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Pamela Taylor
Chief Executive

Dear Audrey

**Water UK response:
Business Plan 2009 – business plan information requirements**

We welcome the opportunity to comment on the information requirements for the PR09 Business Plans. Ensuring that these information requirements give companies a clear framework to set out their business plans, and a clear understanding of how the collected information will be used in setting price limits, will clearly make a major contribution to the smooth running of PR09.

Our approach to considering the information requirements is based on the Better Regulation principles of accountability, transparency, proportionality, consistency and targeting. In this context, we welcome Ofwat's commitment in its recent Draft Forward Programme consultation to producing a plan for regulatory simplification.

Turning to this consultation, individual companies will be responding to you on specific points of clarification. This response focuses on more general issues relating to the information requirements and the process of collecting and processing information for the PR09 Business Plans.

Some of these points relate to proposals in Ofwat's recent consultation on the methodology and approach to PR09. This response should be read alongside our response to that consultation – our comments below are not intended to indicate support or otherwise for these proposals, but are aimed at ensuring that whatever approach is used, requirements on companies are clear.

Overall, we note that there is a general increase in reporting requirements with a higher level of detail required. The overall structure appears, understandably, to be developed in a modular fashion, which suggests that in considering the final information requirements there may be benefits in reviewing the continuity and consistency across all areas to ensure that they are aligned – or that where different approaches are essential, a clear explanation is given.

An example of this is that there are four separate date ranges being used by different sections with no clarification on why these are different.

- Capital maintenance econometrics 2002-3 to 2007-8
- Capital maintenance historic review 2001-2 to 2007-8
(6 and 7 year averages when 10 year used in PR04)
- Asset inventory % GMEA over 2000-2005
- Operating exp 2004/5 to 2009/10

It may be that it is appropriate to use these different date ranges, but clarification of the rationale for doing so would be helpful and avoid the potential for confusion.

Set out below, there are a number of points we would like to draw to your attention.

1. Capture systems and financial modelling

Companies wish to be reassured that the fully functional, “fit for purpose” versions of the Aquarius model and the ICS will be available in good time for the Draft Business Plans, particularly given the complications experienced at PR04. It would be helpful for Ofwat to set out a clear timetable for the release of test, and final, versions of the software.

Companies will need to be able to run the Aquarius model independently of the ICS, in order to undertake assessments in advance of the ICS completion and carry out sensitivity analysis of key variables. The reporting mechanism and models must be designed in such a way as to give companies the flexibility to develop and own their business plans.

2. Tariff model and revenue information requirements

Companies will need to have early access to the tariff basket model, so that they can understand it, and reassure themselves that the worthy intention of reducing the information burden of forecasting revenues is not at the expense of being able to produce robust central revenue forecasts.

Although some of the PR04 information requirements have been removed, a considerable amount of additional, detailed, data is requested (for example Tables C7.2, C7.3 and C7.4). It is not clear how this information will be used to support the setting of price limits – it would be helpful for this to be explained.

Further explanation of the assumptions that would be involved in the revenue correction mechanism (and the rationale for these assumptions) would be helpful. One particular point is the suggestion of excluding customers outside of the tariff basket from this correction mechanism, which would reduce the symmetry of the proposed approach – particularly if the

tariff basket threshold were to be significantly reduced, as proposed elsewhere by Ofwat.

Greater clarity is also required on how the “efficient billing factor” would be applied, particularly in view of the significant level of data required.

3. Project database

There is a lack of clarity on how the project database would be used, and therefore of the rationale for collecting all the proposed information is unclear. Companies wish to be reassured that monitoring for capital maintenance will be focussed on outputs, rather than on activities. As with other data systems, companies will need early access to the detailed specifications, to ensure that they will be able to populate the database, and to import data from other sources, such as the Environment Agency.

4. CBA

While we understand Ofwat’s wish to be able to make some comparisons between CBA data from different companies, a key part of the overall PR09 approach proposed by Ofwat is that companies are encouraged to develop their own CBA methodologies.

Rather than seeking to define a standard set of CBA data tables, an approach which might lead to an overly mechanistic use of CBA, it might be more appropriate for companies to set out their CBA approaches and information in a narrative. This would also allow companies to explain how they have approached uncertainty in the quantification of costs and in particular benefits. The proposed tables, without any assessment of confidence levels, may give benefit estimates the impression of greater certainty than is warranted.

Clarity is also required on the scope of the requirement for CBA. The guidance is inconsistent on whether this is for the whole investment programme, or whether some elements of the programme can (or should) be excluded from CBA.

5. Capital scorecards

Greater clarity is required on how the information gathered for the capital scorecards would be used, and any assumptions that may be made in assessing this information.

6. Overlap programme

Companies welcome the concept of the overlap programme, but have a number of concerns regarding its implementation. For companies to take full ownership of their capital programmes, the regulatory mechanism should be flexible enough to allow companies to develop meaningful programmes

which balance delivery resources, compliance dates and customers desires for service benefits.

The information requirements seem somewhat restrictive; companies should be able to make a case for greater flexibility - both in terms of the range of investment covered by the programme, and (where companies can demonstrate robust delivery plans), for proposals to overlap the boundary between AMP4 and AMP5 as well as the boundary between AMP5 and AMP6.

7. Efficiency assessments

Companies would welcome more explicit guidance on how companies should incorporate their views on relative efficiency – in particular in relation to special factor claims for econometric analysis and efficiency / benchmarking studies.

8. Carbon accounting

We note that the reporting requirements cover both operational and embedded carbon. We are pleased that Ofwat has been working closely with the industry to develop carbon accounting. This is reflected in the requirements on operational carbon, based on the first phase of work concluded by the industry, through Water UK and UKWIR, and in conjunction with the Carbon Trust.

Phase 2 of the industry’s work, is looking at embedded carbon. This will lead to a set of guidelines for companies to use and rules for where boundaries should be drawn, emissions factors used, etc. This will be finalised in March.

We trust that this work can feed into the information requirements to enable companies to consider embedded carbon in a proportionate and appropriate way for PR09 and beyond.

9. Other points

There are a number of other points where greater clarity would be helpful.

Unplanned maintenance (lines 29-30, Tables B3.1 and B3.2)

Greater clarity is needed on the definition of “unplanned maintenance”, to aid comparability between companies, and on how this information will be used in setting price limits.


New customer service measures (lines 20-26, Table B3.1)

Clearly, prompt resolution of the details of these lines, and their use in setting price limits, will be required to enable companies to incorporate them

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into Business Plans. The consultation implies that if this information is required, it would only be for Final Business Plans; it would be helpful to confirm this.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Janet Wright', written in a cursive style.

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