



Finance and Networks Division  
OFWAT  
Centre City Tower  
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23 May 2013

Dear Sirs

**SBWWI response to the Ofwat consultation document:  
'Setting price controls for 2015-20 – business planning expectations'**

Taken in the round, SBWWI welcomes OFWAT's approach to setting price controls for 2015-2020 and its proposed business planning expectations as detailed in the consultation document.

SBWWI is the trade association representing the water industry supply chain. Our members include contractors, consultants, manufacturers, service providers and distributors. Working in partnership with the water companies, our members are responsible for the delivery and maintenance of the UK's water and wastewater infrastructure assets and, consequently, are one of the water sector's key stakeholders alongside customers, regulators, finance providers and others.

On pp4-5 of the document there is a summary list of consultation questions. Many of the questions relate to incentives, information requirements, tests relating to the risk-based review process, and the approach to small companies. Due to the financial, economic and corporate governance nature of the majority of these questions it is not our intention to submit detailed individual responses. Our objective is to bring to Ofwat's attention aspects of the business planning expectations that could impact on the supply chain's ability to fulfil its critical role as efficiently, effectively and economically as possible.

A list of factors present in a 'high-quality business plan' is provided on P45. SBWWI agrees with these factors, in particular the need for plans not to be a 'bid' and not to seek to game the regulatory process. We would, however, welcome a reference to the effect that a high-quality business plan also reflects extensive and open consultation with the supply chain such that the existence and impact of innovative products, services and working practices, and cost efficiencies can be identified and quantified.

SBWWI supports OFWAT's drive to encourage innovation by the water companies – '...future price limits principle of ownership, accountability and innovation' (P19) - and the role the revised planning process could play in this. We also understand that a corollary of this approach is that there will be wide variations in the way each water company decides to present its business plan (with the exception of the obligatory data tables). We support OFWAT's drive to encourage companies to submit, '...clear, well-reasoned evidence - which is in a form accessible to us, customers, CCGs, and other regulators and stakeholders' (P47 inter alia). In the above phrase, does accessible mean 'comprehensible': or 'made available': or both? What elements of the companies' business plans will be made available to SBWWI members as 'stakeholders' in the business planning process? For example, will the 'business plan narrative' (P47) be in the public domain? SBWWI accepts that much of the information provided in the business plans will be confidential. However, we would encourage OFWAT to consider whether each water company should be asked to publish a detailed summary of its business plan including statistical information (see below).



A positive aspect of the planning process used in previous price reviews from a supply chain perspective was the publication of statistics relating to outputs included in the Asset Management Plan (AMP). For example, length of pipeline to be built, repaired or relined. Whilst such data was very high-level, it did provide a broad indicator of potential activity levels and contributed to supply chain companies' own planning processes. The switch to totex - away from capex and opex - and outcomes - away from outputs - means that the water companies' activity projections will become far more opaque from the viewpoint of the supply chain. This increase in uncertainty could lead to greater caution through the supply chain with regards to, for example, recruitment and capital investment particularly when it is coupled with the acknowledged 'roller-coaster' capital investment profile - cyclical - of the water companies engendered by the five-yearly planning process. Whilst there are various incentive mechanisms within the business planning framework, there doesn't appear to be any specific incentive for water companies to 'smooth out' capital investment over the five year period. SBWWI believes this is an opportunity missed and asks OFWAT to revisit this aspect of the planning process to see if such a mechanism can be incorporated.

In responses to previous 'Setting price controls 2015-20' consultation documents SBWWI has indicated its unease over the influence of the Customer Challenge Groups (CCG) on the planning process: '...the views of the CCG will be crucial..' (P3). In particular, we have concerns that the CCGs will bias decision-making towards short-term objectives and deliverables at the expense of ensuring the necessary investments are made to deliver robust and reliable water and wastewater infrastructure networks for future generations. SBWWI asks that OFWAT bears this concern in mind when reviewing CCG reports.

Many of the terms used in the consultation document are new and some - for example, triviality thresholds (P75) - are far from straightforward or self-explanatory. SBWWI believes it would be in the interest of all stakeholders if OFWAT was to compile a glossary of terms and acronyms used in the business planning process.

SBWWI supports the use of scenario analysis, '... to assess the impact of risks on outcomes, costs and revenues' (P38).

On first reading, SBWWI believes the proposal to award water company business plans a category based on the '...lowest result of any single element..' (P10) appears overly draconian. In a situation where OFWAT deems that one element (out of four) is assessed as being 'standard/resubmission' quality with the other three assessed as being 'enhanced', the water company should be given the opportunity to address the serious shortcomings in the standard/resubmission element over a four week period and re-submit that element of the plan.

Finally, SBWWI would encourage Ofwat to bring forward the deadline for its Price Review decisions. Such a move would give water companies more time to develop, for example, capital works programmes and provide at least the opportunity for greater consultation with the supply chain. It may also play a small part in reducing cyclical.

Yours faithfully

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SBWWI