

Ofwat forward programme 2014-15 – draft for consultation



About this document

This document sets out our forward work programme for the coming financial year. We focus on the projects we plan to carry out rather than routine activities.

We welcome your response to this consultation by 11 February 2014. Details of how to respond are set out on page 3. We will use the responses we receive to finalise our plans and publish our final forward programme by 31 March 2014.

Under the Water Industry Act 1991 (as amended by the Water Act 2003), we have a duty to consult on, and publish, our forward programme of work ahead of the coming financial year.

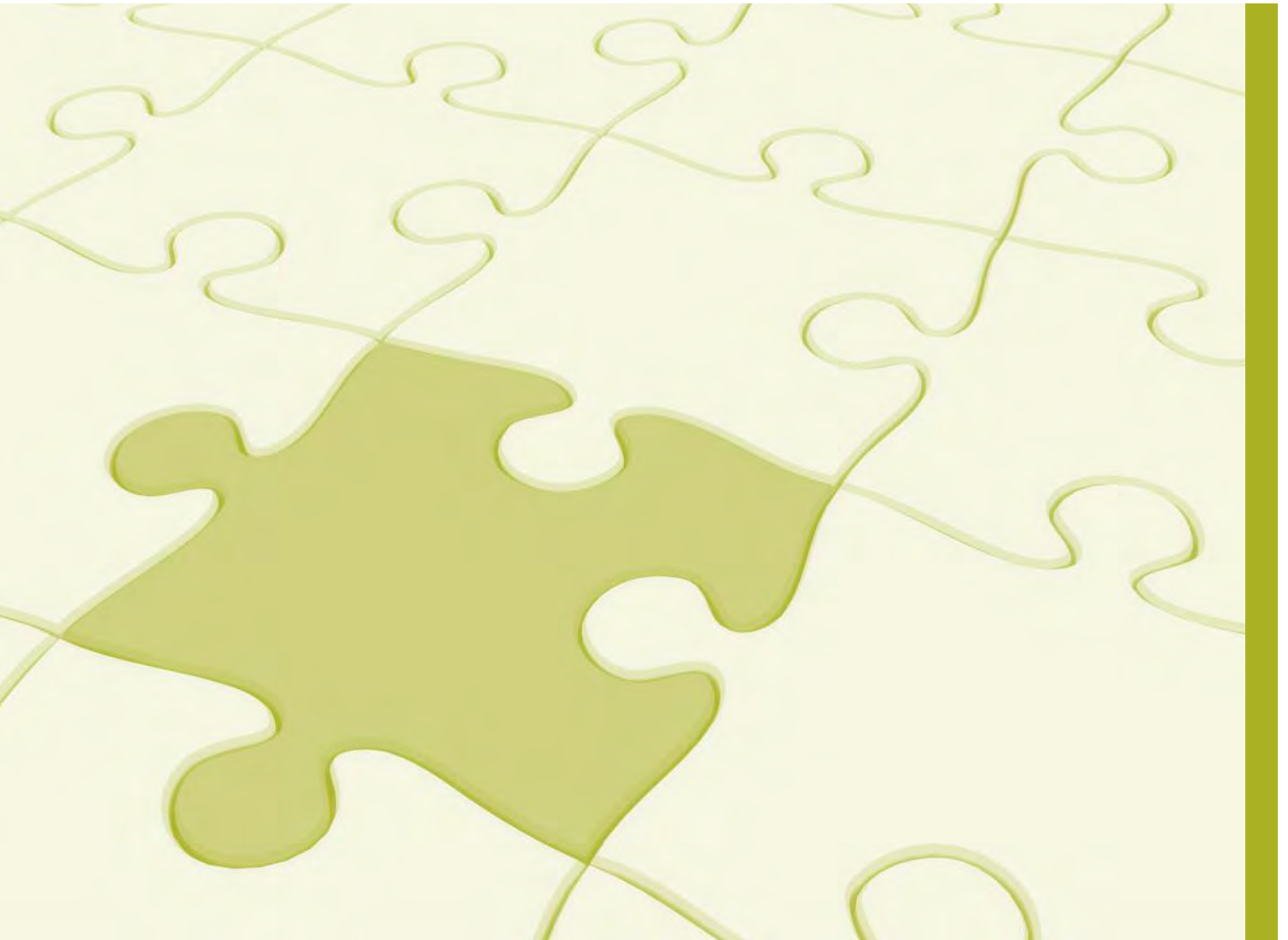
Where this document uses the term 'the Government', this refers to both the UK and Welsh Governments as appropriate, unless otherwise stated.

Further information about what we do can be found on our website at www.ofwat.gov.uk.

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Responding to this consultation

We welcome your comments on our proposed work programme by 11 February 2014.

You can email your responses to forwardprog@ofwat.gsi.gov.uk or post them to:

Forward programme consultation
Corporate Communications
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA.

If you wish to discuss any aspect of this document, please contact Dylan Spedding on 0121 644 7780 or by email at dylan.spedding@ofwat.gsi.gov.uk.

We will publish responses to this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the Data Protection Act 1998 and the Environmental Information Regulations 2004.

If you would like the information that you provide to be treated as confidential, please be aware that, under the FoIA, there is a statutory 'Code of Practice' which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

Foreword

Welcome to our draft forward programme of work for 2014-15. This programme builds on our successes of the past year in regulating the water sector in England and Wales. In it, we set out the core projects that we propose to deliver over the coming year to help us continue to fulfil our statutory duties. Our planned work includes the following.

1. Delivering the 2014 price review and continuing to encourage companies to place the needs of customers at the heart of their business plans for 2015-20.
2. Challenging companies to deliver an even greater focus on their customers and to meet high standards of corporate leadership, governance and transparency.
3. Looking to secure the best outcomes for customers who are dissatisfied with service from companies by, for example, working with the sector to establish an alternative dispute resolution process that will help to ensure complaints are dealt with quickly and effectively.
4. Carrying out prudent preparation for the changes to the sector proposed by the UK Government's Water Bill. This includes contributing to the work

necessary to allow all non-household customers in England to choose their supplier of water and wastewater retail services from April 2017 onwards.

5. Making full use of our powers as a regulator under the Water Industry Act 1991 and the

We plan to look to the future by developing a new strategy

Competition Act 1998 in relation to strategic cases, which will help ensure that the sector meets

its obligations efficiently and effectively in the best interests of customers.

6. Playing our part to ensure that the efficient companies can attract debt and equity investment with a long-term horizon and an appropriate approach to risk and return in financing both asset infrastructure and retail services.
7. Conducting our discussions and planning for the future in an open manner that provides both direction to the sector, and listens to the contributions from all parties.



Jonson Cox
Chairman



Cathryn Ross
Chief Executive

We also plan to look to the future by developing a new strategy for how we regulate the sector over the long term. The significant changes to our Board and Executive leadership team, the strategic steers and guidance provided to us by Defra and the Welsh Government, as well as changes to the sector proposed in the UK Government's Water Bill, make this an excellent time to review our plans for 2015-20 and beyond.

Through our new strategy we aim to set out how we expect the sector to meet the needs of customers now and in the future and – crucially – what we can do as the regulator to help achieve this. We also aim to develop a strategy that helps ensure that we remain at the top of our game: helping all parties with an interest in water and wastewater services meet the challenges ahead.

We will develop our strategy over the next 12 months in dialogue with our stakeholders. We want it to provide direction for the next five years by the time we go into the next price control period. This document represents just the start of that process, and builds on the work and discussions over recent months. We look forward to hearing your views.



Strategic assessment 2014-15

Water and wastewater services are essential for life. Customers of water and wastewater companies deserve a good service at a fair price. Currently, most customers in England and Wales are unable to choose their supplier and must receive services from their local monopoly provider.

The water sector faces many challenges, such as climate change and population growth, that create an unpredictable environment. These challenges mean that the sector as a whole needs to become more responsive, innovative and forward looking in responding to customer needs.

Because most customers are unable to choose their supplier, it is our role to protect both their interests and the interests of future customers. As part of this, we ensure that water and wastewater companies are both able and incentivised to invest in their businesses efficiently, while maintaining their access to private capital markets at reasonable cost.

In recent years, we have developed improvements in the way we regulate, to drive a necessary change in culture and to help overcome the challenges the sector faces. These improvements include introducing:

- an outcome-focused approach to regulation that looks at what really matters to customers, and gives the sector space to innovate in products and customer service;
- a risk-based approach to regulation that gives companies greater managerial freedom and ensures greater accountability to their own customers for their own performance; and
- an improved approach for setting the price and service packages (price controls) that monopoly water and wastewater and water only companies must deliver. This will help encourage them to deliver more customer-focused, efficient and

sustainable water and wastewater services, enabling investment and supporting economic growth.

2014-15 – a transition year

The coming year is one of transition for Ofwat for the following reasons.

- We are conducting the 2014 price review (PR14), which will result in us setting the price controls that monopoly companies will deliver to their customers in the five years between 2015 and 20. This will include us implementing many of the regulatory innovations we have developed over the past three years in close consultation with the sector.
- The UK Government has introduced legislation – the Water Bill – into the UK Parliament that will make changes to how the sector operates and our role, not least the proposed introduction of non-household retail competition. Subject to parliamentary process, the Water Bill could become law by spring 2014.
- The UK Government published new strategic guidance and social and environmental guidance for us in March 2013.
- The Welsh Government has laid its priorities and social and environmental guidance to us before the National Assembly for Wales. Subject to this being formally agreed by the Assembly, this will come into force shortly.
- The majority of both our Board and the Executive leadership team have been appointed recently. This includes a new Chair in late 2012, four new Non-executive Directors during 2013, a new Chief Executive and four new members of the senior leadership team in recent months.

Given the changes and challenges highlighted above, we consider that now is the right time to develop a new long-term strategy for regulating the water sector in England and Wales. A vision is

required for the sector, which encompasses service providers and customers. And a vision is required for Ofwat, which will set out how we will regulate the sector from 2015-20 and beyond.

We will set out a new strategy, with new goals and milestones, which will inform both what we do and how we work.

In developing our new strategy, we are reflecting on our experience to date in changing our approach to regulation. This includes what we have achieved by:

- changing the way we set price controls in PR14;
- our work on Board leadership and corporate governance in regulated companies;
- our challenge to companies' management in sharing pain and gain with their customers from factors outside companies' control; and
- our work with the sector on an alternative dispute resolution scheme.

We are also reflecting on what we have heard already in our discussions with stakeholders. This includes customer groups, environmental organisations, investors, companies, policy-makers and regulatory thinkers.

We will develop our new strategy over the next 12 months. We will do so in consultation with the many other groups and organisations that play an important role in the water sector. We consider that engaging in such a dialogue will help us determine a strategy that will provide a robust basis for our regulation in years to come. Such a strategy would:

- recognise that water and wastewater are essential public services and puts the customer at the centre of everything we do;
- reflect the needs of everyone who benefits from water and wastewater services, including current and future customers, and wider society;
- address the relationship between water and wastewater services and the wider environment;

We welcome your views on whether our approach is transparent

- understand that, although the incumbent water and wastewater companies have a crucial role to play in delivering what customers need and want, other companies and organisations also have important roles and effects upon,

and within, the sector;

- recognise the need for certain standards to be set and maintained – for example, in public health, environmental protection and core levels of service – and Ofwat's role in their delivery;
- focuses on Ofwat's role in ensuring effective relationships between water and wastewater companies, investors and customers;
- continue to harness the benefits of competition and market forces where appropriate to drive efficiencies and give better outcomes for all customers; and
- continue to see Ofwat supporting conditions under which efficient incumbent companies can finance their water and wastewater businesses.

2014-15 work programme

In this document, we set out the core projects we plan to deliver over the next year. For each project, we describe:

- what it is;
- what we aim to deliver;
- how we will do it;
- the benefits it will deliver;
- the key dates in 2014-15; and
- how it aligns with the UK Government's strategic policy priorities. We are required to summarise the steps we propose to take in order to further the delivery of these priorities.

We would welcome your views on our work programme. We would also welcome your views on whether our approach to reporting against the UK Government's strategic policy priorities is transparent. We also propose to report against the Welsh Government's priorities in a similar way in future.

Key dates in 2014-15

Quarter 1 (April to June)	<p>All regulated companies to have voluntary code of practice on governance on 1 April 2014 (Board leadership, transparency and governance).</p> <p>Publish a commentary on what we have seen in companies' codes of practice, highlighting areas of best practice and areas where we consider there is room for improvement (Board leadership, transparency and governance).</p> <p>Announcement of companies' business plan ratings (2014 price review).</p> <p>Publish draft determinations and menus for companies with enhanced business plans (2014 price review).</p> <p>Publish baselines and draft menus for companies with standard and resubmission business plans (2014 price review).</p> <p>Publish our final approach to charging issues and the service incentive mechanism (2014 price review).</p>
Quarter 2 (July to September)	<p>Consultation on how we can achieve a level playing field in water and wastewater markets (Choice and trading arrangements).</p> <p>Publish final menus and draft determinations for companies with standard and resubmission business plans (2014 price review).</p>
Quarter 3 (October to December)	<p>Publish final determinations for all companies (2014 price review).</p> <p>Publish new Ofwat strategy (New strategy).</p>

Quarter 4 (January to March)

Publish a decision statement on our approach to ensure a level playing field (Choice and trading arrangements).

Consultation on changes to monopoly companies' licences to remove the ban on them trading in their area ('in-area trading ban') with their associate companies that compete in water and wastewater markets (Choice and trading arrangements).

Consultation on developing the information published by monopoly companies on the different parts of their businesses ('accounting separation') (Choice and trading arrangements).

Publish updated guidance on which customers we consider are eligible to choose their retail water and wastewater supplier (Choice and trading arrangements).

All regulated companies fully meeting our Board leadership, transparency and governance principles – as a minimum – by April 2015 (Board leadership, transparency and governance).

Establish a roadmap and approach for conducting licence review work (Licence review).

Refer any companies' final determinations to the Competition and Markets Authority (2014 price review).

Consultation on our review of special administration arrangements (Special administration arrangements).

Publish conclusions on how we will monitor progress towards our strategic goals (New strategy).

2014 price review



What it is

In 2014-15, we will decide the price and service packages (the ‘price controls’) that each of the monopoly water and wastewater and water only companies in England and Wales must deliver in each of the five years between 2015 and 2020.

We are following our final methodology for price setting, which we published in July 2013. The formal process of price setting began when each company sent us its business plan, which they did on 2 December 2013.

What we aim to deliver

Price controls in 2014 for monopoly services that:

- enable the companies to deliver what customers want in an efficient, sustainable and long-term way;
- are consistent with our long-term price setting principles; and
- take account of the priorities of the UK and Welsh Governments for the sector – and their wider policies.

How we will do it

After taking into account the views expressed in consultations, we will finalise our approach to charging issues and the service incentive mechanism (SIM).

After we have reviewed and challenged each company's business plan, we will announce whether we have rated their plan as 'enhanced', 'standard' or 'resubmission'.

We will consult on our draft decisions on companies' price controls ('draft determinations'). This includes our view of the minimum amount of expenditure that companies need to make ('baselines') and the rewards and penalties they can choose from in deciding their level of expenditure ('menus').

Following representations from the companies and customers, we will make our final determinations of their price controls.

If any companies ask us to, we will refer our decisions on the final determinations to the Competition and Markets Authority.

We will review lessons learned from the 2014 price review.

Key dates in 2014-15

- Announce companies' business plan ratings (4 April 2014).
- Publish draft determinations and menus for companies with enhanced business plans (30 April 2014).
- Publish baselines and draft menus for companies with standard and resubmission business plans (30 April 2014).
- Publish our final approach to charging issues and the service incentive mechanism (quarter 1).
- Publish final menus and draft determinations for companies with standard and resubmission business plans (29 August 2014).
- Publish final determinations for all companies (by 12 December 2014).
- Refer any companies' final determinations to the Competition and Markets Authority (quarter 4).

Benefits of this project

Independent analysis shows that our methodology for the 2014 price review could bring more than £2 billion in benefits to customers, including:

- empowering customers today by giving them a stronger voice in how companies deliver services and how much they pay for them;
- protecting the needs of future customers by ensuring companies plan how they will deliver secure and sustainable supplies over the long term;
- encouraging companies to produce high-quality plans based on their legal obligations and effective customer engagement – and giving them greater ownership for delivering those plans;
- challenging companies to keep costs low and deliver improved value to customers and the environment;
- protecting the environment by encouraging companies to use scarce resources carefully and consider more sustainable solutions for delivering services;
- maintaining the stability and transparency that investors value and which will encourage them to continue to finance long-term investment; and
- revealing new information from companies to improve how we set price controls in future and continue to protect customers' interests.

How this project contributes to the UK Government’s strategic policy priorities

Priority	Contribution
1	<p>Impacts of regulatory changes on sector investment prospects</p> <p>We have retained many aspects of our approach to price controls which worked well in the past to provide certainty and stability for companies and investors. We have also introduced opportunities for greater rewards for companies that do well.</p>
2	<p>Proportionality of the regulatory framework</p> <p>We did not set detailed rules for companies’ business plans. Instead, we will use a series of tests to review the quality of each company’s plan and focus on those areas where the biggest risks are for customers and the environment.</p>
4	<p>Contribution to Government’s sustainable development objectives</p> <p>Our methodology for setting price controls has tackled the bias companies had towards ‘pouring concrete’, allowing them to propose more sustainable solutions such as catchment management and water efficiency in their business plans. It has also encouraged companies to develop long-term objectives (‘outcomes’) for the services they deliver, based on discussion with their customers and environmental regulators.</p>
5	<p>Impacts of regulatory approach on the sector’s preparation for long-term challenges, such as climate change</p> <p>Our methodology has encouraged companies to plan for the long term. For example, it has encouraged them to make better, more sustainable use of water resources through targeted rewards and penalties.</p>
6	<p>Impacts of regulatory approach on company innovation, such as catchment management</p> <p>Our methodology has encouraged companies to consider innovative, efficient, long-term solutions for delivering services to their customers and the environment – including catchment management.</p>
8	<p>Sufficiency of company action to help customers struggling to pay bills</p> <p>We will be testing companies’ plans to see how well they have demonstrated that their proposals are affordable for customers now and in the long term. We will also be looking at how well they are managing their bad debt costs, including using targeted (‘social’) tariffs for those customers who struggle to afford their bills.</p>
10	<p>Effectiveness of the 2014 price review in delivering outcomes sought by customers and other stakeholders</p> <p>Among other things, our methodology will focus each company on delivering the outcomes their customers want. Focusing on outcomes will also encourage companies to find innovative and more sustainable ways to deliver services, including how they meet their statutory obligations.</p>

Choice and trading arrangements



What it is

In June 2013, the UK Government published its Water Bill. If it formally passes through the UK parliamentary process, this legislation will, among other things:

- allow all non-household customers in England to choose their supplier of customer-facing ('retail') water and wastewater services;
- allow the introduction of markets into some less customer-facing ('wholesale') water and wastewater services; and
- give us a primary duty to further resilience of water and wastewater services.

We are working with Government and other stakeholders to plan how we will implement the proposals in the Bill. This includes working with the Open Water programme to prepare market reforms.

What we aim to deliver

Subject to UK Government legislation:

- a market for retail water and wastewater services that gives non-household customers a choice of retail supplier in England from 1 April 2017; and
- a roadmap for introducing markets for wholesale water and wastewater services to increase the scope for entry and more efficient outcomes and innovation.

Changes to our regulatory framework that effectively and efficiently deliver the reforms included in the Water Bill. This includes the changes we are making to the way we set monopoly companies' price controls, such as setting separate price controls for their retail and wholesale businesses.

How we will do it

We will work with the Open Water programme to prepare for delivering the market reforms set out in the Water Bill. In particular, we will:

- develop market arrangements that allow all non-household customers to choose their retail supplier, while at the same time ensuring they have effective protection;
- consult on the design of retail water licences, retail wastewater licences and retail market arrangements, including market governance and market codes (the rules and principles that suppliers must observe);
- engage with sector stakeholders on the design of wholesale water and wastewater licences, including market governance and market codes;
- consult on how we can achieve a level playing field for new entrants and avoid undue discrimination;
- consult on charging issues related to the implementation of market reforms; and
- work with the Water Industry Commission for Scotland (WICS), the UK Government and the Scottish Government to take steps towards a possible joint England-Scotland market for retail water and wastewater services. This will include agreeing joint licensing arrangements.

Benefits of this project

This project will ensure an effective market for retail water and wastewater services for non-household customers in England. This will:

- allow these customers to choose the retail price and service package they consider to be the best deal for them;
- keep suppliers accountable to their customers because customers have the ability to switch if they are dissatisfied;
- challenge wholesale and retail companies to be more efficient in delivering services and offer new products and services to customers; and
- allow us to withdraw regulation – and reduce regulatory burdens – in areas where market forces are sufficient to protect customers' interests.

This project will also work towards the introduction of markets for wholesale services. Among other things, this could provide:

- greater flexibility for suppliers to trade water and improve the resilience of services to customers; and
- greater opportunities to reduce the removal of water ('abstraction') from areas where the lack of it leads to environmental damage.

How this project contributes to the UK Government's strategic policy priorities

Priority	Contribution
1	<p>Impacts of regulatory changes on sector investment prospects</p> <p>We have already committed to allocating all of the monopoly companies' regulatory capital values (RCVs) to their wholesale price controls as part of the 2014 price review. This protects investors from the risk of an expanded market for retail services for non-household customers. We will consult extensively before we make any decisions that could significantly affect investor confidence.</p>
4	<p>Contribution to Government's sustainable development objectives</p> <p>Based on the experience of a similar market in Scotland, the expanded market for retail services in England is expected to increase significantly water efficiency by non-household customers. It will also help them reduce their bills and decrease greenhouse gas emissions.</p>
9	<p>Progress on competition, to ensure this is in step with the Water White Paper and Government boundaries</p> <p>We are helping to prepare for the implementation of an effective market for retail water and wastewater services in England by April 2017 – subject to the Water Bill becoming law. This is in line with the UK Government's policy.</p>

Key dates in 2014-15

- Consultation on how we can achieve a level playing field in water and wastewater markets (quarter 2).
- Publish a decision statement on our approach to ensure a level playing field (quarter 4).
- Consultation on changes to monopoly companies' licences to remove the ban on them trading in their area ('in-area trading ban') with their associate companies that compete in water and wastewater markets (quarter 4).
- Consultation on developing the information published by monopoly companies on the different parts of their businesses ('accounting separation') (quarter 4).
- Publish updated guidance on which customers we consider are eligible to choose their retail water and wastewater supplier (quarter 4).

Board leadership, transparency and governance

What it is

The water sector – and the way that we regulate it – is evolving. If we are to take a less intrusive approach to regulation we need to have confidence that regulated water and wastewater and water only companies – and any companies that own their shares ('holding companies') – are acting in the public interest and that their leadership, transparency and governance reflects this.

In September 2013, we published '[Board leadership, transparency and governance – principles](#)', which set out the standards that we expect the regulated companies to adopt as a minimum. This also set out our expectation that all regulated companies will have voluntary codes of practice in place by April 2014 that set out their approach to governance.

This is an evolutionary approach that places accountability on each Board for making sure their company adopts and demonstrates high standards of Board leadership and governance.

We plan to publish similar principles for holding companies in early 2014.

What we aim to deliver

A sector that:

- operates to the highest standards of leadership, governance and transparency;
- maintains the confidence of customers so they continue to pay their bills; and
- maintains the confidence of investors and can continue to attract investment at competitive rates.

How we will do it

We will:

- examine each company's code of practice and seek improvements where necessary;
- draw companies' attention to examples of best practice; and
- develop and discuss with companies licence modifications to support our approach.

Where companies' owners change, we will make sure that new investors adopt high standards of Board leadership and governance that meet our principles as a minimum.

Key dates in 2014-15

- All regulated companies to have voluntary code of practice on governance on 1 April 2014 (quarter 1).
- Publish a commentary on what we have seen in companies' codes of practice, highlighting areas of best practice and areas where we consider there is room for improvement (quarter 1).
- All regulated companies fully meeting our Board leadership, transparency and governance principles – as a minimum – by April 2015 (quarter 4).

Benefits of this project

This project:

- ensures that customers have confidence that each regulated company's Board takes full account of customers' interests;
- encourages independent Boards that are focused on the long-term viability of the regulated company;
- encourages regulated companies to voluntarily develop codes of practice and adopt best practice;
- promotes a sector that has the confidence of customers and investors;
- encourages Boards of regulated companies to focus on long-term sustainability; and
- supports less intrusive regulation.

How this project contributes to the UK Government's strategic policy priorities

Priority	Contribution
1	<p>Impacts of regulatory changes on sector investment prospects</p> <p>The project provides clarity for investors on governance issues in the sector.</p>
2	<p>Proportionality of the regulatory framework</p> <p>Self-regulation does not add to the regulatory burden.</p>
3	<p>Impacts of the regulatory framework on sector investment profile</p> <p>The project encourages long-term investment.</p>
5	<p>Impacts of regulatory approach on the sector's preparation for long-term challenges, such as climate change</p> <p>Boards focused on long-term sustainability of the sector.</p>
10	<p>Effectiveness of the 2014 price review in delivering outcomes sought by customers and other stakeholders</p> <p>Our new approach to the business planning process places the onus on company Boards to own and be accountable for plans. We will require that whole company Boards provide assurance that their plan is high quality and will deliver good outcomes for current and future customers and the environment.</p>

Licence review



What it is

Each company that we regulate has a document (a 'licence') that sets out the terms and conditions with which it must comply in order to provide water and wastewater or water only services. Over time, the licences have become increasingly complex and some parts are now obsolete following changes to the way we regulate. So, we want to improve the regulated companies' licences by:

- making them clear and concise; and
- making sure they are fit for purpose and reflect the changes we are making to our overall regulatory framework.

What we aim to deliver

- Company licences that are clear, concise and consistent.
- Licence obligations that are effective and appropriate to our evolving regulatory framework and the Water Bill.
- A modular licence structure that reflects the activities that companies operating in the sector carry out.
- A mature environment that facilitates a constructive approach to licence modifications between the regulator and the sector.

How this project contributes to the UK Government's strategic policy priorities

How we will do it

Building on our previous work to simplify licences and constructive discussions with companies on modifications to their licences, we will develop our plans for carrying out a holistic review of:

- the licence obligations on companies in this sector; and
- the way in which those conditions will need to adapt and change to meet future challenges.

We will use the results of the review to set the framework for evolving company licences so that the content and structure are fit for purpose and can be adapted readily to meet the way in which regulation and the sector develops.

Priority	Contribution
1	<p>Impacts of regulatory changes on sector investment prospects</p> <p>Investors understand fully the obligations on companies operating in this sector and have confidence in the regulatory environment.</p>
2	<p>Proportionality of the regulatory framework</p> <p>Short-term impact on the regulatory burden for long-term benefit.</p>
3	<p>Impacts of the regulatory framework on sector investment profile</p> <p>Investors understand fully the obligations on companies operating in this sector and have confidence in the regulatory environment.</p>
9	<p>Progress on competition, to ensure this is in step with the Water White Paper and Government boundaries</p> <p>Licence obligations that are appropriately focused and consistent with the Water Bill.</p>

Key dates in 2014-15

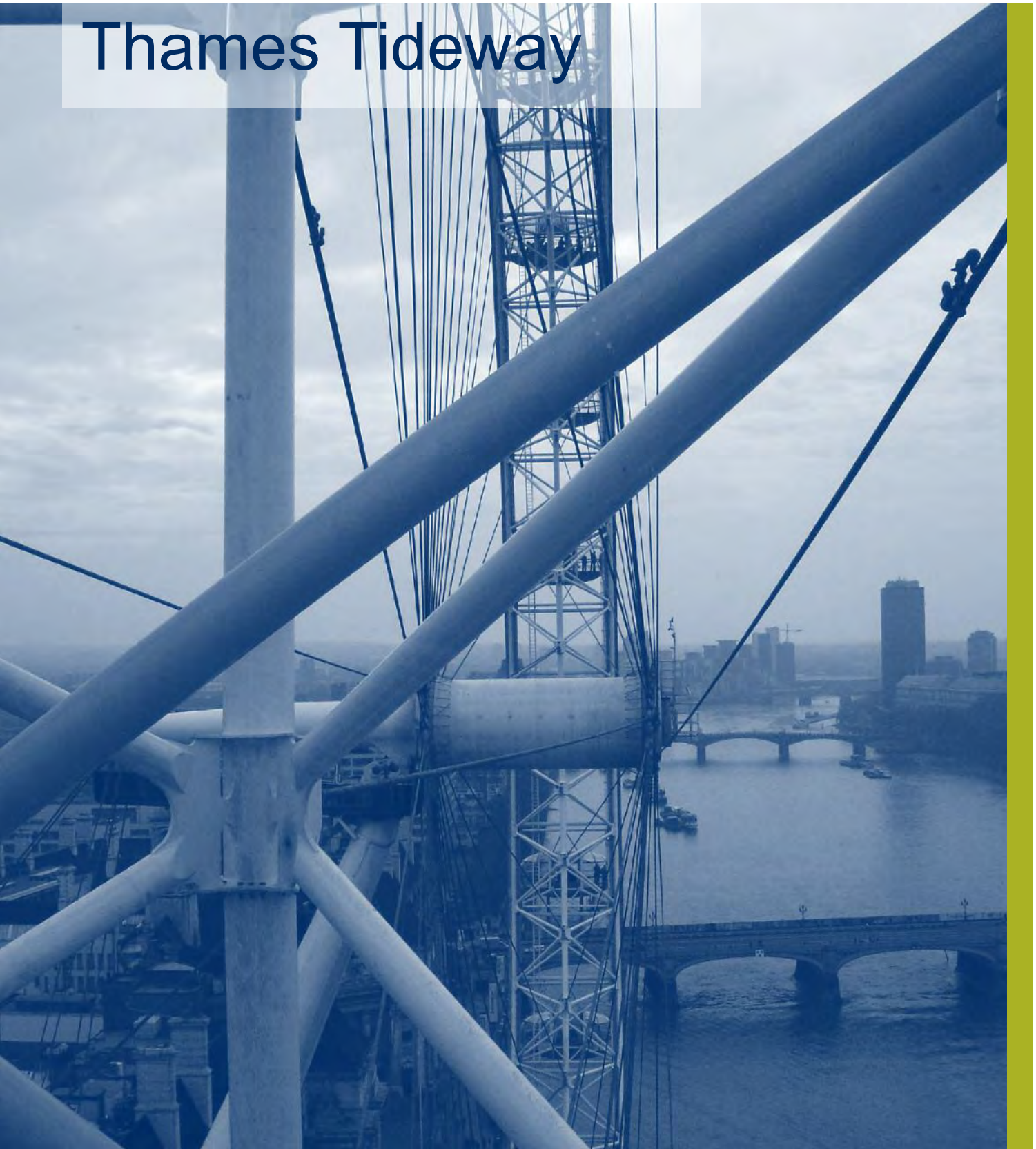
- Establish a roadmap and approach for conducting licence review work (quarter 4).

Benefits of this project

This project will ensure:

- up-to-date licence obligations that allow customers to understand what services they can expect from the companies that supply them;
- companies demonstrate how they meet their licence obligations;
- licence obligations that are designed to meet the particular services that a company is providing;
- clarity for new companies that want to supply services about the standards they will need to meet; and
- licences that are fit for purpose and place accountability on each company's Board for meeting its obligations will allow us to adopt less intrusive regulation where companies are demonstrably doing so.

Thames Tideway



What it is

The Thames Tideway is a large, complex investment project to reduce overflows of untreated sewage into the River Thames. It involves constructing a major new sewer beneath parts of London. This is the biggest scheme that a water company has delivered since privatisation. It could also have a significant impact on customers – including the services they receive and bills they pay – local communities and the environment.

Over the past decade, we have worked with Thames Water and other stakeholders to understand the need to reduce discharges in the River Thames and the available solutions to meet European legal requirements. And the UK Government has endorsed the project as the best-value solution.

We are working with Thames Water, Defra and other stakeholders to support the development and financing of the company's plans. Our role is to ensure:

- the Thames Tideway project is appropriately regulated;
- any costs that are incurred are efficient and continue to represent best value to Thames Water's customers; and
- Thames Water follows best practice.

What we aim to deliver

- A scheme in which customers only finance efficient and effective costs.
- Thames Water and any third party infrastructure providers are accountable to the company's customers.
- New approaches for delivering large projects that produce better outcomes for customers across England and Wales.

How we will do it

We will work with Defra, the Environment Agency, Thames Water and other stakeholders to identify the most suitable implementation and financing model for the Thames Tideway scheme that ensures:

- it is delivered effectively and efficiently;
- it costs no more than necessary; and
- customers get the best value for money possible.

The UK Government made the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013 in June 2013. Under these regulations, we will help in the appointment of a successful infrastructure provider.

Benefits of this project

This project will help to:

- ensure that the Thames Tideway Tunnel costs no more than it has to and the best value for money is achieved;
- develop an alternative funding and delivery approach that could deliver better value overall for customers than Thames Water financing and delivering the tunnel itself;
- ensure that the risks of the Tunnel are properly separated from Thames Water's appointed business so that the financing of the appointed business is not exposed;
- maximise competitive pressures in the water sector in a way that the current regulatory framework cannot achieve by developing a third party infrastructure provider model to finance and deliver the Thames Tideway Tunnel;
- support the development of a long-term investment proposition that will enable the delivery of a major infrastructure project that will bring the River Thames into compliance with the Urban Wastewater Treatment Directive; and
- provide necessary capacity in the sewer network for future generations.

Key dates in 2014-15

After the procurement for an infrastructure provider, we will designate and appoint the successful bidder (following consultation).

How this project contributes to the UK Government's strategic policy priorities

The Thames Tideway project does not in itself aim to address the strategic policy priorities the UK Government set out for us. But in delivering our work, we look to ensure its outcomes are aligned with the strategic policy priorities.

Priority	Contribution
1	<p>Impacts of regulatory changes on sector investment prospects</p> <p>In developing a third party infrastructure provider model to deliver the Thames Tideway Tunnel, we are mindful of the need not to create any undue regulatory uncertainty in the model.</p>
2	<p>Proportionality of the regulatory framework</p> <p>The project aims to develop a new finance and delivery model that will allow targeted regulation through a bespoke form of licence and regulation rather than a 'one size fits all' approach.</p>
4	<p>Contribution to Government's sustainable development objectives</p> <p>The project is supporting the development of a long-term investment proposition which will enable the delivery of a major infrastructure project that will bring the River Thames into compliance with the Urban Wastewater Treatment Directive and provide necessary capacity in the sewer network for future generations.</p>
5	<p>Impacts of regulatory approach on the sector's preparation for long-term challenges, such as climate change</p> <p>The project is supporting the development of a long-term investment proposition to enable the delivery of the Thames Tideway Tunnel.</p>
7	<p>Impacts of regulatory approach on sector resilience and sustainable water resource management</p> <p>The project's work is enabling investment in resilient networks by developing an alternative delivery and funding model to deliver a major infrastructure project to bring the River Thames into compliance with the Urban Wastewater Treatment Directive and provide necessary capacity in the sewer network for current and future generations.</p>
9	<p>Progress on competition, to ensure this is in step with the Water White Paper and Government boundaries</p> <p>The project's work developing a third party infrastructure provider model to finance and deliver the Thames Tideway Tunnel provides an opportunity to maximise competitive pressures in the water sector in a way that the current regulatory framework cannot achieve.</p>

Casework

What it is

We have a range of statutory powers which we are both enabled and required to use to:

- deliver our legal duties; and
- ensure that consumers get the best deal from their suppliers.

Our ability to take on and make decisions on disputes, complaints and other cases ('casework') under the Water Industry Act 1991, the Competition Act 1998 and the Enterprise Act 2002, is one powerful suite of powers that we can use.

We share many of our casework powers with other bodies, particularly our Competition Act and Enterprise Act powers. There are a number of changes under way that will affect how we use these two powers in particular. These are:

- the establishment of the Competition and Markets Authority; and
- a new competition primacy duty given to all sector regulators in the new Enterprise and Regulatory Reform Act 2013.

Over the past two years, we have focused increasingly on cases that are strategically significant. This includes cases that:

- involve the most serious harm to consumers;
- allow us to set important precedents that may improve the way the water sector operates; or
- send clear signals to companies to meet their obligations, increase compliance and for their managers to be accountable for their decisions.

This is helping to deliver better overall outcomes for consumers.

In 2014-15, we expect to continue to implement and develop our approach. This includes using new arrangements to give us improved scope to exercise some discretion over which cases we take on. In its Water Bill, the UK Government has proposed to allow us to transfer some of the smaller, routine complaints and disputes that we currently handle to an independent alternative dispute resolution (ADR) scheme. This scheme will be run by an independent provider. It is currently being set up by the companies, with help from the Consumer Council for Water (CCWater), Water UK (the representative body for companies) and us.

What we aim to deliver

- Efficient, effective and timely decisions on strategic cases.
- Effective working arrangements with the ADR scheme for transferring routine cases, subject to the arrangements set out in the Water Bill becoming law.

How we will do it

- Using our resources effectively and picking the right strategic cases.
- Working closely with companies, CCWater, Water UK and the ADR provider to ensure the new arrangements for transferring routine cases work smoothly.

Benefits of this project

The project will:

- allow us to continue to develop a more transparent, effective and efficient approach to casework;
- give us greater flexibility to focus on cases that have the potential to deliver the greatest benefits to customers; and
- deliver better outcomes to consumers.

How this project contributes to the UK Government's strategic policy priorities

Priority	Contribution
2	Proportionality of the regulatory framework We will have greater discretion to focus on the cases that are most strategically significant.
7	Impacts of regulatory approach on sector resilience and sustainable water resource management This project will enable a clear framework for the continuation of services to customers. Our work is likely to target cases that establish important precedents for the trading of water, which can help improve resilience of supplies to customers.
9	Progress on competition, to ensure this is in step with the Water White Paper and Government boundaries Our work is likely to include cases that establish important precedents for encouraging competition in England as set out in the Water Bill.

Key dates in 2014-15

- The exact timing of our decisions will depend on our progress on individual cases. We expect the ADR scheme will begin in quarter 3 of 2014-15.

Special administration arrangements



What it is

We have duties to ensure efficient companies can finance their functions and meet their legal obligations. There may be circumstances under which a company:

- fails to meet its legal obligations and does not or cannot take remedial action; or
- is unable to finance its functions due to, for example, poor decisions by their management or significant unexpected changes to their costs (a 'cost shock').

In these circumstances, we have powers to appoint a Special Administrator to oversee the running of the company. This ensures that services to customers are maintained.

Fortunately, we have never had to use the special administration arrangements, but it has been a number of years since we reviewed them. So, we plan to carry out a project during 2014-15 to review their effectiveness.

What we aim to deliver

- A report on the effectiveness of the current special administration arrangements.
- If necessary, changes to those arrangements.

How we will do it

- Review the effectiveness of the current special administration arrangements.
- Consult stakeholders on our draft findings and any changes we propose to make.
- Publish our final findings – and implement any changes.

How this project contributes to the UK Government's strategic policy priorities

Priority	Contribution
1	Impacts of regulatory changes on sector investment prospects This project provides clarity for investors and other stakeholders on the effectiveness of the special administration arrangements.
4	Contribution to Government's sustainable development objectives It enables a clear framework for the continuation of services to customers.
7	Impacts of regulatory approach on sector resilience and sustainable water resource management It enables a clear framework for the continuation of services to customers.

Key dates in 2014-15

- Consultation on our review of special administration arrangements (quarter 4).

Benefits of this project

The project will:

- provide reassurance and transparency to all stakeholders about the effectiveness of the special administration arrangements; and
- ensure that customers are sufficiently protected if we place a company into special administration.

New strategy



What it is

We are reviewing our long-term approach for regulating the water sector in England and Wales. We will publish a document (our 'strategy') that sets out how we plan to:

- deliver our legal duties;
- meet our other obligations (for example, our obligation as a public sector organisation to deliver value for money); and
- contribute to the UK and Welsh Governments' priorities.

The new strategy will replace '[Delivering sustainable water – Ofwat's strategy](#)', which we published in March 2010.

What we aim to deliver

- A document that sets out our long-term strategy for how we will deliver our duties and meet our other obligations.
- A strategic business plan that sets out how we will implement our strategy in 2014-15 – and the two years beyond that.

How we will do it

- We will consult with stakeholders on our draft strategy in early 2014.
- After considering responses to our consultation and other engagement we have with our stakeholders, we will publish our final strategy in autumn 2014.

Benefits of this project

- A clear plan for how Ofwat will deliver its duties and other obligations.
- Opportunity for stakeholders to inform how we do our job.
- Certainty and transparency for stakeholders on our long-term priorities and focus of our work.

Key dates in 2014-15

- Publish new Ofwat strategy (quarter 3).
- Publish conclusions on how we will monitor progress towards our strategic goals (quarter 4).

Financing the delivery of our work programme

We aim to deliver our legal duties effectively and efficiently, and provide value for money. Our expenditure requirements are met by licence fees that are recovered from the companies we regulate. We are proposing an overall budget and licence fee of between £27 million and £29.5 million for 2014-15. This is equivalent to about 0.25% of the sector's turnover.

We are putting in place a business transformation programme to help us deliver our new strategy. This will ensure that what we do, the type of organisation we are and the way we work all add up to enable us to fulfil our vision. This will involve additional costs which are reflected in the upper end of our budget range. The upper end of the budget range also includes funds to deal with appeals and legal challenges on the 2014 price review. This additional provision for challenges changes our base budget of £26.6 million. Our cost estimates for other work remain the same. Any unused money will be returned to licence fee payers.

The cost of regulating the Thames Tideway Tunnel project will be recovered separately from Thames Water. The proposed estimate for this special fee is £1.5 million.

In '[Consultation on Ofwat's section 13 proposal to modify companies' licences – condition N](#)', which we published in October 2013, we consulted on a change to each company's licence to increase the funding that we can recover from companies to carry out our price review. We welcomed the positive engagement that we had with companies in our discussions on the content of the licence modification.

Changes to our work programme and budgets

Our work programme could change further in the light of our new strategy and new UK and Welsh Government policies and legislation. For example:

- the scale and pace of our choice and trading arrangements project will be determined by the progress of legislation that the UK Government introduced in the UK Parliament in summer 2013; and
- the Welsh Government may publish its revised water strategy during 2014, which could give us more new responsibilities – such as ensuring that companies operating in Wales can support customers who struggle to pay their bills.

Our forward programme also excludes any routine work we may be required to carry out during the year. This includes:

- investigations;
- enforcement;
- disputes;
- interim price determinations; or
- legal cases.

While we aim to make prudent assumptions – based on past experience – on how much routine work we may reasonably expect, we may receive more or less than we anticipate.

If our work programme changes, we will review our current and future budgets accordingly.

The Welsh Government may publish its revised water strategy during 2014, which could give us more new responsibilities

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water sector in England and Wales provides consumers with a good quality and efficient service at a fair price.



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