

Ofwat Forward Programme for 2015-16

South East Waters response

We fully support and welcome Ofwat's strategy of securing trust and confidence in vital public water and wastewater services, indeed our own proposals to focus future incentives on how customers perceive their water service we believe are central to improving the way we operate. Our own customer research showed that water customers do indeed trust us particularly where it matters in the two fundamental elements of water quality and sufficiency, but we do have work to do in other areas in particular leakage and customer service. We must also remember that trust is fragile and all stakeholders need to play a part in ensuring the industry at least maintains that trust.

We have a large part to play in the relationship with our customers but another key aspect will be how Ofwat communicates with customers; the importance stakeholders and customers place on Ofwat's views should not be underestimated. We welcome the message that Ofwat will celebrate success but we are fearful of how the messaging around ODI's will be handled and received. Our concern arises as the industry in general has been set stretching performance targets many at the current upper quartile level, inevitably and almost by design, a number of companies may not achieve these targets.

The messaging from the industry when this occurs needs to be handled sensitively including by Ofwat. We would not want to see customers trust damaged unnecessarily. To illustrate the point, setting a financial penalty on the key water quality measure Mean Zonal Compliance may lead to headlines such as "x number of companies fined for water quality performance". This would be unnecessarily damaging to customers trust in a vital area of our service and therefore all stakeholders need to ensure the messaging is consistent, proportionate and responsible.

Having expressed a note of caution, we believe the emphasis adopted for developing customer focused business plans during the 2014 price control review has built a really good foundation to move forward from and continue building trust and confidence with customers and stakeholders.

We agree Ofwat cannot deliver this strategy alone, every stakeholder has a duty to behave in a way that enhances trust and confidence in the sector. We look forward to actively engaging with Ofwat and the industry to build trust and confidence in the sector and we expect our experience of monitoring satisfaction continuously across a wide range of measures will provide some rich information to feed our collective knowledge.

The opportunity to comment on the consultation is welcomed and we provide below our specific comments and observations on the programmes identified to deliver the strategy. Much of the forward programme is set at a strategic level and we support the stated direction of travel and the areas of focus are entirely appropriate. We will be happy to engage fully with the detailed work elements as they emerge in particular we are keen to contribute actively in the discussion on upstream reform.

Strategy and planning

The 2014 price control review was a significant step forward in establishing a regulatory model that is more aligned to the better regulation principles. While a great deal was achieved there was and still is further developments that can be made. We understand the issues for the 2014 process and that the timetable was tight, however there is opportunity to learn from the 2014 process in terms of how quickly regulatory reform can be made for PR19.

Casework

We have no specific comments on the casework programme other than any casework should be timely, proportionate and transparent.

Finance and governance

In light of the need for clear Board and Company ownership of plans and our desire to embrace this approach, for our business plan we put in place a process that ensured our plan is solid, based on evidence, and on the engagement we have undertaken with customers and other stakeholders, this was reflected in our plan and the choices we made.

Focus on customers, strong Board leadership, high standards of governance and transparency will continue to be our guiding principles as we deliver our plan during 2015-20. We believe this is fundamental to ensuring trust and confidence from customers.

We look forward to working with Ofwat to ensure future regulatory reporting:

- Reflects the way prices have been set for 2015-20;
- Reflects the changing nature of the sector; and
- Provides information for setting price controls in 2019.

In particular we are keen to review the 'Overall Reporting Framework' and 'PR14 Reconciliation Rulebook'. For trust and confidence it is crucial for example there is no ambiguity about how legacy adjustments will be applied at PR19. The industry needs to fully understand the implications of our decisions now i.e. we should learn from the PR14 process and not have a situation where incentives and adjustments are applied retrospectively.

We do query the timing of the sharing of collection requirement for 2015-16, the consultation is not clear whether these requirements will be shared in January to March 2015 or 2016. We would suggest 2016 will be too late to ensure companies have the necessary internal reporting capabilities set up.

Water 2020

We are pleased to note Ofwat will ensure the regulatory framework will facilitate changes as a result of the developing market arrangements and will build on the successes of the 2014 price setting process, including a lessons learned. We would welcome engagement and suggest the lessons learned process is collaborative with the industry, to gain most benefit. We support the proposed timeframe for the review of April to June 2015.

The market arrangements will largely shape the price setting process for PR19 and as a result it may be difficult to determine in advance of the market arrangements exactly how the review will be constructed but we would encourage Ofwat to define its methodology as early as possible.

As a company operating in the South East of England, as part of our Water Resource Management Plan process, we have been actively engaged in the work of the Water Resources in the South East (WRSE) group. We will continue our active engagement with this group and believe this could form a good foundation group to build a collaborative approach to working with Ofwat and the rest of the industry on the new upstream market arrangements.

We have also been actively engaged in the work of the Open Water programme and will continue to do so until market opening. We are keen to work collaboratively with Ofwat in the design and development of the regulatory arrangements to support the new non-household retail market.

Thames Tideway

We have no specific comment to make on the proposed programme for the Thames Tideway Tunnel. We would like to highlight however the importance of ensuring all customers and stakeholders who will be impacted are engaged and receive information in a timely way to allow us to communicate effectively with our customers.

Business transformation

We support the proposed culture of collaboration and welcome the opportunity to work with Ofwat. We believe much can be gained from a more effective dialogue between Ofwat and companies in particular with regard to upstream reform.

Compliance and assurance

Companies are striving to achieve robust governance and assurance of their own processes and reporting, we welcome Ofwat's commitments to apply similar rigor to its own programmes. As with company's approaches, Ofwat's compliance and assurance process need to be transparent and proportionate.

We would also welcome clarity on a definition of good governance as used throughout both the Forward Programme and the wider Ofwat strategy documents. It appears governance is used to cover a range of issues from specific items of data accuracy to whether or not the Board can delegate its authority.

We make this observation and a call for clarity as statements questioning a Board's governance go to the heart of trust and confidence both in the regulators direct relationship with companies but more widely in the message it is serving to customers.

Financing and fees

We welcome the proposed reduction in licence fee included in the consultation.