

Setting prices in 2014 – company business plans

A summary briefing note for stakeholders

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Delivering sustainable water

Customers of water and sewerage companies deserve excellent service at a fair price. Next year, we will set the price and service package ('price controls') that companies must deliver for each of the five years from 2015 to 2020.

To do this, each company needs to provide us with a business plan. This will explain how it intends to provide services to customers and meet its legal obligations over the next five years and beyond – and the prices it wants to charge. [We are now consulting](#) on the information we will want the companies to include in their plans and how we will assess them.

Our proposals build on our [proposed methodology for setting price controls in 2014](#), which we published in January 2013.

This briefing note summarises our proposals, and explains what they mean for stakeholders.

Overview

We want water companies to place the needs of customers at the heart of their plans, while meeting their environmental and other legal obligations. We also

We are proposing a new approach for reviewing the companies' plans as part of setting their price controls. It will strongly encourage companies to focus on their customers rather than their regulator.

For the first time, we propose to rate the quality of each company's plan. Companies with high-quality plans will be rewarded.

By rating companies in this way, we can concentrate on those areas – and overall plans – where there are the biggest risks to customers and the environment. This process will encourage companies to prepare high-quality plans that focus on what their customers want, while delivering sustainable services over the long term. It will also give them greater ownership of, and accountability for, their plans.

want each company's Board of directors to take responsibility for making sure they have done this.

This is in line with UK and Welsh Government thinking, and is a key part of our long-term plan for resilient and sustainable water and sewerage sectors. Our proposals support economic growth, efficiency, and sustainability by:

- giving companies greater ownership of, and accountability for, their plans;
- encouraging companies to produce high-quality plans, based on their legal obligations and effective engagement with their customers;

- focusing on the key risks to customers and the environment; and
- delivering a better price setting process overall.

We summarise our proposals for each stage of the price setting process below. We then explain what they mean for different stakeholders.

Stage 1 – business plan expectations

Each company has to develop its own plan. It will be for each company's Board of directors to find the best way to present its case, and demonstrate how they

have taken customers' needs and wishes into account, while meeting their legal obligations. While we will not tell them how to do this, companies with the best plans will have engaged actively with their customers and other stakeholders.

Each company's plan should set out its proposals for the services it delivers – overall, and in each of the four parts ('elements') of its business for which we will set individual prices: retail household, retail non-household, wholesale water, and wholesale sewerage services. We have proposed the data that each company must send to us for each element, and the data they should send us in August 2013 to help us prepare for price setting.

Each company's Board will also need to provide us with a statement assuring us of the quality of its plan and the information in it.

Stage 2 – submission of plans

We propose that the companies send us their plans by 2 December 2013 instead of early 2014. We will also ask the independent customer challenge groups (CCGs) – set up by each company – to send us their reports by the same date.

This will improve the price setting process by giving customers and other stakeholders more time later in the process to comment on our draft decisions ('draft determinations'). It will also give

us time to listen to them carefully and make any changes we might need to make.

Stage 3 – assessing companies' plans

We will use a series of tests to assess the quality of each company's plan. This will give each company's plan a rating of 'enhanced', 'standard' or 'resubmission'. This rating will determine:

- how much we scrutinise and challenge a company's plan;
- the process we follow to set its prices; and
- the potential financial rewards and penalties ('incentives') a company can access.

We will rate each element of each company's plan. The lowest rating it achieves for any one element will be the rating for its overall plan.

Our tests

Our tests of each company's plan will cover the following areas.

- Outcomes, including customer engagement.
- Costs.
- Risk and reward.
- Affordability and financeability.

As part of our tests, we will consider the assurance that each company's Board gives us about its plan, and its company's performance during 2010-15. We will also consider the reports by customer challenge groups (CCGs) carefully.

The CCGs are a new and powerful forum through which companies can engage with all of their customers, including bill payers and environmental regulators. The CCGs' reports will tell us how well companies have engaged with their customers and whether their plans do in fact reflect the views and priorities of customers as expressed in that engagement. The reports will also highlight both consumer and environmental concerns and how companies have addressed these.

We want companies to produce the best quality plans possible, and not try to second guess our assessments. So we will not set out the thresholds that the companies' plans will need to achieve an 'enhanced' or 'standard' rating in advance.

We provide more detail on our tests in our consultation.

Enhanced elements will be those that pass all tests. Standard elements will be those that fail at least one test but are still good quality and have no serious shortcomings. We will give a resubmission rating to those elements where there are serious weaknesses, and where we will require a company to send its plan to us again.

We propose to publish our rating of each company after we have assessed them.

We are aware that many stakeholders, especially investors, place considerable weight on any assessment by us of the companies. So, while there will be a high standard to meet, those companies that achieve an enhanced rating will benefit from enhanced reputation with those stakeholders.

We will also announce any changes to our assessments during the price setting process.

Stage 4 – challenging companies' plans

After assessing each company's plan, we will scrutinise and challenge them.

- **Enhanced elements** will receive a lower level of scrutiny and challenge from us – and the company's proposals will be substantially unchanged for our draft determinations.
- **Standard elements** will receive a greater level of scrutiny and challenge – and we may revise some of the company's

proposals in our draft determinations.

- **Resubmission elements** will receive the most intense scrutiny and challenge – and the company will need to revise its plan and resubmit it before we make its draft determination.

We expect all companies to work hard to try to fall into the first two categories. But we are proposing the third category for any company that submits a plan with serious shortcomings.

Stage 5 – setting price controls

For this final step of the price review process, we will model each company's price controls.

Companies with:

- **enhanced overall plans** are likely to receive their draft determinations early, and qualify for additional financial incentives;
- **standard overall plans** will follow the standard process, and have access to standard incentives; and
- **resubmission overall plans** face delayed draft determinations, and may receive less attractive incentives.

We will consult on our draft determinations so that customers and other individuals and organisations can tell us what they think. We will consider these views in making our final decisions ('final determinations'). Customers' water and sewerage bills would then change from April 2015 onwards.

Next steps

We welcome your views on our consultation. You can find details of how to respond in the [main document](#). The consultation closes on **23 May 2013**. We will hold workshops and meetings with individual stakeholders to supplement the consultation process. You can find more information on the overall [2014 price review timetable](#) on our website.

We will continue to work with other stakeholders including the other regulators – specifically the Environment Agency, the Drinking Water Inspectorate and Natural Resources Wales – as we progress the price review.

What our proposals mean for stakeholders

Customers	The environment
<p>They will have a much stronger voice in the way prices are set because companies will have to show they have listened to them.</p> <p>We can concentrate on getting improvements to those elements and overall plans that are poor, to get customers a better deal.</p> <p>By asking companies to submit their plans earlier we will allow more time for customers to tell us what they think of our draft determinations.</p>	<p>Company Boards will have to focus hard on the delivery of their legal obligations and give a high level of assurance that their plans deliver them. This includes their environmental obligations.</p> <p>Quality and environmental regulators are key members of CCGs, so they can raise any concerns directly with companies and influence their plans.</p> <p>We can concentrate on getting improvements to those plans that do not deliver good environmental outcomes.</p>
Companies	Investors
<p>Each company will have more freedom to develop how it delivers services, with greater opportunities for innovation to be rewarded.</p> <p>Companies with high-quality plans will be rewarded through reputational, procedural and financial incentives.</p> <p>All companies benefit from reduced regulatory burden because we are asking them for substantially less data.</p>	<p>Each company's Board of directors has clear accountability for the quality of its plan.</p> <p>Investors in companies with high-quality plans will benefit from the rewards their company receives.</p> <p>By seeing our rating of each company's plan, investors will have transparency about each company's performance.</p>

More information

You can find out more information about price setting and the 2014 price review on our website at www.ofwat.gov.uk/pricereview.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.

Water today, water tomorrow



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