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. 8 May 2014

Dear CEO

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Thank you very much for taking the time to catch up earlier this week. It was very much appreciated.

We discussed the next steps for the June and August draft determinations and how we could continue to work together to ensure a constructive and transparent process which delivers the best possible outcome for customers. I said as part of our conversation that I would confirm in writing the key points from our conversation and that this letter would be published on our website, consistent with our transparent approach to the price review and to allow Customer Challenge Groups and other interested parties to be aware of our progress.

On 30 April 2014 we published the draft determinations for the two enhanced companies, South West Water and Affinity Water and we announced earlier this week that two companies, Northumbrian Water and Dŵr Cymru, have requested a June draft determination. Your company and the remaining 13 companies will now receive draft determinations on 29 August.

In April we outlined the procedure that companies must adopt in respect of August determinations. We indicated that companies should provide an analysis detailing the actions companies plan to take to bridge the gaps identified in the risk based review.

We have continued to engage closely with your company and others to ensure that you understand the output from our risk based review, including a number of individual meetings on test areas. We have also held a series of workshops explaining in detail how that process worked and how companies could provide us with more information on revisions to their plans and the efficiencies they could achieve. Companies have said that these meetings and workshops were helpful and consistent with our continued desire to conduct a constructive and transparent process.

Sonia Brown, Chief Regulation Officer

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Similarly, we have placed detailed information in the public domain via our website including the draft determinations for the enhanced companies.

Given the progress we know a number of companies are making in addressing the gaps that the risk based review identified, including having ongoing discussions with their customer challenge groups, we consider that there may be further opportunities to work together to our mutual benefit ahead of the June 27 deadline for resubmitting your business plan. This will allow there to be a real focus post June 27 on the most material issues across the sector and with your own company (should any issues remain needing to be addressed). We have invited you to set out your thinking on this and to indicate any areas that we could explore together by the end of this week.

We also discussed on the call our cost assessment modelling for wholesale costs (or totex). As you know we released all of our models on 4 April for comment and in discussion have subsequently identified that some companies, in the process of reviewing their plans, may have additional representations to make on the underlying models we have used to assess costs. We are now inviting you to make any formal representations on the underlying models by 10 am on 3 June 2014. Any representations that we receive after this date can only be considered for final determinations. It would also be very helpful within the same timeframe to identify if you are going to make any claims for new additions to cost thresholds.

I hope you will give consideration to my suggestion that we collectively seek to manage the process between now and issuing the August draft determinations as constructively and smoothly as possible to ensure that we can deliver together the best possible outcome for customers. Your company's portfolio lead will contact your regulatory team to discuss next steps in more detail but if you do have any particular questions then please do not hesitate to contact me.

Yours sincerely,



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