



THREE VALLEYS WATER

Please reply to:

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Ofwat
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8 February 2008

Dear Audrey,

PR09/07 - Consultation: PR09 business plan information requirements

Thank you for your letter. We would like to make the following comments on the proposed business plan information requirements:

Aquarius

We are very concerned over the timetable for delivery of the Aquarius model which is not referred to in the consultation. We must be able to run the Aquarius model independently of the Information Capture System (ICS) in order to run sensitivity modelling in advance of submitting our draft business plan. There also needs to be full transparency of financial modelling calculations. The Aquarius model, that is "bug free" and fit for purpose, needs to be delivered by end March 08 if we are to make meaningful use of it in preparation of our draft business plan. We would be happy to work with Ofwat to validate the model prior to release.

Tariff Basket Assumptions

There are a number of assumptions around the revenue correction mechanism which are not fully explained in the requirements. Further clarity is required to give us visibility that the proposed revenue correction mechanism is fully symmetrical. We also require further clarity on entries required in the "revenue balancing" amounts to understand exactly what is required to be input.

THREE VALLEYS WATER PLC

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The revised data requirements do not appear to give all the inputs necessary to calculate the tariff differential target, such as meter opex and cash flow costs. The information that is required appears to relate to PR04 data, rather than PR09 forecast, which if used will not take account of any actual or forecast efficiencies in the costs of metering. We suggest that the input required be changed to require post-efficiency, PR09 meter unit cost information.

Finally it was not clear from the information requirements how supply pipe leakage rebates would be accounted for in the revenue model as there is no obvious place to input them. Revenue forecasts will be overstated if they do not account for the value of rebates made to customers.

Special Factors

We understand that Ofwat is to provide further information on how companies should present their special factors cases. This will not allow us the opportunity to comment or align preparatory work with Ofwat's expectations. We urge Ofwat to clarify its requirements as soon as possible.

Cost Benefit Analysis

We have concerns over the prescriptive nature of Ofwat's CBA guidance and requirements for NPVs of costs and benefits in certain tables. Whilst we understand the wish to move to the CBA approach to justify service and investment, we do not agree that the benefits of every individual investment will exceed the costs.

Whilst we agree that the top level strategic plan should be supported by CBA that reflects customers' preferences and willingness to pay, we assume that legal obligations for drinking water quality, for the environment, security and resilience that have been set by the EU, government and regulators, have already been subject to cost benefit analysis in respect of health, environmental improvements and national security and judgement made. It would be inappropriate for us to try to assess the benefits again.

Overlap Requirements

The process detailed in the information requirements only appears to look at AMP5-AMP6 investment overlaps, with no mechanism for companies to overlap between AMP4 and AMP5. We believe that the regulatory mechanism should be flexible to allow companies to plan capital programmes that balance delivery resources, compliance dates and service benefits to customers.

Project Database

We are concerned over the high level of detail required and the application of the scorecard approach to the database. We are unclear how Ofwat intends to use this information and are nervous that Ofwat may attempt to micro-manage companies' maintenance plans in the future. We urge Ofwat to allow companies to retain flexibility in their maintenance programmes.

Cost Base

Ofwat detailed its timetable for the Cost Base submission in PR09/01. Whilst we are content to provide an early view of our likely costs in our April 2008 submission, our unit costs are being developed for application against our proposed AMP5 investment programme being

submitted in our draft business plan submission. We therefore plan to provide any necessary updates to our costs in our draft business plan submission.

Information Capture System – Reservoir

As detailed in our response to “Setting price limits for 2010-15: framework and approach - consultation paper”, we are very concerned over the functionality of the “Reservoir” software. It is cumbersome to use and rounding errors are difficult to detect and correct. Our experience is that the download/upload facilities to/from excel do not work satisfactorily and we have been unable to get the software operating on our company network. This means that there has to be a single data entry point using a stand-alone PC, a situation that is clearly unacceptable.

I hope that you find our comments useful and look forward to receiving your conclusions on the consultation responses in March 2008.

Yours sincerely



Richard Bienfait
Finance Director