

Ofwat's consultation on Setting price controls for 2015-20

- business planning expectations

Response from British Water

May 2013

British Water is an established trade association serving the UK water and wastewater industry in the United Kingdom and worldwide. We represent over 190 companies and in the UK act as a focal point for the supply chain of the UK water industry and as a link between government and the commercial sector. The British Water membership supplies services, processes and equipment to the municipal, industrial, commercial and domestic markets in the UK and internationally.

British Water is pleased to have the opportunity of commenting on the Consultation *Setting price controls for 2015-20 - business planning expectations*

General Comment.

British Water welcomes and supports the Consultation's intention to allow companies greater freedom to innovate and find the best way to present their plans and we agree that companies should be encouraged and incentivised to produce 'high-quality business plans'.

We note the reference to *The Review of Ofwat and consumer representation in the water sector* (the 'Gray review') and welcome that the conclusion contained in the Gray review - to "return ownership of business plans to the companies" – as an important objective of the Consultation.

We are disappointed that the HM Treasury report *Smoothing investment cycles in the water sector*, published in July 2012 and which looks to address some of the issues highlighted in the Gray review, is not mentioned in the Consultation.

Specific Comments.

1. Executive Summary

British Water has been drawing attention to the cyclical nature of capital expenditure in the water sector and the impact this has on the long term health of the water industry and its supply chain. We note that the Consultation highlights the recommendation from the Gray review that “Ofwat should take steps to return ownership of business plans to the companies” appears to have been taken out of context. The Gray review says: “The extraordinary degree of cyclical nature in business flows from the water companies to the sector supply chain, which appears to be largely a response to the price review process, is obviously undesirable. It is hoped that the proposals to make regulation less intrusive and give companies more ownership of their business plans will improve the position, but it may also be necessary to consider some more proactive approaches in the shorter-term.”

We believe that by failing to acknowledge the original context of this recommendation, the Consultation misses an opportunity to address those aspects of business planning that affect cyclical nature.

Question 4. Do you think that our proposals will be effective in meeting our objectives of handing back ownership of the business plans to company boards?

British Water fully supports the concept that companies should ‘own their business plans’. However, we believe the term ‘own’ should not only include the process of drawing-up and developing the plan, but it must also extend to include its delivery.

We believe the current proposals do not go far enough to allow this, as in order for companies to own the delivery of their plans, they must have sufficient flexibility and autonomy to invest appropriately, unhindered by unnecessary regulatory constraints. Although the present regulatory regime does not prevent water companies from doing so, companies that bring forward investment from the next AMP to this, or themselves fund additional discretionary investment, run the risk of suffering a significant penalty due to the

current regime viewing such investment as over-expenditure. This, coupled with the uncertainty over how any subsequent and corresponding under-expenditure might be viewed, prevents investment that spans price review periods.

The understandable reluctance of water companies to invest across AMP periods adds to the cyclicity of expenditure. This in turn threatens the companies' ability to properly and efficiently deliver in the four key areas outlined in section 4.2 i.e.

Outcomes

- deliver the best long-term, sustainable solution for customers and the environment
- include appropriate incentives to secure delivery and value for money for customers

Costs

- the efficient cost of delivery.

Affordability and financeability

- the impact of its proposals on customers' bills....

We recommend that there should be measures within the regulatory regime to manage this issue in order to promote long term funding and smoother investment across the regulatory period – thereby allowing the companies to own their business plans in terms of their delivery.

6.2 Timetable for setting price controls

The proposal for an earlier date for submitting business plans – 2 December 2013 suggests that it would “allow more time for...decisions on company proposals”

British Water agrees with this proposal providing it does not compromise the companies' ability to plan effectively or the quality of the plan produced. Additionally, we would suggest that by also bringing forward the deadline for Ofwat's decisions (to a lesser extent) the

companies would have better visibility of the plan to be implemented. This would afford the companies more time to put in place appropriate arrangements for efficient delivery.

If further clarification is required please do not hesitate to contact us.

A handwritten signature in black ink, appearing to read "Paul Mullord". The signature is written in a cursive style with a large initial "P" and a distinct "M".

Paul Mullord

UK Director