



Finance and Networks Division  
OFWAT  
Centre City Tower  
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Dear Sirs

**SBWWI response to the Ofwat consultation document:  
'Setting price controls for 2015-20 – framework and approach'**

SBWWI is the trade association for the UK water industry supply chain. Our members include contractors, manufacturers, distributors, consultants and service providers. We have over 100 member organisations which collectively employ over 30,000 people and have a turnover of £3.2b. SBWWI members deliver the bulk of the water companies' capital works programmes as well as an increasing proportion of their maintenance budget and day-to-day operations. Current feedback indicates that water companies are seeking to increase the use of third party suppliers in the delivery of their AMP6 commitments.

SBWWI broadly welcomes the Ofwat consultation document - 'Setting price controls for 2015-20'. We recognise the importance of opening up the retail water sector to greater competition, the proposed role of AIM (Abstraction Incentive Mechanism) in optimising water abstraction, and the move to totex (from capex/opex) in the setting of wholesale controls.

Very few of the measures outlined in the 'framework and approach' impact directly on SBWWI members. However, the totality of the measures will determine the way water and wastewater companies engage with their supply chains to achieve their business plans goals. Our response does not directly address the specific questions laid out in pp6-9 of the document - many of which relate to topics such as retail, econometric modelling and triangulation - but highlights areas of concern for SBWWI members.

As Ofwat indicates in 'framework and approach', timing is a key issue in its proposed use of menus in the regulation process: 'We will not be able to set robust baselines until we have a clear view of the outcomes companies intend to deliver following their engagement with customers over their draft business plans...the earliest we will be able to set baselines is as part of our draft determinations' (p67). SBWWI believes that such a late decision on baselines could delay water company decisions regarding the planning and scheduling of capital expenditure and, to a lesser extent, operating expenditure. Ofwat and Defra have identified the damage done to the water industry supply chain by the 'roller coaster' profile of water company capital expenditure and there is a danger that timing issues could exacerbate this profile.

Ofwat is placing a huge amount of responsibility and importance on the Customer Challenge Groups (CCG): 'The CCGs have an important role to play in helping us deliver our determination – particularly in challenging companies' proposals once we have published our draft determinations' (p140). Unless they are largely populated by experienced people with extensive knowledge of water company operations, it is hard to see how CCGs will be able to be objective about balancing the needs of today versus tomorrow, tangible versus intangible, individual versus collective, water versus wastewater, infrastructure versus treatment etc. SBWWI accepts that the future of the water industry would be enhanced by greater public awareness and understanding of the challenges facing the sector but questions whether the advocacy of the CCGs will achieve this. There is a danger of a swing to short-term expediency at the expense of long-term cohesive infrastructure planning in the national interest. SBWWI believes that supply chain representation on the CCG would contribute to more rational and balanced decision making.

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Q49 in the consultation questions asks about the timetable for the price review (as laid out on p136 of the document). With business plans submitted in January 2014 and final determinations in December 2014 it is certainly a challenging schedule. A concern for SBWWI members is that such a condensed timetable could impact on management resource available for capital works planning, commissioning and delivery in the critical final year of the AMP5 period.

On p16, Ofwat states that it may set minimum standards for leakage targets. It indicates it will set out its proposals in this area in a public consultation. That the water industry in the eyes of the consumer apparently appears so accepting of current high leakage rates is extremely damaging to its reputation. SBWWI urges Ofwat to set challenging minimum leakage standards and to actively promote and publicise the achievement/non-achievement of such standards to the general public.

SBWWI agrees with Ofwat's intention to exclude meter ownership from retail activities. We also agree with the statement that there should be a potential role for third parties to carry out meter installations, maintenance and disconnections. The gas metering model provides an excellent blueprint from which to learn key lessons.

On p17, Ofwat states that it is proposing to use a modified version of the Service Incentive Mechanism (SIM) for household customers in England and Wales. SBWWI would welcome further details of the proposed SIM modifications which do not appear to be covered in the 'framework and approach' document.

SBWWI members would welcome the opportunity to contribute to the three areas identified for further consultation on p50. These are:

- Demand-side water efficiency services
- Customer-side leaks
- Developer services, including providing connections.

SBWWI welcomes Ofwat's stated future price limits principles of ownership, accountability and innovation. In particular we hope that Ofwat's proposed approach to wholesale controls delivers, as stated on p19, the removal of barriers on companies' ability to innovate and find new, sustainable solutions.

Yours faithfully

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