

# Information notice

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## 2014 price review communications between Ofwat and water companies

This information notice explains our overall approach for talking with and listening to ('engaging with') water companies and other key stakeholders during the 2014 price review. We also set out how we plan to engage specifically with companies during the first phases of the price review process.

### Background

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

We recently published '[Setting price controls for 2015-20 – final methodology and expectations for companies' business plans](#)' (our 'final methodology statement'), which sets out how we will reach our decisions. It also sets out our expectations for the business plans that each company will send to us by 2 December 2013.

During the development of our price control methodology, we have carried out an extensive

programme of engagement with our stakeholders. This has helped shape our final approach to setting price controls. Now that the methodology has been finalised and we are approaching the review of business plans, we think it is important that we put in place more structured engagement arrangements. This means we need to give:

- all companies an equal opportunity to communicate with us, particularly as they consider the final methodology statement; and
- all stakeholders confidence that we will reach independent decisions that result in the best outcome for consumers – including current and future customers and the environment.

### Overall approach to price review communications

To promote effective and impartial engagement throughout the price review, we have assigned each company a senior member of Ofwat staff (a 'Portfolio Lead') to be their primary point of contact on all issues related to the price

review. This is something we have adopted following David Gray's [review of Ofwat and consumer representation in the water sector](#). This approach will:

- improve the transparency of our price review process; and
- help promote cultural change by creating a shared understanding of the objectives and the process at senior levels of both Ofwat and the companies.

The portfolio leads will also manage engagement on price review matters with other key stakeholders involved in the process. This includes:

- the [customer challenge groups](#) (CCGs);
- Environment Agency;
- Natural England;
- Natural Resources Wales; and
- the Drinking Water Inspectorate.

We will continue to engage with companies on non-price review matters through their existing company adviser.

Below we set out our approach to engagement with the companies

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water and sewerage sectors in England and Wales.

during each of the first three phases of the price review process.

### **Phase 1 – clarification: now until 30 September 2013**

Our final methodology introduced a number of important changes to our approach for setting price controls. These changes are already contributing to a changing culture in the water sector to deliver more efficient, dynamic and customer-focused water and sewerage services. For example, we are seeing the companies respond by developing plans through much more extensive customer engagement than we have seen before.

We want to continue to help the companies understand the changes set out in our final methodology statement so that they can deliver high-quality business plans. So we are offering all companies the opportunity to clarify any issues that they might have. Such engagement will also help reveal to us any issues that require further clarity before companies finalise their business plans.

Companies should contact their Portfolio Lead if they have any queries or require clarification on any issues. This is so that we can ensure an appropriate and effective exchange of information with them.

We will also be providing an opportunity for water companies' chief executives to discuss the price review directly with Sonia Brown (our Chief Regulation Officer).

### **Phase 2 – restricted communications: 1 October to early 2014**

From 1 October we will only engage in restricted and formal communications with the companies on the 2014 price review. This will continue until we have carried out our assessment of the quality of each company's business plan (the 'risk-based review') in early 2014.

Communications will be restricted during this period because we expect companies will be focused on preparing high-quality business plans. We will be focusing on our own preparations to deliver the price review.

However, we recognise that unforeseen issues about the methodology could arise. During this period any company can raise queries with us by contacting its Portfolio Lead. But we will:

- only respond if we think it is appropriate; and
- where we do respond, we will share the information with all companies.

This will help ensure that every company has access to the same information from us and can therefore finalise business plans on a level playing field.

We are inviting the companies to consider whether it would be helpful for them to present their plans to us in early December, after each company has sent us its business plan. This would offer the opportunity for companies to set out their Board's perspective on

the whole plan ahead of our detailed testing as part of the risk-based review. We have sent each company details of this proposal.

In limited circumstances a Portfolio Lead may need to contact a company after it has submitted its plan – but before we have carried out our assessment of all companies' plans. We may, for example, need clarification about a part of a company's plan. In these situations we will not share any information about the progress of our risk-based review. This is because this information could cause movements in companies' share prices. (It is 'price sensitive'.)

### **Phase 3 – risk-based review categorisation: early 2014 onwards**

The third phase of our engagement will begin when we announce the outcome of our risk-based review. The level of engagement we have with an individual company during this phase will depend on whether we have categorised the quality of their plan as 'enhanced', 'standard' or 'resubmission'.

- Companies with **enhanced plans** will have their business plans substantially unchanged (although some adjustments could be made) in our draft decisions ('draft determination') of their price controls. So there will be a minimal need for engagement between us.
- Companies with **standard plans** would need to make some adjustments to their plan before

we can make their draft determination. So we will need to engage with these companies to explain our decision and discuss the steps they need to take.

- Companies with **resubmission plans** would need to redevelop them before we make their draft determination. There is likely to be an initial period of engagement in which we explain the reasoning behind their classification to these companies. But after this we would expect limited engagement with them as the company reworks the specific elements of the business plan and their CCGs prepare a short-form supplementary report.

We will provide more information about this phase of engagement in November.

## Enquiries

For further information please contact Giles Stevens (our Portfolio Director) on 0121 644 7521 or by email at [price.review@ofwat.gsi.gov.uk](mailto:price.review@ofwat.gsi.gov.uk).



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

## More information

[‘Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans](#), July 2013

[‘Independent review of Ofwat and consumer representation in the water sector’](#), UK and Welsh Governments, 2011

[2014 price review webpages](#)



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July 2013

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