



Llywodraeth Cymru
Welsh Government

Stephen St Pier
Finance and Networks Division
Ofwat
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Dear Stephen

We would like to thank you for providing us with an opportunity to comment on the Ofwat consultation entitled Setting price controls for 2015-20 – business planning expectations. We would also like to thank you for your engagement with us throughout the consultation. Our initial views on the proposals within the consultation are set out below.

An incentives-based price review process

We very much support the statement highlighting that business plans submitted by the companies should not be intended as a bid and nor should companies try to use their plans to 'game' the regulatory process.

We have some concerns however around the statements that a company's plan could be downgraded but that you would not expect for the later provision of more information to lead to an 'upward' revision of a company's categorisation. It could appear to some that Ofwat were instead adopting a punitive approach.

We understand the reasoning behind not announcing your key assessment criteria in advance but this does create risks and the fairness of your assessments would have to be demonstrable later if decisions are not to be challenged. Reputational incentives are more effective if they are indeed perceived as incentives and not as correctional measures. If the approach is taken to publish company categories early on, it may be the case that the key assessment criteria should be shared at that point, for the sake of greater transparency in the process.

The risk-based review in detail

We also see real merit in the proposal that company Boards should be responsible for signing off on company plans as we agree that this should encourage company ownership

of plans and help to assure their quality. However, we see risks around the requirement for Customer Challenge Groups (CCGs) to submit their reports at the same time as the water companies submit their plans. Each CCG will need the appropriate and proportionate steer and support from Ofwat, as well as from the associated company, in order to deliver a fair and focused report that is delivered on time. If it became apparent that a CCG report was not of a quality that served the assessment of a company's business plan favourably then it may become debatable whether this was in fact the fault of the company, weakening others' confidence in the equity and effectiveness of the process. We would therefore like to see something from Ofwat to help assure us that this risk has been considered and steps taken to prevent it becoming an issue.

Delivering focused information requirements

We have no comments on this section.

Application to small companies

We have no comments on this section.

Change protocol process

As previously expressed, we have concerns about your proposals for the removal of the change protocol process. If work to comply with statutory environmental obligations or a change in permit standards is required during the price control period, we believe that it is essential there would be an allowance for this in the prices set. We would like reassurance that appropriate measures will be put in place to address this matter.

Water Framework Directive

The Welsh Government is committed to ensuring that statutory obligations in the water sector are met and we would want to be assured that measures are in place to allow companies to meet the Water Framework Directive (WFD) requirements as cost effectively as possible. This will ensure that companies include and are allowed to include suitable outcomes and financing for this in their business plans that allows them to meet the WFD requirements.

We would be happy to discuss any of the points we have raised in this letter.

Yours Sincerely

Andrew Sherlock
Water Policy Manager