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Dear Dylan,

OFWAT FORWARD PROGRAMME 2015-16

The next five years point to significant change in the water sector. This is driven both by the PR14 process and the move to outcome delivery, but also on the need deliver government policy objectives including non-household market opening and the implementation of further areas of the Water Act.

The Ofwat forward programme sets out key work areas and it is clear that 2015/16 is an important year in setting out thinking on how regulation will operate in the future.

Overall South West Water is supportive of the programme, its content and the reduction in the cost of delivery. Comments on each part of the forward programme are given below. There are a number of areas of the programme where we already have considerable experience or are of particular relevance to the customer base in our region. In those areas we would like to offer support and ideas and participate in the working groups.

We particularly welcome the emphasis in Ofwat's strategic priorities on trust and confidence in the sector and the assurance we can all provide that we are performing well and taking action to improve where required. We designed our WaterShare framework with this in mind so it is transparent how we are contributing to this priority.

Strategy and Planning

The forward programme flags specific work on resilience. Often the focus of resilience is on water supply security and the issues in the South East. We believe that more focus is needed at a sector level on understanding resilience on wastewater services. With the forecast increases in flooding due to climate change and increasing population this is a strategic issue for maintaining trust in the water sector. The Economist Intelligence Unit recently published a survey of Global Executives which highlighted how climate-change resilience in cities was a key concern and their perceptions that whilst markets had a key

role to play, this required a shared vision with policy makers!

We think this is an area where the England & Wales water industry can provide leadership and innovative thinking. With a number of other water companies we have contributed to considering how companies can manage risks and future uncertainty in decision making in the face of global sustainability trends as part of the Prince of Wales' Accounting for Sustainability project. Our work on downstream thinking can provide valuable input to this and we would like to join the group examining the issue of resilience especially around wastewater service provision.

Casework

We support the programme and in particular the publication of monthly quarterly bulletins on progress. This helps gives transparency on Ofwat's work and confidence that customer interests are protected where monopoly provision occurs.

Finance and governance

The programme includes work on a review of water company licences. This is an important part of delivery of government policy and the enablers in the Water Act 2014.

We think Ofwat are right to consider a modular form for future licences. We would like contribute our work to date on the purpose of different aspects of licences to the working group to review service provider licences.

Water 2020

The programme includes a review of PR14. South West Water considers there are many strengths of the PR14 approach which form a strong platform for future development. Companies need to put customers at the centre of the discussions of their plans for the future when considering the future regulatory and market framework. Foremost is the need to ensure companies retain ownership of their plans. In the forward programme we think more reference on the need for companies to continue to own their plans is required, with the Ofwat forward programme setting out the future framework to unlock future efficiencies or remove barriers to even better performance. This avoids the focus of the success of the sector residing upon the decisions that Ofwat makes.

As part of this, setting out the roadmap for introducing markets (p29) is an especially important milestone for 2015/16. Within this we would be keen to support thinking on ideas around the pilot studies to develop a better understanding of wholesale services, the costs of these services and the underlying economic characteristics (p32).

Through our work in developing our future charges framework and ecosystem service payments approach for upstream markets we can provide valuable, practical input into this process in terms of different choices and ideas around setting access prices, how to get markets to work and some of the barriers to overcome.

We would also be keen to input into Ofwat's development of charging rules. Our experience from the Government £50 Contribution scheme can provide useful insight into joining up charging arrangements with wholesale and retail service provision.

Thames Tideway

The Thames Tideway does not affect our customers, or those of many other companies, directly. This scheme is, however, a useful example of contestable infrastructure provision for new services.

As part of the forward programme we believe there is an opportunity to include an additional task that records the lessons learned around how to introduce contestable services for large new developments. We consider this can feed into the development of the framework for future regulation – in particular how to deliver future resilience or enhancements to service, that may, or may not, be undertaken by the existing incumbent wholesaler.

Finally, many of the challenges facing the water sector such as climate change are now multi-agency issues. In the final forward programme it would be helpful to make further reference to joint working with Ofwat, the Environment Agency and DWI that has already started as part of the Ofwat strategy.

This joint working we believe is very important for the next five years and should be strongly supported. To deliver reform of upstream activities will require working across environmental, economic and quality regulation and the understanding, and removal of, any barriers that prevent value being unlocked from the sector.

Yours sincerely



Iain McGuffog
Chief Economist

ⁱ The Economist Intelligence Unit (2014): "*Building climate change resilience in cities*"
<http://www.economistinsights.com/sustainability-resources/analysis/building-climate-change-resilience-cities>

