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Portsmouth water
150 years of quality service

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Dear Sirs

OFWAT CONSULTATION ON "SETTING PRICE CONTROLS FOR 2015-20 – FRAMEWORK AND APPROACH"

PORTSMOUTH WATER'S RESPONSE

Portsmouth Water is pleased to respond to the Ofwat consultation on "Setting Price Controls for 2015-20 – framework and Approach".

Background to Portsmouth Water:

"We aim to supply drinking water of the highest quality, providing high levels of customer service and excellent value for money."

Portsmouth Water has been an independent water company proudly supplying water to Portsmouth for over 150 years.

The Company:

- serves large towns and cities such as Portsmouth, Gosport, Fareham, Havant, Chichester and Bognor Regis, as well as rural areas of South East Hampshire and West Sussex.
- has the lowest bills in England & Wales and is considered to be one of the most efficient companies in the water sector.
- has 21 water sources comprising 1 group of springs, 1 river and 19 borehole sites. However, despite being located in the south of England and, therefore, in an area of high water stress, the company has only had one hosepipe ban in 35 years.
- can provide a bulk supply to Southern Water of up to 15 Ml/d, currently running at 1 Ml/day (sweetening flow).

- plays an active role in Water Resources in the South East Group (WRSE).

Therefore, we believe that Portsmouth Water is well placed to comment on this consultation. We will deal with each of the questions raised in the consultation below:

General points:

Timetable

Probably our major concern with the overall price review process concerns the scale of the workload and the very tight timescales, especially considering the fact that many areas contain new approaches which are quite complex. In order for us to put together a coherent and robust plan we will need adequate time to digest the methodology, work out what it means for us and to engage effectively with our customers on this. We are not convinced that the timetable as it stands, and even more so if it is reduced, will allow us sufficient time to do this. It is therefore essential that the final methodology is published without delay. To assist us with planning it would be very helpful if Ofwat could publish a detailed timetable, with key milestones fixed to specific dates, which are adhered to. This would provide clarity and transparency to the overall process.

Financial model

We believe that the provision of a financial model is critical to the overall process. If all companies are using the same financial model this means that time will be saved in an already tight timetable, simply by the fact that we will not need to understand how Ofwat's figures are different from our own. We believe that Ofwat should work with the companies to develop such a model as a matter of urgency. Whilst we understand Ofwat's concerns about the potential of "gaming" if a model is shared at an early stage, we, at Portsmouth Water, have only limited resources to work with and the absence of a model will restrict our ability to fully include all the complex financial issues created by the new methodology in our Business Plan.

Delivering what matters – an outcomes-focused approach

Overall, Portsmouth Water believe that delivering outcomes and incentives in such a short time frame is very challenging, and there is still some uncertainty as to the overall scale of the incentives package that is expected to be set. Some companies may be willing to take large risks, while others will take a more cautious approach, and there is a concern about this lack of consistency. In addition, there needs to be more clarity on how the performance of companies will be assessed, and how the CCG will be involved in this process.

Q1 Do you agree with the process for deciding on the nature of the incentive (non-financial, one- or two-sided and for allowing trade-offs where appropriate)?

Portsmouth Water believes that there needs to be a flexible process for deciding on the nature of the incentive for each outcome. Not all outcomes will warrant incentives that deliver rewards and penalties and in some cases non-financial incentives will be the most appropriate.

Trade-offs between incentives will only be appropriate in some circumstances and there needs to be some flexibility in deciding where to use this. Trade-offs may be appropriate in cases where an outcome consists of a range of outputs, all of which aggregate up into one measure of success. Trade-offs could be made especially where these measures are competing with each other to achieve the same outcome.

Therefore, Portsmouth Water would agree that the process for deciding on the nature of the incentives is the best option.

Q2 Do you agree with our proposal to consider delivery incentives for the next five years? If not, how should we use longer-term delivery incentives?

The Company believes that incentives will be easier to plan for over a fixed period of five years. Over a longer period of time, outcomes may become irrelevant or targets may need to be revised.

Business Plans are set to cover the five year period from 2015-20 and it will be less complicated if the incentives align to the same time frame. In particular, customer priorities may change over time and willingness to pay will be difficult to establish over a longer period of time.

Therefore, Portsmouth Water would agree that Ofwat should consider delivery incentives for the next five years only.

Q3 Under what circumstances do you think we should set consistent performance commitments and incentives across all companies? Are there particular examples where consistent incentives would be beneficial?

It is important for customers to have confidence in the performance commitments and incentives set for companies and so, where appropriate, measures should be set across all companies. However, this is often not possible and measures need to take into consideration any local factors which affect performance.

The Company believes that the SIM qualitative score is an appropriate measure of customer service and should be set across all companies.

It may be the case that minimum targets can be set at a central level, with companies being encouraged to outperform the targets set, but to choose their own performance level. This may be the case for water efficiency and PCC targets, where there is a commitment to Government.

For outcomes where companies do not have complete control of success or failure, such as those relating to the environment and the wider community, it may be appropriate to use reputational incentives. Ranking companies against each other would be one appropriate option in these circumstances.

Defining retail (and wholesale) services

Q4 Do you agree with our definition of retail? Specifically, do you agree with our preferred option for demand-side water efficiency services, customer-side leaks and developer services?

In general we agree with the definition of Retail. However it is still our opinion that network calls should be included within wholesale. We believe that the best way for the “network” to respond to customers is by the network having direct visibility on how their service impacts on customers – this direct link is weakened by retail separation. This lack of a direct link will probably result in increased data flows and delays before the customer sees their issues resolved. On this basis we believe that network calls should be allocated to the wholesaler.

It is our view that developer services should be allocated to the wholesale control. Our dealings with the developer are essentially on network issues. For a small company splitting these services between wholesale and retail will entail additional administration costs and resource. However, if they have to be split in this way then having the customer facing activities in retail and the provision of connections in wholesale seems logical.

In our view water efficiency services should be allocated to the wholesaler. If these services are allocated to retail, will the retail business respond to the wholesale business appropriately when it comes to demand management? When it comes to water resource management planning we believe it should be an integrated approach to planning rather than a divided one. We believe that a split approach across two businesses will make water resource management planning more difficult to achieve. Whilst Retail is ideally placed for basic advice and to point to free water saving devices, other interventions, such as retrofitting toilets is likely to be driven by the wholesaler as part of their resource planning, so arguably could be split.

Similarly with customer side leaks an integrated approach is probably preferable. Currently 'wholesalers' offer free supply pipe repair and subsidised replacement. Will there be a disincentive to undertake this work going forward? Why would a retailer promote free leakage repair when it involves additional cost to the business and a reduction in revenue? In practice the leak repair is unlikely to be undertaken by the retailer but instead by the wholesaler, or for commercial customers, a separate contractor. We are unclear as to how first leak repairs (or greater) offered to domestic customers currently will be funded.

If customer side leaks is allocated to retail it would make sense that the losses resulting from this leakage are reported by the retailer. There would therefore be no incentive on the wholesaler to repair the leakage as he will not be reporting it; and the retailer will have no direct control over the repair of these leaks. We believe that to allocate this to retail will require inordinate amounts of information exchange and will lead to more complexity and perverse incentives.

Setting wholesale controls

Portsmouth Water supports the totex methodology and the opportunity to propose its own PAYG ratio. However, there is still some uncertainty around the totex menus and details of how they will work. In particular, if IRE is considered to be capex, then this will affect the cost recovery ratio significantly.

For controlling wholesale revenues

Q5 Do you agree with our proposed scope for the wholesale water and wastewater controls, given the proposed scope of the retail business we have defined in chapter 3? Are there any revenues of the regulated wholesale business you think should be excluded from this scope – if so, please give your reasons?

Q6 Do you agree with our proposal for a mixed revenue and revenue yield form of water wholesale control, including our proposed adjustment mechanisms to smooth allowed revenues within the control period? Are there any adjustments you would suggest?

The Company supports the fact the Ofwat is replacing the Revenue Correction Mechanism with a methodology that allows for adjustments relating to changes in water demand within the price review period. This will prevent a situation where the allowed revenue for a company is not recognised until the end of the AMP. However, there are some reservations about the proposed method of adjustment in the consultation.

Customers may be subjected to fluctuating bills as a result of the annual revenue smoothing that will be allowed by companies under this proposal. In addition, there is an asymmetry in the suggested process, with over-recovery being immediately deducted and under-recovery requiring justification from Ofwat.

To mitigate some of these issues, there could be a process whereby there is a mid-AMP adjustment, to correct the early years, and then a final adjustment at the end of the AMP.

Q7 Do you agree with our proposed simple revenue control for wastewater wholesale services? Do you have any evidence that suggests a revenue yield element should also be included?

N/A

Q8 How do you suggest we incentivise companies to prepare and update accurate demand assumptions to apply our proposed forms of wholesale control?

Portsmouth Water believes that companies already regularly revise their demand assumptions, as part of their normal process of forecasting. Incentives do not need to be given separately for this information to be prepared.

For cost assessment

Q9 Do you agree with our draft process for developing baselines? If not, how might it be improved?

Portsmouth Water are concerned that Ofwat is not planning to share the financial models used in setting the baseline expenditure for each company. Without knowing how the baseline is calculated it will be difficult to challenge the numbers. In addition, it is unclear if the Ofwat baseline will be one number or a corridor as proposed in the CEPA report.

The time frame for setting the baseline is very challenging and there seems to be a suggestion that this may prevent Ofwat from actually using a menu option methodology. Clarification on alternative options has not been provided.

Portsmouth Water would prefer to have visibility on how Ofwat are proposing to set the baselines for companies, and it believes that a corridor of values would be more appropriate give the complexity of the econometric models and the data.

Q10 What areas of expenditure do you consider we should exclude from the general cost assessment methodology (that is, advanced econometric models and econometric models)? How should we assess these costs?

Portsmouth Water believes that notional pension costs should be excluded from the econometric models.

Q11 What special factors should we consider for your company as part of our cost assessment? What criteria should we use to assess whether we need to take account of these in our view of your costs?

Portsmouth Water does not believe that there are any special factors to consider as part of the cost assessment process.

For cost performance incentives

Q12 Do you agree with our criteria for excluding costs from the general cost performance incentive framework? What types of costs should we exclude from the general framework?Please explain how these meet the cost exclusion criteria and how we should incentivise cost performance for these costs.

Portsmouth Water agrees with the criteria for excluding costs from the incentive framework. Pension costs may fall into the criteria set.

<u>For cost recovery</u>

Q13 At what point should we take the MEA values to split the 2015 RCV in order to set water and wastewater price controls?

N/A

Q14 Do you agree that it is possible to simplify our approach to calculating tax? Retail controls for household customers

Portsmouth Water welcomes the simplified approach to the calculation of tax.

Q15 Should the ACTS be calculated on the basis of historic cost data or forecast cost data?

If historic data is used then at least the data will be certain and proven. However the past is not always a good indicator of what will happen in the future. If forecast cost data is used then the accuracy of the data is less certain and there will be opportunities for companies to partake in "gaming" by using forecasts which give them certain benefits. Neither solution is satisfactory in isolation and therefore a combination of both should be used. Despite the additional complexity involved this is necessary as the ACTS will be a crucial indicator.

Presumably Ofwat will be using accounting separation data as the source for the historic data? If so there are issues with this since the data I not comparable across companies and is known to have been inaccurate in the past. The data could be restated but this would be burdensome and could possibly lead to gaming by some companies.

Q16 Do you agree with our proposed criteria for assessing other adjustments to the ACTS? Are there other factors we should take into account, and (if so) how?

The three factors are sensible. It is sensible to keep the number of adjustments down to a minimum, otherwise we will be creating a "special factors" industry.

It does make sense to adjust for metering. However we also believe that bad debt comes within these criteria. Bad debt is material to us as a company and has increased over recent years due to the economic climate. This is not within our control especially in an industry where we are not able to stop supplying our services.

The question arises however that, if some companies are to have their ACTS adjusted for certain special factors, then surely this will alter their position in terms of ACTS with respect to the other companies. Many companies will feel unfairly treated if adjustments made to one company are not treated consistently across all companies if this means that they lose out because of this.

Q17 Do you agree with our preferred option of applying an industry-wide adjustment to the ACTS for levels of metering?

It is difficult to say that we agree with this approach until we see the calculation of the actual allowance for metering. If it is an average for the industry for a whole then it may be quite different from the costs we experience when metering. As a small company with limited buying power to reduce the cost of materials from suppliers and low metering penetration the average calculated may be somewhat different from our actual costs.

Q18 How do you think we should apply the ACTS for those above the industry ACTS? Do you think that we should use a glide path and (if so) of what form?

This does not apply to Portsmouth Water but it seems sensible to have a glide path which will allow those companies above the industry ACTS a period of time to improve their performance and move towards the average. The amount of time allowed should vary depending on how far away from the average the company is and what is deemed a reasonable time period to make the change.

Q19 How should we set a forward-looking efficiency challenge for those companies below the industry ACTS?

Companies below the ACTS should not be penalised for past efficiency gains. Ofwat need to take account of this when setting the margin; more efficient companies have less scope for outperformance than the less efficient companies.

Q20 Do you think we should use a net margin to remunerate household retail invested capital and risk over the period 2015-20? How can we avoid over-recovery of returns and take into account any implicit margin that exists in the difference between efficient retail costs and the retail price?

Q21 Do you agree that we should retain the service incentive mechanism (SIM), in a modified form, to encourage good customer service for households?

Yes, but only survey and complaints. The wanted/unwanted statistics are too heavily influenced by historic company classifications that are not consistent enough for a valid comparison.

Q22 Do you agree with our preferred option of funding additional water efficiency services and customer-side leaks through the wholesale control?

Yes – assuming new retailer will not have the option to source an alternative provider of these services.

Retail controls for non-household customers

Q23 Do you agree with our preferred option of rolling over existing tariff structures to form default tariffs?

This seems to be the simplest and least disruptive method of making the change from the current structure to the new one. If new default tariffs are defined from the outset then this will mean a lot of extra work for the Companies along with many customers seeing step changes in their bills. In order to smooth the transition this seems like a sensible approach.

Q24 What are your views on our approach to customer churn under the proposed form of control for default tariffs?

Customer churn following the implementation of tariffs may certainly cause issues in terms of making it difficult to predict the level of future customers and what impact a change in the level of customers may have on the remaining customers in terms of their bills. There does not seem to be any easy way around this and the “average revenue control” seems appropriate in the circumstances.

Q25 What approach should we take to determine the aggregate level of operating costs to include in the non-household retail control? For example, should we use historic costs or forward-looking costs?

The answer to this is similar to the answer given in Q15. We propose that a combination of both is used.

Q26 Do you think we should use a net margin to remunerate non-household retail capital employed and risk over the period 2015-20? How can we avoid over-recovery of returns and take into account any implicit margin that could exist in the difference between efficient retail costs and those used to set default tariffs?

Q27 What constraints, if any, should we place on companies' ability to set the gross margin levels for individual default tariffs for non-household customers?

Q28 Is there evidence that demonstrates that the costs of providing retail services to nonhousehold customers are driven by uncontrollable changes in input prices? Are these difficult to predict? Given this, what is the appropriate approach in non-household retail controls for 2015-20 for uncontrollable changes in input prices?

The retail part of the business will incur costs principally in the areas of salaries, bad debts and IT costs. We believe that all of these are subject to inflationary pressures just like any other commercial business. We maintain that the Retail control should still be subject to RPI indexation. Salary costs especially are linked to RPI specifically. We disagree with the assertion made that IT costs decline over time. Having just implemented a new billing system we are very aware of the ever increasing cost of IT systems. Yes items such as PC's or monitors may not increase much (rather the spec improves) but these are a small part of the overall IT cost. The more significant costs such as servers, consultants costs are still subject to inflationary pressures. We believe that normal commercial companies increase prices when they experience increases in their input prices and the retail control should be no different. The question is the wrong way round. It should be down to Ofwat to prove that there is no link and provide evidence that commercial companies are able to absorb the cost increases.

Another issue with not applying RPI to the retail control will be margin squeeze. The allowed margin in retail must be enough to encourage new entrants into the market. If this margin is continually eroded by inflation then there will be no incentive for new entrants to enter the market.

The margin allowed will need to take into account RPI (although it would be preferable simply to allow RPI indexation) and the margin required to encourage new entrants into the market.

Q29 Do you agree with our preferred option of setting the default tariff minimum service level using the existing GSS standards?

The GSS does not define current level of service. It is our view therefore that the default tariff should be associated with the current level of service.

Q30 What aspects of service should we target in setting a service incentive for nonhousehold customers in Wales?

N/A

Q31 Are there other options for setting an efficiency challenge for non-household retailers in Wales we have not considered? If so, what are they? Which approach do you think best meets our objectives?

N/A

Making better use of water resources

The key issue with this consultation is the motivation for the "Abstraction Incentive Mechanism" (AIM). It is based on the assumption that we "over abstract" from "unsustainable" sources and that water trading will make this worse. The Water Resources Planning Guideline (October 2012) states in Section 3.2.7 that "Ofwat is developing AIM to incentivise companies to reduce **damaging** abstraction in areas **not** yet covered by the RSA programme". In Portsmouth Water's area of supply all of the catchments have been studied for the Habitats Regulations or the Water Framework Directive. We have already reduced damaging abstractions and there is no need for further incentives. We do not "over abstract" and the RSA programme has delivered "sustainable" licences based on detailed scientific studies of the company's chalk catchments.

Q32 Do you agree with our preferred option for implementing water trading incentives?

Portsmouth Water currently has a supply/demand surplus and an existing bulk supply to Southern Water. Improved incentives within the 2015-2020 price controls will encourage Portsmouth Water to renew the existing bulk supply and to develop new bulk supplies.

Q33 What are your views on the sharing of export profits that the incentive should aim to deliver? Please provide your reasons and supporting evidence where possible.

Increasing the percentage of profits from 30% to 50% would help to justify the additional risks associated with bulk supplies. If Portsmouth Water commit to additional bulk supplies, as a result of increased profits, then customers would still be better off because the percentage is applied to a larger volume.

Q34 What evidence should we take into account in setting incentive rates for importers (buyers) of water?

Portsmouth Water has no specific evidence for incentive rates but support Ofwat's preliminary figure of 50%.

Q35 Do you agree with our preferred approaches to securing efficient trades and protecting the interests of customers? Please provide your reasons and supporting evidence where possible.

For the incentive to work and for the customers to benefit, there must be a commitment for trading to happen regularly. If bulk supplies are only required in a dry year, say once in every twenty years, then the volumes involved will not be sufficient for efficient trading. A significant proportion of the bulk supply must be at average demand in a normal year.

Q36 Do you agree with our preferred option for implementing the AIM?

AIM is not required in areas which have been investigated as part of the Environment Agency's RSA programme. The choice of a single flow threshold and the use of WFD "Band 3" sites is however of great concern to Portsmouth Water. In coastal areas with chalk streams, the simple flow thresholds have not proved to be conclusive in WFD investigations. Lower flows have proved to be sustainable and have been accepted as part of the RSA process.

The majority of the catchments in Portsmouth Water's area of supply will remain in "Band 3" but the licences will be sustainable. The PIM/WFD Investigations have provided detailed scientific evidence to support these conclusions. AIM should not be applied on the basis of national data and inland catchments. The value of reducing abstraction at the tidal limit in a harbour is very different from the value inland.

The use of “recent actual” abstraction as a baseline for imposing charges could penalise sustainable behaviour in the past. If a company had chosen to limit abstraction at a sensitive source then the baseline would be set lower than the licence. If the Company had to use the source, for example in a drought, the AIM would increase costs. Infrequent impact in a drought could be less harmful than continuous abstraction in normal years.

Q37 Do you agree with our preferred limit to the scope of the AIM?

The scope should not include all “Band 3” water bodies. In areas where the NEP process is already concluded, or underway, the AIM process is not required (see Water Resources Planning Guideline Section 3.27). Application to sites under investigation could result in perverse outcomes such as increased abstraction to set a higher baseline.

Q38 What evidence should we take into account in calibrating the AIM?

The key calibration is the need to reflect the outcomes of the existing sustainability studies and licence variations.

Q39 What are your views on our proposed phased implementation of the AIM?

Portsmouth Water supports phased implementation with 2015/16 used to confirm which sources have already complied with the regulations. The “shadow” AIM should not be published if it is based on the existing bands and EFI thresholds. Companies with the best record for the implementation of sustainability reductions could receive very damaging negative publicity. This could undermine the general publics support for bulk supplies and regional solutions.

<u>Overall incentives, risk and financeability</u>

Q40 Do you agree we should develop the balance of our proposed incentives using initial quantitative analysis of notional companies, and refine the calibration of incentives to reflect individual companies’ business plan proposals?

This seems like a reasonable approach.

Q41 Do you agree that we should evaluate the overall risks relevant to each price control in assessing the allowed returns?

Yes, we do agree with this approach

Q42 Do you agree with our broad approach to setting the WACC for wholesale services, given our proposals for the remuneration of retail services in chapters 5 and 6?

The overall approach seems reasonable but note the concerns detailed below re RORE and the Small Company Premium. We were assuming that the approach would remain largely unchanged and so we are slightly concerned by the words “we are thinking carefully about how we will do this” in the methodology document.

Q43 In setting the WACC are there specific considerations we should bear in mind taking account of the profile of relevant risks to wholesale service provision?

As a small company we believe that the main factor that should be taken into account regarding setting the WACC is that small companies are not able to borrow money on the same terms as the larger WASC’s and this generally means that borrowing is relatively more expensive for us. This should be reflected in our WACC.

Q44 Do you agree with our broad approach to assessing financeability? Are there specific factors we should take account of in the next price control review?

We agree with the broad approach as it has been set out. We agree with using WACC for remunerating wholesale risks. However we are concerned about the fact that financeability will be considered at the whole company level. Does this mean that it will be possible for some parts of the company to be not financeable while the overall company is still financeable?

It is difficult for us to say that we agree with the use of RORE (return on regulated equity) in the analysis. The assumptions which Ofwat will be using to define the RORE have not yet been set out and therefore we are not able to comment on this.

We believe that a Small Company Premium should be applicable to small companies who are not able to raise capital as cheaply as larger companies.

We are also of the opinion that there still needs to be a “true up” at the end of the review period where the actual costs and revenues are compared to those allowed in the Final Determination and adjustments made where necessary. Otherwise there will be too much incentive for companies to partake in gaming when they provide their data.

A key area for consideration will be totex and how it will impact on financeability. Totex will have major implications for cash flows, value and financeability and we await more detail on how this will actually work.

Assessing performance during 2010-15

Q45 Do you agree with our preferred option of implementing adjustments for legacy tools through wholesale controls?

We support Ofwat's preferred option of implementing adjustments for legacy tools through wholesale controls. Although SIM is customer facing it would only complicate the process of setting retail prices if there was an attempt to split this incentive adjustment.

Q46 What factors should we take into account when determining whether to spread adjustments over the price control period?

In principle and with the exception of the Opex allowance we would favour spreading the adjustments over the five year period. This will help to avoid potentially large fluctuation in bills as a result of adjustment being applied in the first year of price controls. Providing any decision is revenue neutral, even the Opex roller allowance could be spread if it was not deemed to be material. Materiality could be judged on a Company specific basis on whether spreading over five years would force the Company to breach its financeability in any one year.

In summary, the criteria for deciding whether to spread over five years could be Company specific with Ofwat targeting to ensure bills do not fluctuate as a result of the adjustment and that the Company is financeable in each year of the period.

Delivering price controls in 2014

Q47 What are your views on our emerging criteria for identifying high-quality business plans? Are there other criteria we need to consider?

The criteria put forward by Ofwat for identifying high quality business plans are sensible and appropriate in principle. There is still some question as to how Ofwat will judge whether the CCG has performed its role in a satisfactory manner. Ofwat might wish to consider what kind of evidence they require from the CCG's to show that the Business Plan is based on sufficient customer engagement.

Q48 What factors should we take into account in further developing our process for a risk-based review?

In assessing risk, Ofwat could look at the level of price rises required relative to the change in obligations or service enhancement proposed. If there is no material change in service proposed, and bills are stable, this would appear to be a low risk company. This could be a first assessment with the other criteria being introduced as the obligations and service enhancements were forcing increased bills.

Q49 Is the timetable we propose for introducing menus feasible? How could we improve it? What can we and the companies do to address the challenges of the timetable to allow companies to make a real effective menu choice?

We fear that the timetable for introducing MENU's is too tight and question whether there is sufficient time to develop a robust methodology. Without having a greater understanding of how Ofwat will set the baseline and what information they will need, it is difficult to suggest how the process might be improved. The explanation of the process in the consultation document is still at a very high level and we need greater clarity on what information is required well in advance of the submission of the Business Plans, so that these requirements are built into our analysis and projections.

To make this work effectively, Ofwat will need to make themselves available to all companies and CCG's for considerable discussion about the setting of the baseline and what the implications for customers are. This will include considerable dialogue between the early information to companies and the draft determination. It is really important that the time between the draft and final determination is focussed on the overall outcome on customers, rather than discussions on technical matters and individual parts of the plan. At PR09, this was a particular problem as a result of the uncertainty around CIS and other issues and the overall outcome was not necessarily in the best long-term interest of customers.

Building for price reviews in 2019 and beyond (Q50 – 55)

We believe that given the time constraints on the programme that these two areas are not a priority and resources should be focussed elsewhere. The best way would be for Ofwat to work with the companies, following the completion of the review process, to develop reporting requirements for the extra information which Ofwat require.

We would be happy to have future discussions with you on any of our responses to the above questions, if this is required. Our contact in the first instance is:

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Yours faithfully

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