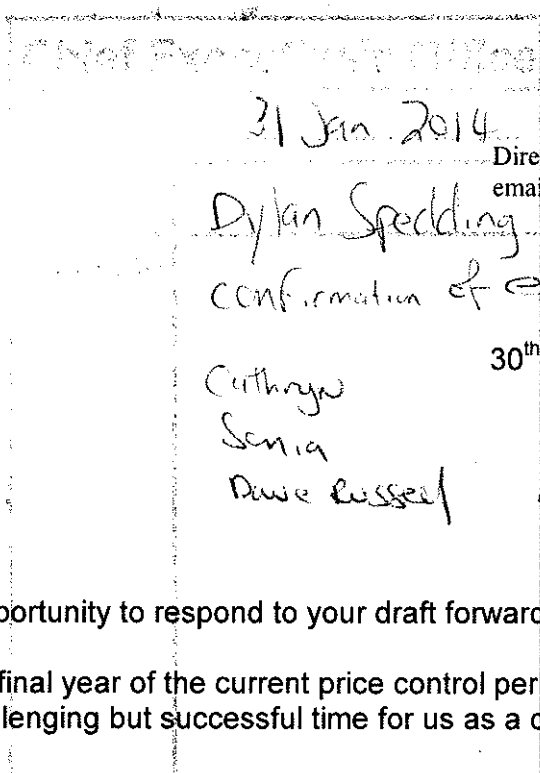


Ms Cathryn Ross
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30th January 2014

Dear Cathryn

Thank you for the opportunity to respond to your draft forward programme for 2014-15.

As we move into the final year of the current price control period we can briefly reflect on what has been a challenging but successful time for us as a company.

We have:

- Consistently topped the SIM league tables, and had the lowest level of complaints of any water and sewerage company – driven by a culture that always seeks to go the extra mile for customers.
- Made major improvements to the water environment: consistently delivering around 100% compliance with environmental standards and improving river flows, with the lowest level of pollution incidents in the country
- Taken advantage of new opportunities to extend the help offered to the most vulnerable by extending the scale and scope of our social tariffs.
- Shared with customers the benefits of cost and financing efficiency, through increased investment and by foregoing a real terms increase in bills this year.
- By the end of 2015 we will have delivered £5bn of investment in our region since privatisation entirely without taxpayer funding and without missing a single regulatory output.

All of these achievements have been facilitated by a transparent regulatory framework with clear incentives for excellence in delivery.

We are proud of our achievements but know that this has come at a cost to customers at a time when household budgets have been stretched. With significant challenges to face ahead it is more important than ever that our customers continue to view their water charges as value for money.



It is therefore in the interests of all for regulation to adapt to meet that challenge and to continue to be seen as strong, independent and to be keeping companies honest.

Improving customers' perception of value for money is one of the key ways we expect to measure our ongoing performance - as Ofwat looks to develop a new strategy in the coming months we would encourage you to use the same target as a measure of your own success.

Looking at your proposed work areas in this context we note the following:

- Successful and timely delivery of PR14 is of paramount importance, and there is a unique opportunity for plans to be agreed that truly reflect customers' preferences, willingness and ability to pay while retaining the confidence of those who will finance the necessary investment.
- We have consistently supported market reform in retail services as a way to increase choice and customers' perceptions of value for money - as the sector moves into the detailed design phase, (e.g. in wholesale tariff design), we need to be mindful that we do not lose sight of these original objectives.
- Perceptions of value for money and legitimacy are closely intertwined - we support Ofwat's continued focus on Board governance and transparency as a means to ensure the sector retains the confidence of the bills payers on which it depends
- We worry that work to shorten and clarify licences could become bogged down in non-productive and expensive legal argument. As an alternative, explaining in plain English in a separate document the obligations on companies that are laid-out in companies' licences would achieve transparency while leaving company and regulator resources free to concentrate on the key issues.

Finally we welcome your continued commitment to fostering a mature environment in which we can openly discuss the issues that affect the industry. We are at the early stages of the biggest changes seen in the sector since privatisation and continued open and honest dialogue can only be to the benefit of all concerned.

As part of this we're very much looking forward to welcoming you to our office in Bath on 14 February when we can discuss these issues further.

Yours sincerely

Best regards
Andy

Andy Pymer
Director of Customer and Retail Services