

Setting price controls for 2015-20 – business planning expectations

This is Sembcorp Bournemouth Water's (SBW) response to Ofwat's consultation on its business planning expectations for the 2015-20 price review.

As we broadly support the proposals in the paper we have chosen only to make general comments on each of the headings.

We would be happy to expand on any of the comments if Ofwat has queries.

An incentives-based price review process

- We agree in principle with Ofwat's proposals and welcome the autonomy to produce a business plan that focusses on the business and its customers instead of the regulatory process. The proposed approach will incentivise the production of clear and focussed high-quality plans that ultimately benefit customers.
- We accept the challenge of producing a plan which clearly sets out the issues the company faces, the views and wishes of customers and their preparedness to pay in a manner which will demonstrate how we have arrived at the proposed outcomes, outputs and inputs required over the next five years and beyond. This is however new territory for the company and we have some concerns that our overall plan will be judged by what will be considered by Ofwat to be the weakest element. We are assuming that whatever feedback we receive after submission will help us to focus on any areas and elements of the plan which Ofwat considers in its assessment have fallen short in any way. We are concerned about the timetable for submission of the plan by 2 December 2013 and the need for the CCG report to be delivered at the same time. The logistics of drafting and approvals will be a real challenge for all involved.

The risk-based review in detail

- The four high-level groups are reasonable and we make no suggestion for changes to them or the proposed tests.
- The data tables linked to these tests for each element create additional complexity, for example outcomes tables W1/W2 and R1/R2 - see bullet 2 under 'delivering focussed information requirements' below. The benefit of the increased regulatory burden versus the benefit to customers remains as yet unclear to us. Ideally a less onerous approach should be developed, but if Ofwat wishes to retain the split a worked example provided with the table definitions would assist companies to deliver the information Ofwat needs.

Delivering focused information requirements

- We note that the questions and response document from 17 May states, in relation to the August Submission (on page 3) that tables are 'broadly based' on old JR or business plan returns. We would normally systematically cross-check to previous definitions to confirm whether our historic data collection processes remain fit for purpose, but in view of the time constraints it would be helpful for Ofwat to indicate which lines are exact replicas of JR definitions and which have been amended and will therefore potentially require new data extraction routines. Without wishing to revert to a data intensive regulatory regime, we would urge Ofwat to ensure that there are very clear and unambiguous definitions for all rows of data.
- We are concerned at the complexity of tables W1/W2 (and the associated tables R1/R2). An outcome spanning both wholesale and retail controls will require arbitrary splits of data to fulfil requirements and we question the value this will add to the business plan process and to customers. Ideally a less onerous approach should be developed, but if Ofwat wishes to retain the split a worked example provided with the table definitions would assist companies to deliver the information Ofwat needs.
- Production of the full set of scenarios suggests extensive work and we question whether this is proportionate in relation to, for example, a 'business as usual' business plan where outcomes and the associated incentives carry a low risk level. We suggest that in this case there could be a reduced submission with further work conducted if either the company or Ofwat felt that they were needed to provide assurance and underpin business plan proposals.
- We welcome the query process that has developed in response to companies' questions. This will help ensure that the data provided is what Ofwat actually needs. We support Ofwat's approach of circulating all queries to all companies and would urge that this practice continues throughout the period review process.

Application to small companies

- We have no comment on this particular area other than to support an approach that leads to proportionate and appropriate regulation dependent on company size.

*Semicorp Bournemouth Water
May 2013*