

OFWAT'S FORWARD PROGRAMME 2015-16 – DRAFT FOR CONSULTATION

RESPONSE FROM NORTHUMBRIAN WATER LIMITED (NWL)

1. INTRODUCTION

We welcome the opportunity to respond to Ofwat's draft forward programme for 2015-16. It appears to be a comprehensive plan and it is pleasing to see an early start on developing the strategy that will need to be reflected in the 2019 price review. This should allow sufficient time for full consideration of the options and development of the detail before companies start to produce their business plans.

We agree with Ofwat that it is important that there is trust and confidence in public water and waste water services. We believe this is generally the case at the moment but all concerned need to work hard to maintain and improve on this position, while at the same time addressing challenges such as climate change and population growth. A key objective in our view is the delivery of sustainable water and waste water services with bills that customers consider to be value for money.

The reforms required to meet future challenges need to be consulted upon, well justified and communicated. If this is not carried through diligently, trust and confidence can be undermined by such changes rather than improved.

We are ready and willing to engage with Ofwat and other stakeholders in contributing towards the delivery of the forward programme and have already offered assistance to Cathryn Ross with respect to the assurance work programme.

2. OFWAT'S STRATEGIC PRIORITIES AND INTERLINKED PROGRAMMES

We agree with the four strategic priorities set out on page 5 of the forward programme and believe that the seven programmes listed on page 9 are consistent with their delivery. Careful coordination will be required between the programmes to ensure delivery of the desired outcomes.

We provide comments regarding each of the priorities below.

Deliver the reforms provided for in the Water Act 2014

We agree with Ofwat that effective implementation of the provisions in the Water Act 2014 is a priority. In particular, the implementation of upstream reform is an important and complex area with significant implications. We note that the Act is less specific in this respect than in other areas. We welcome the approach Ofwat has adopted of early engagement with the sector and will continue to engage constructively in this process. It will also be important to maintain a dialogue with Government to ensure that objectives and priorities are fully aligned.

Maintain the confidence of investors in the water and wastewater sector

Given that the Cheung Kong group is the largest investor in UK water, we are pleased that Ofwat has identified maintaining investor confidence as an important strategic priority. The

nature of reforms in this period of change, as well as how they are developed, consulted upon and implemented, are of crucial importance in maintaining investor confidence.

Develop the means by which we monitor the sector's performance against our vision of trust and confidence, and receive assurance from the sector.

The proposed work on assurance is critical for Ofwat's trust agenda. Ofwat has rightly placed a strong responsibility on company Boards to assure compliance with obligations and performance commitments, and to produce robust data. However, it is important that information provided by companies, especially where it has the potential to affect the position of other companies, is provided on the basis of consistent definitions and subject to appropriate assurance from Ofwat. An example of this is the new and complex area of Performance Commitments and Outcome Delivery Incentives, where companies' performance informs Performance Commitments of the future. Undertaking targeted horizontal audits in appropriate areas will be an important means by which Ofwat can provide this assurance .

To ensure Ofwat has the skills, experience, systems, processes and culture that support our new strategy.

We see this priority as a key enabler. We believe Ofwat would benefit from having more people with water industry experience to help ensure reform is built on a sound understanding.

3. BETTER REGULATION PRINCIPLES

We are pleased that, in undertaking its forward programme, Ofwat has confirmed that it remains committed to the five better regulation principles (page 7). We would add a further principle to this – the avoidance, wherever possible, of undue complexity in regulatory mechanisms. Simpler regulatory approaches tend to be better understood and reduce the potential for unintended consequences. Those that are less data intensive are also less expensive to administer.

4. INTRODUCTION OF RETAIL NON-HOUSEHOLD COMPETITION

We see the introduction of retail competition for non-households as a priority work area for 2015-16. We will continue to work extremely hard with Open Water and other stakeholders to facilitate market opening by the planned date. We note that timescales are tight and the project needs to progress rapidly. It is important that late Market Operator procurement does not impact on the time for companies to undertake testing and get ready for market opening.

5. LICENCE FEE

We note the licence fee of £20m for 2015-16. This is less than for 2014-15, which is to be expected given that the temporarily higher costs for PR14 have ended. We also note the separate ring-fenced licence fee for Open Water, which is subject to a cap of £10.5m for 2015-16.

Ofwat's business transformation during 2014-15 and its continuing work to seek further efficiencies should allow it to work within these fees.

6. WORK PROGRAMME KEY DATES

We note the proposed work programme key dates. These generally seem to be appropriate, though the identification of deadlines as specific dates rather than quarterly blocks would have been more helpful.

Under the Finance and governance work programme, Ofwat plan to “Share collection requirements for 2015-16 information” sometime during the period January to March 2016. Provision of robust, assured regulatory information needs careful planning and we will need to put our collection arrangements and associated assurance plans in place early in 2016. Given this, we consider receiving Ofwat’s information requirements for 2015-16 after the end of January 2016 to be too late. Should there be new information required for any regulatory year, we need to know this before the start of that regulatory year so that we can ensure we collect the data required.

The regulatory report for 2015-16 will be the first time that companies will report performance against PR14 final determination Performance Commitments and any reward/penalties relating to Outcome Delivery Incentives. Early identification by Ofwat of any specific requirements in this respect would be helpful.