

SEAMS' Response to OFWAT's Consultation Document titled "Setting price controls for 2015-20 – framework and approach" dated 27th February 2013.

We are pleased that the methodology that OFWAT outlines recognises that the water and sewerage sectors face significant challenges, from the impact of climate change and volatile weather, to the need to meet the demands of a growing and changing population. This is set against a very difficult economic climate where customers are faced with making difficult choices in order to pay their bills and companies are working hard to secure investment at the least possible cost.

As a supplier of decision support technology that establishes a clear line of sight between financial performance and the management of assets we agree that companies must take responsibility for their business plans and deliver value for money for their stakeholders. The ability to identify the type of asset interventions that best optimise assets over their lifetime is an essential input to creating robust business plans but is also one that is disappointingly rare.

From our experience in the energy sector it is clear that the OFWAT approach reflects a number of the features of the newly adopted RIIO methodology and it is revealing to reflect on the issues that have emerged from this, particularly in the Gas Distribution area. Most significant are obvious limitations in the quality of the GDN's investment plans which are fundamental to the production of robust well evidenced business plans. Limitations in data and in the application of a robust investment methodology resulted in them having to revisit planned investments with OFGEM at the mid-point of the review period. We regard this as a very disappointing outcome and one that illustrates the problems that occur when sound asset management tools and techniques are not applied.

Given this difficulty it is hard to understand how the OFGEM Customer Challenge Group could have meaningfully signed off the GDN business plans. This leads us to question the ability of their equivalent in the OFWAT process to carry out a robust challenge of company business plans in the time available to them, even with the support of the CCW. From our experience in the water sector we know that companies possess varying degrees of planning capability and technology at both business and investment levels and this makes review and challenge very difficult, even when carried out by water professionals, which the customer groups clearly are not. It is this divergence in capability, in companies and key stakeholders coupled with the demanding timescales for the completion of the process that we find most concerning.

It must be recognised that in companies who are attempting to balance levels of service, affordability and financing, Investment Planning is a complex, laborious and time consuming process. It resembles the piecing together of a huge, complex jigsaw puzzle where the shape of the outcome is continually changing before the puzzle is solved and the final plan is agreed. Although the more enlightened companies will plan their business and investments on an annual basis and have governance, processes and technology in place to support this we do not believe this to be the norm, in fact our view is that very few of the Companies use this appropriate investment planning framework. This poses a major problem for many companies when they are required to submit their business plans and the real risk of sub optimal business plans being produced. We therefore would like to see OFWAT set down a framework for the Companies to work within that includes robust technology. This will provide the Companies, their CCG's and OFWAT with the appropriate information to make the business plans more robust and provide customers with the best possible service at least cost.

Our contacts within companies tell us that the timescale for the review is increasingly tight with too much still to be confirmed and with not enough detail on supporting requirements. Although Business Plans will be created they see a real challenge in being able to interpret these into a reporting framework that minimises the risk of mis-interpretation by OFWAT. We recognise their concerns and urge OFWAT to accept that the change of direction that they have embarked upon requires sufficient time for it to be fully charted and the responsibilities of all parties to be agreed and understood.

Although OFWAT states that the responsibility for business plans and their contents rests with the Board of each company the companies must be allowed an opportunity to develop their submissions against an equally "robust and well evidenced" set of requirements. The failure to do this could result in costly and time consuming delays being introduced into the process as plans are reworked and in a worst case scenario the outcomes of the review challenged.