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Stephen St Pier
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23 May 2013

Dear Stephen

Setting price controls for 2015-20 – business planning expectations

On behalf of Dwr Cymru I am writing in response to the consultation on the business planning expectations, published on 11 April.

Generally, we welcome many of the concepts contained within the document, e.g. companies and their boards owning their business plans and placing the needs of customers at the heart of the plans, as well as your commitment to continue working with stakeholders as the price review progresses. As you know, we have always subscribed to this approach and, in preparing for this price review, will continue to engage fully with customers and other stakeholders throughout the process.

We note that the date for submission of the business plan has now been fixed for the 2 December. Although we think that the timetable is ambitious, we are committed to working towards this submission date and whilst it will put pressure on companies' timetables (and in particular their stakeholder engagements plans), the timely release of further guidance and the publication of the final documents in the early part of the summer will help companies meet this timetable.

There are a small number of issues we thought it would be appropriate to highlight. If our understanding is correct, there are likely to be "staggered" draft determinations – we think that the opportunity to make meaningful comparisons across the board will be lost and there is a danger that determinations made for small groups of companies at different times could lead to inconsistent or anomalous decisions, and perhaps more worryingly the wrong numbers being used. We cannot see the justification for this. Ofwat has always stressed the importance of it to the comparative perspective when making price determinations and other decisions, so we do not think that there is merit in committing to making such decisions without the benefit of that full perspective being available. The risk, for the companies with better quality business plans, is that Ofwat will be making draft determination decisions without being in possession of a fully "calibrated" understanding of



Glas Cymru Cyfyngedig

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the variations between companies, negating any incentive effect that staggered determinations might otherwise have.

The other item which is causing us some concern is around the general absence of line definitions for the tables which appear in the draft document. A number of new concepts are being introduced and, even in some of those areas which were once part of the June Return, we feel that there is a need for clarity. Where there is risk of ambiguity or scope for varied interpretation, we would suggest that the line definitions should be comprehensive and prescriptive so that companies are working to a common set of standards. The absence or inadequacy of definitions could potentially undermine the comparability exercise that you will need to undertake, as companies may be inclined to apply their own interpretation, especially if they see that there is advantage to be gained in so doing.

We would also advocate the inclusion of specific dates in the timetable, rather than reference to seasons or months. With such a tight timetable, it is important that there is as much precision as possible so that companies can work to set deadlines and mitigate some of the timetable risks. This applies equally to the post submission phase.

There remains much detail to be developed and we would urge that Ofwat makes this available at the earliest opportunity so that companies and stakeholders have ample opportunity to understand the consequences of material changes and new processes, which can then inform our own governance arrangements, especially Board timetables.

We are writing to you separately on the question of the separate arrangements that you propose putting place to deal with a possible efficiency challenge and a non-household customer SIM.

We hope that you find these suggestions helpful and we would be happy to expand on the points if required.

Yours sincerely



Mike Davis

Director of Regulation