industry-level performance against the revised measure for handling telephone calls	October 2006, 2007 and 2008
Publish our decisions following the consultation on reflecting the security of supply in the OPA	Quarter 3
Recommend any changes to the GSS arising from our 2005-06 consultation	December 2006

2.5 Consumer objective

Objective

We have a duty to further the consumer objective: 'to protect the interests of consumers, wherever appropriate by promoting effective competition'.

With the separation of Ofwat and WaterVoice and the formation of CCWater, it is timely for us to review how Ofwat takes the views and interests of consumers into account as a matter of course in its decisions.

In February, we participated in the launch of a model (called the 'Toolkit') that has been developed for Ofcom's consumer panel to use to make sure the consumer interest is taken into account in individual projects.

Approach

To meet our objective, we will:

- run an internal project to review how we take account of the consumer interest, with contribution from CCWater;
- explore with Ofcom how we might adapt elements of their 'Toolkit' as part of this work; and
- consider how and when to extend this to other stakeholders when this phase is completed.

2.6 Reducing sewer flooding

Objective

To make sure companies tackle sewer flooding in the short and longer term using approaches that deliver best value for customers in line with the expectations set out at the 2004 price review.

Approach

To meet our objective, we will:

- Continue to work with CCWater and other stakeholders on companies' strategies and policies for preventing sewer flooding and the handling of incidents when they occur.
- Recommend any changes to the GSS and develop practical guidelines arising from the 2005-06 consultation on 'Dealing with customers affected by sewer flooding and the guaranteed standards scheme – a review'.
- Work with the industry to continue to improve the quality of data about external flooding and the lesser risk of internal flooding.

- Continue to work with stakeholders to develop best practice for mitigation measures.
- Contribute to the development and implementation of the Government's strategy for flood management.
- Assess feedback from companies on how they educate their customers about the common causes of blockages and how to avoid them. We will share best practice with the industry.

Outputs	Period
Share best practice on educating customers about sewer blockages	Quarter 1
Monitor the delivery of sewer flooding outputs, and report on this in the 'Financial performance and expenditure of the water companies in England and Wales' and the 'Levels of service for the water industry in England and Wales' reports	September 2006, 2007 and 2008 October 2006, 2007 and 2008

2.7 Maintaining serviceability

Objective

To make sure the companies' water and sewerage systems continue to deliver reliable service to customers into the future.

Approach

To meet our objective, we will:

- Take action with companies where we judge their serviceability (ability to maintain existing standards of service) is marginal or deteriorating, requiring action plans and more frequent reporting as appropriate.
- Consult on developing our process for assessing capital maintenance requirements in the light of the UK Water Industry Research (UKWIR) review of the capital maintenance planning common framework, the Mott Macdonald review of our approach to capital maintenance, and the independent steering group review of the 2004 price review. We will initiate collaborative follow-up work as appropriate.
- Work with the industry to refine serviceability indicators, following publication of the UKWIR review of serviceability indicators, and publish more details of our serviceability assessment process.
- Contribute to joint research initiatives with the UKWIR programme, as appropriate, including ongoing work on sewer deterioration rates.
- Continue to use the June return to inform our understanding of the long-term capital maintenance requirements for each company.
- Review our tools for assessing capital efficiency factors – currently the cost base and econometric models.
- Work with Defra and the industry to develop understanding of best practice in managing odour from sewage treatment activities, including improved cost benefit analysis techniques in this area.

Outputs	Period
Monitor trends in levels of service and asset performance (serviceability indicators) as reported in the June returns. We will publish our analysis in our 'Financial performance and expenditure of the water companies in England and Wales' report	September 2006, 2007 and 2008
Publish the capital maintenance updated econometric relative efficiency analysis in our 'Water and sewerage service unit costs and relative efficiency' report	December 2006, 2007 and 2008
Issue consultation paper, 'Developing our process for assessing capital maintenance requirements'. Hold workshop	Quarters 1 and 2
Develop and publish our detailed response to the UKWIR review of serviceability indicators	Quarters 2 and 3

2.8 Improving drinking water quality and the environment

Objective

To enable water companies to improve drinking water quality and the environment both efficiently and effectively. We monitor companies' outputs to make sure they carry

out expected work programmes to meet enhanced standards and deliver better water quality and a cleaner water environment. The 2004 price determination set out work for each company, with specific improvements we expect them to deliver by specified dates.

Approach

To meet our objective, we will:

- Work with the Drinking Water Inspectorate to make sure that companies carry out the expected improvements to their water treatment works and distribution systems.
- Work with the Environment Agency to make sure that companies complete the projects to improve the environment in 2005-10 on time, and in a cost-effective way.
- Work with the Environment Agency to make sure that companies achieve and maintain appropriate levels of environmental performance.
- Ask companies to report whether they have completed other projects included in the 2004 price determination, which are not enforced by the quality regulators, for example projects to connect properties to the public sewerage system for the first time.
- Seek assurances from companies on the progress they are making with the early start schemes confirmed in December 2003 and January 2004, and included in our 2004 final determinations. We have asked companies and reporters to report in their June returns.

- Work with the Environment Agency to hold joint environmental performance meetings with the ten water and sewerage companies. We will also discuss progress with projects to improve nature conservation with Natural England.
- Work with the Drinking Water Inspectorate on companies' progress with improving drinking water quality, and when necessary have joint meetings with companies.
- Continue to participate in Government-led and other groups' initiatives on environmental issues which involve the operation and performance of the water companies.
- Provide input on Government policy initiatives, notably discussion on the ownership and maintenance of sustainable drainage systems; and the Government's proposals for the possible adoption of private sewers and lateral drains.
- Work with the Drinking Water Inspectorate and others to understand the implications of Water Safety Plans and consumer acceptability of drinking water, including aesthetic, taste and odour preferences.
- Encourage an integrated approach to investment planning involving the use of cost benefit analysis to enable companies to provide consistent best value in the service they deliver to consumers and the environment.
- Participate in the Defra-led working group to develop an action plan to address pollution concerns in the River Lee (East London) which may affect the Olympic Games site, as well as considering longer-term initiatives on sewer overflow issues in the Thames Tideway.

Outputs	Period
Publish information on company performance in the 'Levels of service for the water industry in England and Wales' report	October 2006, 2007 and 2008
Publish information on company progress and expenditure on delivering the AMP4 quality programme in the 'Financial performance and expenditure of the water companies in England and Wales' report	September 2006, 2007 and 2008

2.9 Water Framework Directive

Objective

The Secretary of State for Environment, Food and Rural Affairs and the Welsh Assembly Government will in December 2009 confirm the river basin management plans and programmes of measures to achieve environmental objectives under the WFD. We will support the implementation of the WFD with the aim of securing an outcome that is fair, proportionate and in the interests of consumers.

Approach

To meet our objective, we will:

- Continue to participate in steering and working groups with Defra and the Environment Agency.
- Provide the information and analysis necessary to allow Defra to report to the European Commission.

- Continue to participate in the collaborative research programme led by Defra. This includes developing the economic analysis to inform the river basin planning process.
- Continue to contribute to the cost-effectiveness analysis and the development of cost benefit evaluation.
- Encourage the development of cost benefit analysis of proposed environmental improvements.
- Continue to develop the estimates of the potential cost of implementing the WFD for companies and customers.
- Continue our participation with the Government, the industry, the Environment Agency, CCWater and others in the Water Saving Group, in collaborative work to improve understanding of the drivers of the supply/demand balance and long-term options to secure public water supplies. We will develop a good practice register for water company water efficiency activity and assess the implications of differential infrastructure charges, reflecting the water efficiency of developments.
- Continue to monitor meter uptake and assess trends.

2.10 Supply and demand for services

Objective

To assess companies' performance in meeting demand for water services by delivering the right blend of leakage reduction, resource development and demand management, and by promoting the efficient use of water. To support and monitor the industry in promoting the efficient use of water by consumers.

Approach

To meet our objective, we will:

- Jointly with the industry and the Environment Agency, continue to monitor the water resources position during the current drought and the companies' response to it, particularly in the south-east of England.
- Monitor companies' delivery of supply/demand balance outputs, including improvements to the security of water supplies through reviewing June returns and annual water resource plan updates.
- Determine disputes about the terms of bulk supply agreements as appropriate.
- Contribute to the industry's assessment of the need for the sewerage system to meet future demand, allowing for changes in weather patterns and new housing development.
- Provide input to any future consultations on water scarce area status applications.
- Contribute to the National Audit Office (NAO) study on meeting demands for water.
- Work with the industry, the Environment Agency, Defra, CCWater and waterwise, in particular as a member of the Water Saving Group, to improve our understanding of the cost-effectiveness of companies' activities to promote the efficient use of water by their customers.
- Continue to support the Ofwat economic research category in the Environment Agency's water efficiency awards. We will also participate in shortlisting and judging entries.

- Review the companies' June returns and publish our analysis of their promotion of the efficient use of water in our 'Security of supply, leakage and the efficient use of water 2005-06' report.
- Provide advice to stakeholders on Thames Water Limited's proposals for a desalination plant.

Outputs	Period
Contribute to and publish the 'Security of supply, leakage and the efficient use of water' report	October 2006, 2007 and 2008

2.11 Reducing leakage

Objective

To make sure companies carry out their duty to maintain an efficient and economic system of water supply based on reducing leakage to its economic level.

Achieving and maintaining the economic level of leakage (ELL) forms a key plank of companies' delivery of security of supply for customers. Where security of supply is under pressure, either in the short term due to drought, or in the longer term due to pressures such as growth, companies' approach to leakage is particularly important. We place particular emphasis on understanding and monitoring companies' approaches to managing leakage and will take any additional measures as necessary to develop our policy. Assessing the ELL enables environmental and social costs to be taken into account, as well as financial costs. It also identifies levels of leakage that provide best value to consumers and the environment in differing regional circumstances.

Approach

To meet our objective, we will:

- Promote with stakeholders a full understanding of ELL policy.
- Analyse the 2006 June return leakage results, recommend action where necessary, and publish the leakage performance press notice at the end of July 2006.
- Continue to monitor closely the performance of Thames Water and United Utilities on their leakage recovery programmes (as set out in our 'Security of supply, leakage and the efficient use of water' report) and take additional measures if necessary.
- Commission an independent review of ELL.

Outputs	Period
Publish leakage performance data	July 2006
Publish the 'Security of supply, leakage and the efficient use of water' report	October 2006, 2007 and 2008

2.12 Sustainable development

Objective

Since 1 April 2005 we have had a new duty to 'exercise and perform our duties in the manner best calculated to contribute to sustainable development'.

Approach

To meet our objective, we will:

- Review responses to our published consultation on sustainable development. We consulted on:
 - our initial interpretation of what sustainable development means to us;
 - how we think we can contribute to sustainable development; and
 - what we think the key issues will be for the next price review and beyond.
- Develop proposals on our approach to our new sustainable development duty based on the consultation. We expect to announce our findings and next steps in the third quarter of 2006-07.

Sustainable development is an inherent part of our working practices; for example we reviewed our own operations to encourage more recycling and cut energy use. We will continue to review our working practices.

Outputs	Period
Issue response document to sustainable development consultation	Quarter 3

2.13 Company reporters and auditors

Objective

We take seriously the quality of the information that companies submit to us. We expect this information to be reliable, accurate and complete. We also expect high standards of corporate governance including rigorous systems of internal controls that operate throughout the company.

We will make sure companies' information returns are subject to independent scrutiny and audit.

Approach

To meet our objective, we will:

Reporters

- Keep under review the quality of information provided to us by companies and if necessary take action to secure improvements.
- Continue to use appropriately experienced consultants to act as our independent reporters to help us obtain reliable comparable regulatory information from each company, for example in the June returns and for any interim determination of price limits.
- Approve the appointment of reporters when contracts end or reporters resign, and manage the transition to new reporter appointments.
- Ask reporters, where appropriate, to assist us in special investigations or regulatory action and to support the auditors in their examination of regulatory accounts.
- Review and approve reporters' audit plans and set ceiling costs for their work.
- Review reporters' performance in liaison with companies in quarter 4 of 2006-07.
- Review the role and performance of reporters during the 2004 price review to inform our expectations for future price reviews.

Outputs	Period
Continue to hold workshops and briefings for the reporters and auditors in order to maintain their awareness of regulatory priorities and policies, and have an effective dialogue between us	Quarter 3 2006
Give feedback and make awards for the best reporters for their reports on the 2006 June returns	Quarter 3 2006

Auditors

- Require auditors to provide an audit opinion on the regulatory accounts.
- Continue to use auditors to carry out agreed procedures (and report their findings to us) on information to help us obtain reliable comparable regulatory information from each company, for example the June returns, principal statements and any interim determinations of price limits.
- For all companies ahead of the 2006-07 June return submission:
 - review the role of auditors and our co-ordination of their work to make sure we maximise added value;
 - review our guidance to auditors to make sure this is sufficiently detailed and carefully drafted;
 - consider issuing company-specific guidance to auditors in the same way as we do for reporters;
 - request each auditor for each company to identify a named individual who will take responsibility for reporting to us;

- require an annual meeting with auditors to make sure our requirements are fully understood; and
- hold an induction meeting when a company changes its auditors in the same way as we do for reporters.

Outputs	Period
Continue to hold workshops and briefings for the reporters and auditors in order to maintain their awareness of regulatory priorities and policies, and have an effective dialogue between us	May 2006

2.14 Special investigations

Objective

To make sure that all stakeholders have confidence in the regulatory process and that where problems emerge, we will investigate. Where appropriate, customers will be compensated and penalties imposed on the companies.

During 2006-07 we will take forward investigations relating to Severn Trent Water Limited (Severn Trent Water), Southern Water Services Limited (Southern Water) and Thames Water Utilities Limited (Thames Water).

Approach

Severn Trent Water

There are two current investigations into the activities of Severn Trent Water.

The first investigation concerns allegations made by a whistleblower against Severn Trent Water. In May 2005 we referred our concerns to the Serious Fraud Office (SFO) about the reliability of certain regulatory information provided by Severn Trent Water. The SFO concluded that the matter was sufficiently serious to warrant a separate investigation by it. It commenced this investigation in October 2005.

In March 2006 we published a report setting out our interim conclusions on some of the issues raised. We found that Severn Trent Water's failure to meet its obligations in respect of the provision of information would have led to the overcharging of customers by £42 million over the period 2004-05 to 2009-10.

Prior to commencing our investigation we obtained a written assurance from the company that if it were ever found that customers had been overcharged, any necessary corrections would be made. Severn Trent Water has agreed to return the £42 million to customers promptly.

When the SFO's investigation is complete we will:

- Set out our conclusions in full including our findings on those matters currently being considered by the SFO.
- Consider with the company what further redress to customers is appropriate.

We have identified a number of other actions that Severn Trent Water must take so that we can have confidence in its data in the future. We will continue to monitor Severn Trent Water's progress in addressing our requirements.

We have also identified some actions needed to strengthen the data collection across the industry and have either already implemented or have set out a timetable for implementing them (MD213, 'Interim report on allegations made against Severn Trent Water').

The second investigation concerns the customer service activities of Severn Trent Water. In April 2006 Severn Trent Water provided us with an interim report which confirmed evidence of misstatement of certain customer services data.

As a result, Ofwat and Severn Trent Water have appointed Ernst & Young LLP to carry out an independent investigation into these irregularities. That investigation is ongoing.

Severn Trent Water has said if customers have been disadvantaged it will reimburse them.

We have issued a notice to the company of our intention to fine in respect of the failure to meet performance standards which have occurred since 1 April 2005. Our power to fine does not cover performance failures prior to that date.

Southern Water

In October 2005 Southern Water notified us of irregularities regarding the reporting and handling of response levels to customer enquiries and complaints. We have begun an investigation into these irregularities and together with Southern Water have appointed independent forensic accountants, KPMG LLP, to work on our behalf.

The company has also referred the issues to the SFO.

We have obtained an undertaking from the company that it will not benefit to the detriment of its customers from any irregularities found by the investigation.

We have issued a notice to the company of our intention to fine in respect of the failure to meet performance standards which have occurred since 1 April 2005. Our power to fine does not cover performance failures prior to that date.

Thames Water

In January 2006 Thames Water informed us that it had discovered that it had been failing to meet certain standards of customer service performance under the GSS and had not been making payments due to customers for those failures as it is required to do.

We have begun an investigation into these irregularities and possible misreporting of customer services data. Together with Thames Water we have appointed Ernst & Young LLP to work on our behalf.

Follow-up actions

Our outputs in respect of the investigations into customer service information are dependent upon the completion of our investigations and in the case of Southern Water whether the SFO decides to take this matter forward itself. We cannot say exactly when this will be.

The issues raised are complex and it is likely to take some time to investigate these irregularities.

We will carry out a thorough review of the matters raised when we have completed investigations, including:

- Considering the need for and amount of any penalty to be imposed upon the companies.
- Identifying any actions that we will require Southern Water, Severn Trent Water and Thames Water to take to make sure we can have confidence in their data in the future.
- Considering whether there is any industry-wide action that we need to take as a result of our findings.

Outputs	Period
Determine level of penalty adjustment for Severn Trent Water and publish final report	Dependent upon SFO investigation
Modify Severn Trent Water's Licence Condition F and add Condition P to Severn Trent Water's Licence	Quarter 2
Monitoring of Severn Trent Water's improvements to its internal systems and controls	Ongoing on a quarterly basis
Investigate and monitor the performance of Southern Water to make sure improvements are made	Ongoing on a quarterly basis
Investigate the misreporting of customer services data by Severn Trent Water	Ongoing on a quarterly basis
Investigate the misreporting of customer services data by Thames Water	Ongoing on a quarterly basis

3. Company finance and incentives

Our approach to regulation provides a broad range of incentives – carrot and stick – to companies to improve their efficiency and service. These are based on a framework of comparative competition using a range of quantitative and qualitative indicators. We make appropriate comparisons, drawing on relevant information from other sectors and international comparisons where available. Our analysis and policy approach aims to incentivise companies to improve performance and deliver the requirements set out in price determinations.

3.1 Comparative competition

Objective

Our objective is to promote continued improvements in company service, performance, compliance, leakage, security of supply and efficiency by the use of comparative competition.

Approach

To meet our objective we will:

- Carry out a thorough analysis of operating and capital maintenance expenditure data provided in the June returns.
- Continue to encourage efficient and effective procurement practices in the water industry, and report on the industry's progress in attaining efficient procurement.
- Use the comparative information available to us to make sure that there are strong incentives to improve performance in the post-2005 period.
- In quarter 3 of 2006-07, review the sewage sludge econometric models for operating costs and capital maintenance in the light of new approaches to sludge management.

- Continue sponsorship of a postgraduate research project (with Aston Business School) into the regulatory use of panel data analysis for assessing company and industry efficiency.
- Participate in a thorough review of our approach to efficiency assessment in collaboration with UKWIR, in response to recommendations made in the independent report on the 2004 price review.

Outputs	Period
Publish our 'Financial performance and expenditure of the water companies in England and Wales' report	September 2006, 2007 and 2008
Participate fully in steering the joint review of the approach to efficiency assessment in regulating the water industry	Quarters 1 and 3

3.2 International benchmarking

Objective

Our objective is to collect information to help us to develop and improve incentives for companies to become more efficient and to provide better services to customers. International benchmarking enables comparison of the England and Wales industry to service and efficiency levels elsewhere in the world. We make comparative information available publicly to provide incentives to encourage a world-class water industry.

Approach

To meet our objective, we will:

- Develop benchmarking contacts with the Scandinavian 'six cities' group and other countries.
- Contribute regulatory inputs to Defra-supported programmes in developing countries.
- Continue to welcome visits from overseas visitors. We are keen to use such opportunities to develop our international comparisons.

Outputs	Period
Publish the 'International comparison of water and sewerage services' report	March 2007, 2008 and 2009

3.3 Financial performance and regulatory accounts

Objective

To make sure that companies are operating within the expectations set out in price limits. In July 2006 companies will submit their regulatory accounts. These provide information on revenues, expenditure and overall financial performance. These accounts are underpinned by regulatory accounting guidelines (RAGs).

Approach

To meet our objective, we will:

- Analyse the regulatory accounts and publish our findings in our 'Financial performance and expenditure of the water companies in England and Wales' report.
- Hold six-monthly City briefings to explain our policies to investors and analysts.
- Consult on proposed changes to the regulatory accounts tables in the June returns and on changes to RAGs 1 and 3. The changes will be effective for the 2007 June returns and regulatory accounts. We will review the responses and issue revised guidance later in 2006.

Outputs	Period
Publish the 'Financial performance and expenditure of the water companies in England and Wales' report	September 2006, 2007 and 2008
Issue revised guidance on RAGs and June returns	Quarter 3
City briefings	Six-monthly

3.4 Independence of the regulated businesses

Objective

To safeguard both the financial ring fence around, and managerial independence of, the regulated businesses. To make sure that the price limits we set reflect the true operating costs of the regulated companies and that these are not inflated by cross-subsidy to other companies in the same group.

Approach

To meet our objective, we will:

- Monitor compliance to make sure the financial ring fence is maintained.
- Liaise with companies on the appointment of new non-executive directors to make sure that licence requirements on their independence and experience are satisfied.
- Monitor transactions between companies and associates, and investigate areas of concern.
- Make sure companies comply with their licence requirements on arm's length trading and ring fencing.
- Take appropriate remedial action where instances of failing to trade at arm's length are identified.

Outputs	Period
Publish a summary of our work on transfer pricing in our 'Financial performance and expenditure of the water companies in England and Wales' report	September 2006, 2007 and 2008

3.5 Financial restructuring

Objective

To make sure that customers of the monopoly water companies are protected from any undue additional risk arising from a particular structure. Since the final determinations in December 2004, companies have continued to increase gearing and return capital to shareholders, albeit on a more limited scale than the restructuring that followed the 1999 review.

Approach

To meet our objective, we will:

- Respond to any further restructuring proposals as they arise. These proposals may arise as a result of a strategy adopted by new owners of a regulated company or as the result of internal restructuring.
- Consider whether it is appropriate to strengthen the financial ring fence by making licence modifications, for example cash lock-up provisions, to protect customers following restructuring activity.

Outputs	Period
Respond to restructuring proposals	Case-by-case basis

3.6 Mergers

Objective

To make sure that the ownership structure of the companies maintains incentives for improved efficiency and performance. To make sure that customers are protected when there is a change of ownership for a regulated company.

Approach

To meet our objective, we will:

- Assess with an open mind each merger proposal within the industry and submit evidence to the Office of Fair Trading (OFT) and to the Competition Commission on the potential detriment to the comparative regime and any proposals to offset that detriment.
- In the event of other mergers leading to a change of ownership for a water company, publicly consult on the regulatory issues arising from the transaction, providing advice to the OFT as necessary.
- Manage the regulatory issues arising from the sale of Thames Water by RWE. The view of the market appears to be that, going forward, debt finance will play a significant part in any proposed financing structure for Thames Water. We will look at any individual proposal on its merits, recognising that Thames Water has significant uncertainty relating to future capital requirements and therefore it needs a strong financial and credit position. We would expect it to remain comfortably within investment grade under any new ownership.
- Consult on the regulatory issues arising from this proposal.

Outputs	Period
Issue consultation papers on proposed mergers	Case-by-case basis
Issue position notes on proposed mergers	Case-by-case basis
Respond to the sale of Thames Water by RWE	As required depending on divestment timetable

3.7 Interim determinations of price limits

Objective

Either we or a company can initiate an interim determination of price limits by following the criteria in the company's licence. We can reassess a company's price limit between price reviews if its costs or revenues change materially in specific areas.

In quarter 1 of 2006 we issued an MD letter detailing the process to be followed for processing any interim determination applications which may be triggered by us or received on or before 15 September 2006.

Approach

To meet our objective, we will:

- Discuss with companies any potential issues that need handling through the change protocol or interim determination process.
- Take account of material changes (relevant changes of circumstances and notified items) from the assumptions on relevant items on which price limits were based at the last periodic review.
- Review the AMP4 change protocol by quarter 4 of 2006-07 to make sure that it continues to perform as intended in relation to the price limits for 2005-10. We will report on the findings.

Outputs	Period
Issue an MD letter detailing the process to be followed for processing any interim determination applications	Quarter 1
Review AMP4 protocol and report on findings	Quarter 4

3.8 Promoting competition

Objective

The Water Act 2003 (WA03) requires us to protect the interests of consumers, wherever appropriate by promoting effective competition. Competition includes water supply licence arrangements, self-lay and inset appointments.

Approach

To meet our objective, we will:

- Seek to promote competition actively, removing or reducing barriers to entry and encouraging progress, particularly in the new water supply licensing regime. We wrote to companies in April this year (MD215) to encourage them to increase the pace of their negotiations with licensees.
- Monitor the operation of the new water supply licensing (WSL) regime, which came into effect on 1 December 2005, to assess its effectiveness and to assess areas for improving our guidance and processes. We will continue to use our WSL advisory groups to help us. We will if necessary take action to deal with avoidable delays.
- We will communicate updates in WSL policy and examples of best practice regularly to water companies and licensees, and use this to encourage them to give feedback on their own experiences. Where urgent WSL issues arise, for example those that might affect how water companies operate their access codes, we will use our website to quickly publicise our views on the way forward.
- Work with CCWater to survey WSL stakeholders in 2006-07. This survey will focus in particular on eligible customers and seek their views on the new WSL regime.
- Resolve disputes, make determinations and respond to enquiries about the WSL regime while continuing to communicate the opportunities provided by the new WSL regime and the existing inset appointment and self-lay mechanisms.
- Continue to apply the Competition Act 1998 (CA98) to examine potentially anti-competitive behaviour and take appropriate and proportionate action wherever necessary.
- Encourage customers, developers, contractors and potential entrants to pursue competitive options where appropriate.
- Monitor developments in Europe, which may affect competition in the water sector in England and Wales. We will continue working through the Concurrency Working Party and the European Competition Network to keep up to date with new case law which may affect the water industry and contribute to the development of policy and procedures. We will also monitor developments on the European Services Directive.
- Consider what other actions we might take to protect the interests of consumers, wherever appropriate by promoting effective competition and challenging anti-competitive behaviour.
- Continue to promote a competitive mains-laying market, which now includes multi-lay where the contractor is responsible for installing more than one utility service to the site.

Ofwat forward programme 2006-07 to 2008-09

- Process completed applications for inset appointments and water supply licences, and provide advice to potential applicants on the process and criteria that they must meet.
- Develop our approach to non-routine inset applications which may require a different approach to regulation and price setting.
- Work with the industry in 2006-07 to revise our guidance on applying for inset appointments and any WSL guidance that needs amending in the light of practical experience.
- Respond to current and possible future appeals to the Competition Appeal Tribunal (CAT).

Outputs	Period
Publish revised guidelines on the application of CA98 in the water and sewerage sectors for consultation in 2006-07	Quarter 4
Publish our annual report on progress on competition complaints	Quarter 1 2006, 2007 and 2008
In conjunction with CCWater, survey WSL stakeholders	Quarter 4
Issue water supply licences and grant inset appointments	Ongoing
Publish revised inset appointment guidance	Quarter 3
Publish a report on companies' indicative access prices	Quarter 3
Competition Appeal Tribunal (CAT) appeals	As they arise

4. Resources, communications and governance

4.1 Resource management

Objective

Our aim is to provide value for money to customers and keep the regulatory burden on companies to a minimum. We are accountable to Parliament and are required to meet Government accounting standards.

Approach

To meet our objective, we will:

- Review our budget on a regular basis and where possible make efficiencies.
- Benchmark our procedures and costs to other economic regulators.
- Provide shared services to CCWater, seeking economies of scale where these are of mutual benefit.
- Prepare our resource accounts in line with the requirements of NAO and HM Treasury.
- Develop our personnel strategy to maintain our effectiveness as a regulator.
- Manage our office accommodation efficiently and in line with our sustainability aims.
- Our budget is funded by £11.8 million licence fees recovered in May 2006 and £0.6 million underspend carried forward from previous years.

The budget estimates are as set out below:

	2005-06	2006-07	2007-08
Budget estimate	£12.1m	£12.4m	£12.4m

4.2 Information management

Objective

We balance our need for information to regulate with minimising the regulatory burden on companies. To do this, we have established an industry-wide information requirements consultative group and work with CCWater to avoid unnecessary duplication of effort.

Approach

We have a range of computer-based tools to collect, process and store regulatory information, which need to be updated ahead of the next price review in 2009. We are now developing our information management systems with the aim of improving effectiveness and helping the office to work smarter. The new systems will enable the office to accommodate an increasingly diverse user base including external stakeholders.

A study of current best practice within both Government and the wider public sector evaluated a range of alternatives, including open source software. As a result, we initiated a long-term project to restructure our entire software suite, called Project Reservoir. This includes open source and proprietary software.

Project Reservoir aims to build new systems that:

- maintain and improve on the current systems' functionalities and service;
- are better integrated;
- are easier to maintain; and
- have a seamless link between internal and external systems.

4.3 Governance

Objective

It is important that all our stakeholders have confidence in the rigour of our decision making and transparency of process. The establishment of the Water Services Regulation Authority requires the implementation of a framework of new corporate governance arrangements. Our aim is to make sure stakeholders continue to have confidence in our governance.

Approach

To meet our objective, we will:

- Update the Board's rules of procedure as required.
- Publish our draft code of practice on how we make decisions and arrangements for consultation.
- Publish minutes of the Board's meetings.
- Support the new audit and remuneration committees.
- Develop our risk management procedure.
- Make sure regulatory impact analysis is carried out for new policy initiatives.
- Consult on our 'Forward programme 2007-08 to 2009-10' in autumn 2006.

Outputs	Period
Publish code of practice on how we make decisions	September 2006
Publish and consult on forward programme 2007-08	October 2006
Publish minutes of Board meetings	Monthly

4.4 Joint working

Objective

As required in the WA03 we will establish a number of MoUs between stakeholders to facilitate joint working.

Approach

To meet our objective, we will:

- Develop MoUs with Defra, the Welsh Assembly Government, the Environment Agency, and CCWater.
- Review and if necessary, update MoUs with the Drinking Water Inspectorate and the Health and Safety Executive.

4.5 Keeping stakeholders informed

Objective

We are committed to publishing information to allow consumers and other stakeholders to understand what we are doing and have their say in regulatory decisions.

Approach

We work hard to make sure that our approach and the decisions we make are made available to our stakeholders in plain English in a timely fashion. We keep people informed about our activities through our website publications, leaflets, our newsletter 'H₂Ofwat', media briefings, press notices and workshops.

Our library is the main point of contact with the public and handles the majority of enquiries.

Our website is our prime communications tool and we make sure that anything we publish is placed on the website as soon as it is available. We offer an e-mail subscription service that automatically notifies subscribers each time something new is added to the website.

As in previous years, we monitor the activities of Parliament, the Welsh Assembly, the London Assembly and the European Union. We will respond to enquiries from elected representatives and provide written and oral evidence to committees where requested.

To meet our objective, we will:

- Continue to develop our website as a key part of our communications with the public to make sure it is easily accessible.
- Strive to produce documents that are easy to read.
- Involve stakeholders in our activities through a range of consultations, publications, workshops and meetings.
- Consider how we can develop the way in which we engage with our stakeholders.

4.6 Better regulation

Objective

In accordance with section 39 of the WA03 we will have regard to the principles of regulatory practice.

Approach

In developing our policy we take account of the principles of better regulation: accountability, transparency, proportionality, consistency and targeting. We are working towards achieving better regulation across the industry. We welcome suggestions on how this can be achieved.

To meet our objective, we will:

- Work with Defra and others to pull together better regulation activities and contribute to achieving these.
- Keep abreast of better regulation initiatives and take them forward wherever appropriate.
- Contribute to the NAO's work to develop criteria for best practice in regulatory information management. We will take account of its findings where appropriate.
- Consider the outcome of PricewaterhouseCoopers' study into the cost of regulation when its results are published.

4.7 Freedom of Information

Objective

We handle information requests under the Freedom of Information Act 2000 (FOIA) and Environmental Information Regulations (EIRs). We handle any request on the presumption of disclosure, whilst paying due regard to the public interest and information provided by third parties.

Approach

To meet our objective, we will:

- Respond to requests under the FOIA and EIRs.
- Place information on our website if it is of interest to the general public.

- Monitor and record FOIA and EIR requests to make sure that we handle them properly and meet the deadline for responses.
- Make quarterly reports to the Department for Constitutional Affairs (DCA) on FOI and EIR requests.
- Keep abreast of all developments and guidance from the DCA, Defra and the Information Commissioner.
- Review our publication scheme annually.

Outputs	Period
Respond to FOI and EIR requests	As requested
Place information on Ofwat website	As disclosed
Make quarterly reports to DCA	Quarters 1, 2, 3 and 4

Appendix 1: Ofwat structure



Appendix 2: Summary of issues arising from the consultation

1. Stability (chapter 1)

Both at the workshop and in the written responses there was general support for the draft forward programme. The format and level of detail was considered sufficient. A key message from the responses was the need to maintain stability and regulatory certainty. This is particularly important bearing in mind current concerns over security of supply and the emerging key issues that will feature in the next price review.

Response

We are committed to maintain stability in our approach. Our resources and experience allows us to react flexibly to events as they arise.

2. Long-term planning (chapter 1)

Respondents emphasised the need for a coherent long-term planning framework for the industry. The framework should be inclusive to recognise the work of stakeholders.

Response

We recognise the very long-term nature of the industry. In the past year we have produced some long-term modelling outputs. We will further develop our longer-term regulatory strategy, particularly with reference to our initial work on the next price review.

3. Drought and security of supply (chapter 1)

Respondents commented on the severity of the current drought and the possible implications of long-term climate change. Others raised points of how this issue could affect the next price review.

Response

We are working closely with Defra, the Environment Agency, CCWater, the companies and others to assess the implications of the lack of rain over the past two winters. The Secretary of State's meeting with the key parties on 1 June helped in sharing ideas and ensuring we are working together.

4. Price review 2009 (chapter 1)

Feedback covered a number of issues linked to the next price review:

- length of the period to be covered by PR09;
- interaction with the WFD;
- project timetable and co-ordination;
- cost benefit analysis; and
- the PR04 independent evaluation (the independent steering group review).

Response

We are about to appoint the project manager for PR09. This person will co-ordinate the work on the emerging issues and set out the project timetable.

Our consultation on the period to be covered by PR09 closed on 4 May. The outcome of the consultation is planned for publication in August.

The interaction of the WFD implementation and PR09 timetables is subject to further discussion with the key stakeholders.

We are developing our approach to cost benefit analysis and, where appropriate, RIAs. The priority is for all stakeholders is to prepare robust cost benefit analysis to support new investment proposals.

The independent evaluation of PR04 by John Baker was a valuable exercise. We will take forward consideration of the report's recommendations as part of the PR09 policy development.

5. Sustainability (chapter 2)

Replies to the consultation requested more detail on how we are going to include the new sustainability objective into the full range of regulatory work.

Response

Our recent consultation on sustainability closed on 17 May. There has been a strong response with much material to consider. We will fully consider the key messages from stakeholders. We plan to publish our response document in the autumn.

6. Cost benefit analysis (chapter 2)

Some respondents considered we should provide a greater focus on cost benefit analysis and related methodologies. This applies to a number of policy areas, for example WFD, and will feature prominently in the work on PR09.

Response

We support the need for robust cost benefit analysis. We advocate an integrated approach where cost benefit analysis is central to decisions on investment.

7. Quality of information (chapter 2)

The continued investigations into the accuracy of data submissions was raised as an important issue. Respondents wanted

assurances of what action will be taken to ensure the reliability of information collected from companies.

Response

As demonstrated in letter MD209, 'Reliability of regulatory information', we take this issue very seriously. In light of the investigations we will take any action necessary to make sure the information needed for regulation is accurate and reliable.

8. Market competition (chapter 3)

Some respondents were critical over the slow progress in opening up the new market. Although it was recognised there would be early difficulties to resolve, it was felt progress should be quicker. Other comments expressed covered delays and complexity of managing inset appointment applications.

Response

In April we issued MD215 to the companies highlighting the concerns over slow progress and the action needed to address the problem. In addition, we intervened as required to facilitate progress and reduce delays. We will continue to apply pressure on any delays.

Other comments

In addition to the above we also received responses on other issues. These have either been reflected in minor changes to the document or will be taken forward for further consideration.

Appendix 3: List of respondents

Those who provided a written response

Dr Stephen Merrett

Water Resources Economics
and Management

Peter Bucks

Paul Leinster

Environment Agency

Nicci Russell

waterwise

Wendy Monk

Anglian Water

Keith Richards

South West Water

Tony Ballance

Severn Trent Water

Susan Davy

Yorkshire Water

Janet Wright

Water UK

Elizabeth Hughes

CCWater

Liz Swarbrick

South Staffordshire Water

Those who completed a questionnaire

Christopher Hancock

Wildlife Trust

Professor Chris Baines

David Bland

CCWater Thames Chairman

Ray Farrow

HBF

Nicola Simpson

Mid Kent Water

Linda Perham

CCWater Thames member

Alastair Burn

English Nature

Liz Swarbrick

South Staffordshire Water

Appendix 4: Ofwat milestones 2006-07

	Section	Date
Emerging issues		
Hold a seminar for Managing Directors of water companies	1.1	6 July 2006
Publish a summary of responses to consultation on the length of the price review period for 2009	1.4	Quarter 3
Publish MoU with CCWater on website	1.6	Once agreed
Protecting consumers		
Special agreements register	2.1	April and November
Publish the outcome of our review of companies' charges schemes for the current year in our 'Water and sewerage charges' report	2.1	May 2006
Approve charges each year	2.1	February 2007
Publish the 'Water and sewerage bills 2007-08' leaflet on average bills	2.1	Quarter 4
Pre-consultation workshop on review of debt guidelines	2.2	May 2006
Publish on our website data on commercial disconnections, domestic debt recovery activity and debt levels	2.2	August 2006
Monitor and publish on our website annual data on the numbers of customers registered with companies as requiring special assistance and those receiving the vulnerable group tariff	2.2	September 2006
Consultation on review of debt guidelines	2.2	June – September 2006
Monitor and publish information on the levels of service provided in our 'Levels of service for the water industry in England and Wales' report including industry-level performance against the revised measure for handling telephone calls	2.4	October 2006
Publish our decisions following the consultation on reflecting the security of supply in the OPA	2.4	Quarter 3

Ofwat forward programme 2006-07 to 2008-09

	Section	Date
Recommend any changes to the GSS arising from our 2005-06 consultation	2.4	December 2006
Share best practice on educating customers about sewer blockages	2.6	Quarter 1
Monitor the delivery of sewer flooding outputs, and report on this in the 'Financial performance and expenditure of the water companies in England and Wales' and the 'Levels of service for the water industry in England and Wales' reports	2.6	September 2006 October 2006
Monitor trends in levels of service and asset performance (serviceability indicators) as reported in the June returns. We will publish our analysis in our 'Financial performance and expenditure of the water companies in England and Wales' report	2.7	September 2006
Publish the capital maintenance updated econometric relative efficiency analysis in our 'Water and sewerage service unit costs and relative efficiency' report	2.7	December 2006
Issue consultation paper, 'Developing our process for assessing capital maintenance requirements'. Hold workshop	2.7	Quarters 1 and 2
Develop and publish our detailed response to the UKWIR review of serviceability indicators	2.7	Quarters 2 and 3
Publish information on company performance in the 'Levels of service for the water industry in England and Wales' report	2.8	October 2006
Publish information on company progress and expenditure on delivering the AMP4 quality programme in the 'Financial performance and expenditure of the water companies in England and Wales' report	2.8	September 2006
Contribute to and publish the 'Security of supply, leakage and the efficient use of water' report	2.10	October 2006
Publish leakage performance data	2.11	July 2006
Publish the 'Security of supply, leakage and the efficient use of water' report	2.11	October 2006
Issue response document to sustainable development consultation	2.12	Quarter 3

Ofwat forward programme 2006-07 to 2008-09

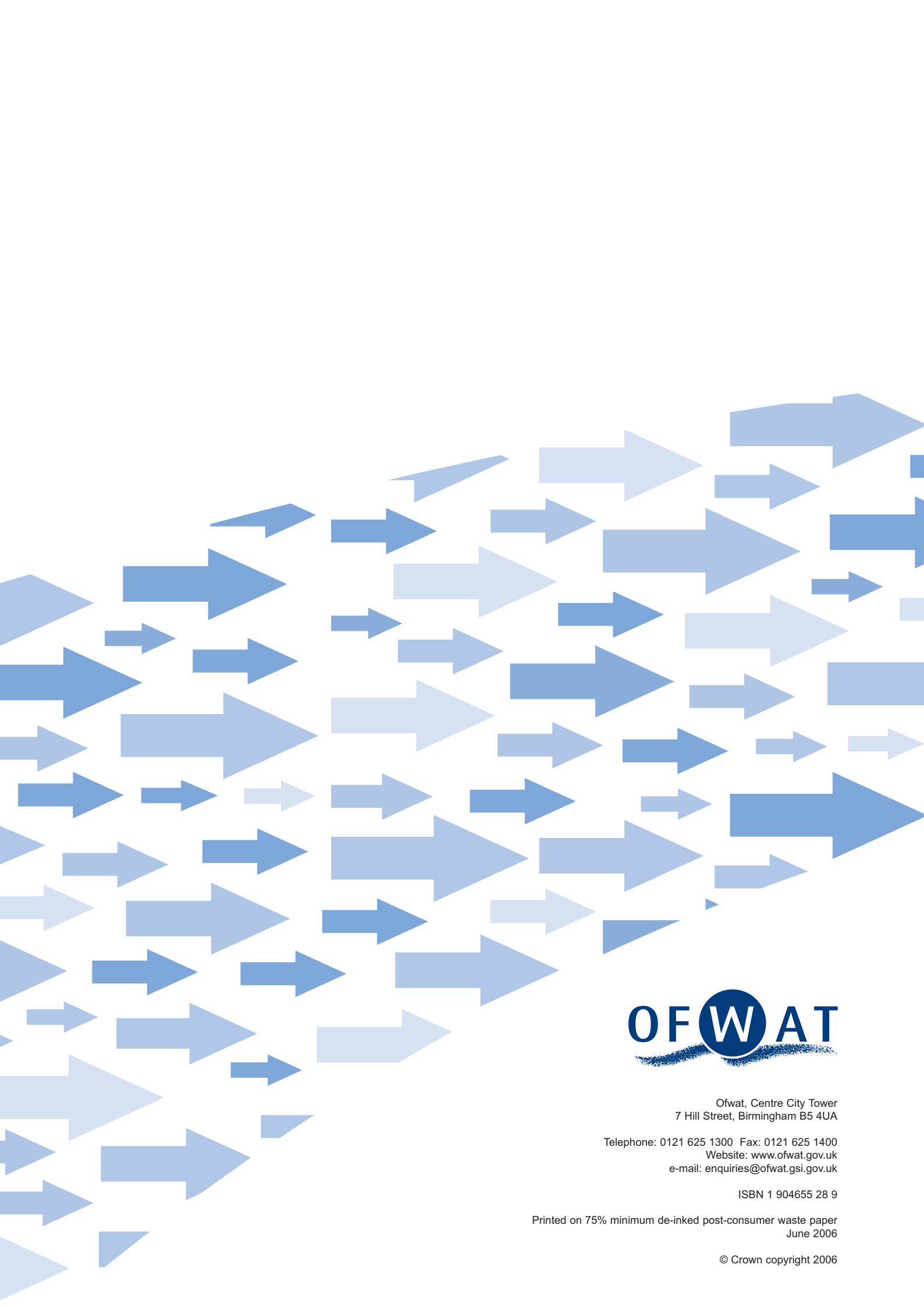
	Section	Date
Continue to hold workshops and briefings for the reporters and auditors in order to maintain their awareness of regulatory priorities and policies, and have an effective dialogue between us	2.13	Quarter 3 2006
Give feedback and make awards for the best reporters for their reports on the 2006 June returns	2.13	Quarter 3 2006
Continue to hold workshops and briefings for the reporters and auditors in order to maintain their awareness of regulatory priorities and policies, and have an effective dialogue between us	2.13	May 2006
Determine level of penalty adjustment for Severn Trent Water and publish final report	2.14	Dependent upon SFO investigation
Modify Severn Trent Water's Licence Condition F and add Condition P to Severn Trent Water's Licence	2.14	Quarter 2
Monitoring of Severn Trent Water's improvements to its internal systems and controls	2.14	Ongoing on a quarterly basis
Investigate and monitor the performance of Southern Water to make sure improvements are made	2.14	Ongoing on a quarterly basis
Investigate the misreporting of customer services data by Severn Trent Water	2.14	Ongoing on a quarterly basis
Investigate the misreporting of customer services data by Thames Water	2.14	Ongoing on a quarterly basis
Company finance and incentives		
Publish our 'Financial performance and expenditure of the water companies in England and Wales' report	3.1	September 2006
Participate fully in steering the joint review of the approach to efficiency assessment in regulating the water industry	3.1	Quarters 1 and 3
Publish the 'International comparison of water and sewerage service' report	3.2	March 2007
Publish the 'Financial performance and expenditure of the water companies in England and Wales' report	3.3	September 2006
Issue revised guidance on RAGs and June returns	3.3	Quarter 3
City briefings	3.3	Six-monthly

Ofwat forward programme 2006-07 to 2008-09

	Section	Date
Publish a summary of our work on transfer pricing in our 'Financial performance and expenditure of the water companies in England and Wales' report	3.4	September 2006
Respond to restructuring proposals	3.5	Case-by-case basis
Issue consultation papers on proposed mergers	3.6	Case-by-case basis
Issue position notes on proposed mergers	3.6	Case-by-case basis
Respond to the sale of Thames Water by RWE	3.6	As required depending on divestment timetable
Issue an MD letter detailing the process to be followed for processing any interim determination applications	3.7	Quarter 1
Review AMP4 protocol and report on findings	3.7	Quarter 4
Publish revised guidelines on the application of CA98 in the water and sewerage sectors for consultation in 2006-07	3.8	Quarter 4
Publish our annual report on progress on competition complaints	3.8	Quarter 1 2006
In conjunction with CCWater, survey WSL stakeholders	3.8	Quarter 4
Issue water supply licences and grant inset appointments	3.8	Ongoing
Publish revised inset appointment guidance	3.8	Quarter 3
Publish a report on companies' indicative access prices	3.8	Quarter 3
Competition Appeal Tribunal (CAT) appeals	3.8	As they arise

Ofwat forward programme 2006-07 to 2008-09

	Section	Date
Resources, communications and governance		
Publish code of practice on how we make decisions	4.3	September 2006
Publish and consult on forward programme 2007-08	4.3	October 2006
Publish minutes of Board meetings	4.3	Monthly
Respond to FOI and EIR requests	4.7	As requested
Place information on Ofwat website	4.7	As disclosed
Make quarterly reports to DCA	4.7	Quarters 1, 2, 3 and 4



Ofwat, Centre City Tower
7 Hill Street, Birmingham B5 4UA

Telephone: 0121 625 1300 Fax: 0121 625 1400
Website: www.ofwat.gov.uk
e-mail: enquiries@ofwat.gsi.gov.uk

ISBN 1 904655 28 9

Printed on 75% minimum de-inked post-consumer waste paper
June 2006

© Crown copyright 2006