



Water 2020 - Regulatory framework for wholesale markets and the 2019 price review

1. Introduction

- 1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage customers in England and Wales. CCWater has four regional committees in England and a committee for Wales.
- 1.2 We welcome the opportunity to contribute to Ofwat's development of its framework for regulating new wholesale upstream markets for wastewater sludge and water resources, and its high level approach to the 2019 price review. We look forward to further discussion with Ofwat and others on the detail for many of these proposals in due course.

2. Executive Summary

- 2.1 It is important that the evolution of regulation in the sector is focussed on outcomes for customers and helps build customer trust and confidence. Regulation should improve company performance for customers, with water and wastewater services delivered at a price they find acceptable, whilst avoiding the over generosity seen in regulatory price settlements in the past. This was highlighted in recent reports by the National Audit Office and the Public Accounts Committee.
- 2.2 The proposals to create new markets and price controls represents a significant change to the regulation of the sector. The scale of change implied by the Water 2020 programme should be implemented in a way that does not generate risks that could eventually negatively affect customers.
- 2.2 Our key points in the various Water 2020 proposals are as follows:

Wholesale price controls for wastewater sludge and water resources

- We support Ofwat's commitment to ensuring prices in water resources are based on average costs within the trading area, as de-averaging could lead to bill increases for customers who are more expensive to serve.
- We agree that the introduction of both price controls should reveal cost efficiencies that benefit all customers, not just those in areas where the upstream markets are active. It is important that any uncertainty arising from the prospect of future trading, particularly in water trading, does not deter or delay essential investment.
- We support Ofwat's commitment to the transparency of information in both markets, and to ensure there is a level playing field for incumbents and new entrants.

RCV allocations

- We agree with the proposed approach to RCV allocations for both wholesale sludge and water resources. The RCV allocations should be implemented in a way that minimises the risk of stranded assets, and avoids the risk of incumbent companies having an unfair advantage over other entrants in these two new upstream wholesale markets.

Access pricing

- We support the approach to access pricing for sludge and water resource markets, but seek clarity about how Ofwat will oversee the access pricing arrangements or handle appeals by any trading parties involved.

Direct procurement

- We support further use of third party delivery of future investment, as this may increase efficiency if the cost of this procurement process is justified in comparison to the cost of the project. It is important that incumbent companies are responsible for the customer facing activities of any third parties in the construction or operation of assets delivered under this arrangement.

2019 price control framework

- We support the creation of new wholesale sub-price controls for wastewater sludge, water resources, and network plus, and the commitment to setting price determinations based on five year milestones toward a longer term strategy to address customer needs and challenges (such as future resilience to risks).
- We also support the continuation of the risk based approach to evaluating business plans, as introduced at PR14.
- ‘Enhanced’ status should be an incentive for water companies that includes an evaluation of a company’s past performance, and evidence of high customer satisfaction with both service and value for money, as well as the quality of their business plan.
- We agree that the approach to setting the Weighted Average Cost of Capital (WACC) will help maintain stability for investors, but would like to see future WACC assumptions avoid the over estimation of risk or over generosity to customers’ detriment as seen in past price determinations.
- We agree that allowing some in period revenue adjustments may help reduce the risk of ‘bill spikes’ at future price controls. However, we believe from research we have done that customers may react negatively if upward revenue adjustments create bill instability, particularly when these are on top of inflation.

Assessing cost efficiency

- We support a move towards benchmarking costs on a frontier efficiency basis, and support Ofwat’s intention to review its cost models in response to the Competition and Markets Authority’s re-determination of Bristol Water’s 2015-20 price settlement. It is important for customer confidence that efficient costs are set using a robust model.

Indexation of future price controls

- Many customers view the addition of inflation as over generous to companies and it can be misleading when future average bills are presented to them in real terms, as this does not relate to the actual bill they receive. The water industry should be wary of considering inflation as an automatic addition to price limits that customers will accept. While CPI is historically a generally a more stable and lower index to RPI, the transition away from RPI is not straightforward and should not disadvantage customers. We consider that this transition needs to be in line with similar actions in other regulated sectors.

Customer engagement and CCGs

- Customer engagement should be encouraged as part of the day to day culture in water companies, with the evidence gathered from various forms of communication, research and testing with customers providing clarity on the views and expectations of different customer groups.
- Customer research, especially at price reviews should be statistically robust (in terms of quantitative research), representative of the customer base, and include ‘hard to reach’ customers. Revealed preference approaches to customer research may have some benefits. Companies should be encouraged to explore and adopt good practice approaches from other sectors.
- Companies should engage customers on both short-term and long-term service levels, options for dealing with challenges, and the potential bill impacts this implies. Customer engagement should also explore customer views on the trade off or balance between current/future issues and risks.
- CCGs need to be independent and transparent (underpinned by strong governance) if they are to continue as a platform for challenging companies.
- We agree that CCGs remit should be to challenge and assure Ofwat on companies’ customer engagement methods, results, and how this is used to build a long term strategy and business plan (and test it for customer acceptability). However, CCGs can provide further value in making a high level challenge to the company's costs if evidence shows that customers (or particular groups of customers) find the price of the business plan to be unacceptable or unaffordable, or evidence from Ofwat shows the company is comparatively inefficient or has proposed comparatively higher costs with insufficient justification.
- CCGs challenges can be more effective if they are given 'user friendly' comparative performance data that shows how an individual company compares with its peers. We welcome Ofwat's intention to provide such information.

Outcomes

- We support the development of ODIs as performance commitments that form part of a long term outcome, particularly in areas of service that face long term challenges such as asset resilience, water resources and sewer flooding.
- We would like to see ‘customer facing’ measures applied commonly as greater comparability on areas of performance that are customer priorities can inform future challenges to companies. Greater comparability of performance could also improve the transparency to customers and commentators on the industry of how companies deliver services compared to their peers. We welcome further consultation in 2016 to help identify the common measures that should be applied.

Timetable

- We consider that the timescale between the publication of the PR19 methodology and the submission of business plans may be challenging and has resource implications for stakeholders and CCGs. However, this can be mitigated by Ofwat providing early signals about key aspects of the methodology earlier.

Our more detailed responses to the consultation questions are set out below. We have not responded to the more technical questions that are aimed primarily at incumbent companies or new entrants. For ease of reference, we have also added a list of key points under each topic within the Water 2020 programme.

3. Responses to the consultation questions

Sludge treatment, transport and disposal- market design

Key points:

- We support the proposed price control to regulate a wastewater sludge market, through the 'reveal' of new information and potential future efficiencies this implies should benefit all customers, not just those where a sludge market may be more active.
- We support the approach to ensuring there is transparency of information to support a sludge market, as this may help achieve a level playing field for incumbents and entrants.

Q1: Do you agree with our proposal to have one separate binding price control for sludge treatment, transport and disposal?

Yes, though we recognise that the cost of sludge is a small proportion of the wholesale wastewater chain. Revealing cost information could drive efficiencies that ultimately benefit all customers, not just those in an area where the sludge market may be more active (for example, in Wales, where such a market may not be introduced).

The administrative cost of setting up and regulating this market should be outweighed by the value of the customer benefits the market should deliver.

Q2: Do you agree with our proposal to make a range of cost, price, and capacity and location information available to facilitate the identification of trades? Do you agree the data should be published on a Sludge Treatment Centre (STC) and Sewage Treatment Works (STW) site level? Do you agree the data should be published annually? Do you agree that the categories of data we are proposing are necessary and appropriate? Are there any missing?

Yes, as this information is needed to allow potential entrants to evaluate whether to take part in the market. It is logical for this information to be based on STC and STW site level. We agree with publishing such information annually as the information associated with these sites is unlikely to change more frequently. We agree with the proposed data categories.

Q3: Do you agree that the information should also contain details of 'bids' from third party providers and that there should be guidelines for ensuring such bids are assessed on a level playing field basis?

Yes, as such transparency may provide assurance that all bids are treated equally on a level playing field basis, though we question whether the more commercially sensitive information that may be included in a bid document should be published. Ofwat will need to consider any limitations on this basis, and provide guidance on this to 'bidders'.

Q4: Do you agree that the data should be made available centrally through some form of information platform? Do you have any views as to how this may be arranged?

Yes, as it will

- make it easier to access the data; and
- having an independent third party handle and publish the data and 'bids' may add transparency to the process and reinforce the level playing field, which may give entrants further reassurance.

This could be arranged in a similar way to the establishment of a market operator for non-household retail, though the sludge market will be considerably smaller.

Q5: Do you agree with our proposals not to make any changes to the status quo in relation to system operation activities?

Yes. The resources needed to set up a separate system operator for sludge market functions may be disproportionate to the size of the market (sludge accounts for only 6% of all wholesale wastewater costs).

Q6: Do you agree with our proposals not to have any specific financial incentives to support trading in relation to sludge at this time?

Yes. The small scale of the market and the small proportion of sludge associated costs within wholesale wastewater could mean that financial incentives that are proportionate to sludge costs may not encourage WaSCs to trade with new entrants.

Water resources market design

Key points:

- We support a price control for water resources that should benefit all customers due to the potential new efficiencies that may be revealed from the information needed to set this new control.
- We support water resource wholesale charges set on an average cost basis, as de-averaging could lead to some customers seeing a bill increase with no discernible change in the service received.
- The market design should not deter or delay essential investment in water resources.
- The market design should ensure an exporting company does not put at risk the security of the supply to its customers by trading with another party.

Q7: Do you agree with our proposal to have a separate binding price control for water resources?

We believe the consultation makes a strong case for doing so. A separate binding price control for water should

- provide clear price signals and transparency around the cost of water resources;
- encourage potential new entrants to engage with the market;
- help increase transparency in water resource planning and optioneering;
- avoid deterring or delaying essential investment in water resources to benefit customers;
- and
- avoid de-averaging charges to customers.

It is also important that the reveal of cost information needed to create a price control leads to greater cost efficiencies that benefit all customers, not just those where the market may be active.

Additionally, as with the creation of a sludge market, the administrative cost to the incumbent companies from providing further information (a cost that may have to be eventually passed onto

customers) does not outweigh the customer benefits of the greater cost efficiencies that will be delivered as a result.

Q8: Do you agree with our proposal to implement an offset mechanism to ensure that entrants can recover the cost of new resources appropriately, while also ensuring that prices reflect average costs?

This is a sensible proposal as it could enable a ‘level playing field’ for new entrants and incumbent companies. De-averaging prices in the trading area could create winners and losers amongst customers, so we support the proposed ‘average cost’ approach.

We agree that there should be a mechanism to encourage new entrants to participate in the market. However, we would want assurance that the guidance for assessing bids (alongside other supply/demand options) includes appropriate consideration of the short and longer term impact on customers’ bills.

Q9: Do you agree with our proposals to create a market information database and bid assessment framework to allow for the ‘bidding in’ of third party resource options on an on-going basis?

The database would be useful in helping to resolve the lack of information that might affect the development of the market for water resources. We support the principle that the information required for the database should be consistent with the Water Resources Management Plans (WRMPs) processes and not be an unnecessary burden on participating companies.

If one of the aims is to increase transparency, we support the publication of information of bids (whether successful or not) and that there is a mandatory disclosure of bids.

Q10: Do you agree that a third party organisation may be best placed to manage the information database?

Yes. It can help with the transparency if the database is managed by an impartial third party. It could also manage payments between traders.

Q11: Do you agree that measures should be introduced to increase transparency and certainty around security of supply for water trading? How can this objective be best achieved?

Yes. This is a key point to ensure that companies are able to continue to provide the reliable and safe water supply that customers expect. The exporting company must be able to demonstrate that it can provide resilient supplies to customers, even though it is exporting some of its water. As a result, this should be reflected in the trading arrangements to ensure security of supply. We would be concerned if companies were to compromise the resilience and reliability of their water service in order to participate in the market.

Consideration should be given to how the market for water is explained and communicated to customers. Trust in the industry and what it aims to achieve with the market for water resources could be undermined if customers do not understand the potential benefits or mistrust the motivations of their water supplier. Customers may have strong feelings about water being taken out of ‘their’ area to increase supplies in another area, so there will need to be some appropriate messaging around these issues at national and individual company level.

Allocation of the RCV

Key points:

- We support the principle of applying a proportion of the RCV to sludge and water resources, but Ofwat needs to ensure that the percentage of the RCV allocated for water resources does not give incumbent companies or entrants a competitive advantage if the allocation is too high or too low.
- We support protecting investment in assets up to 2020, but question whether the proposed income guarantee for investors within the ‘network plus’ control could lead to customers paying for stranded assets in the future.

Q12: Do you agree with our rationale for allocating the RCV?

Yes, though Ofwat needs to avoid the risk of giving the incumbents an advantage in the new upstream markets by setting the allocations too high.

Q13: Do you agree with our proposal for allocating the RCV for sludge?

Yes. The proposed ‘focussed’ approach to allocating the RCV based on sludge asset values is logical for such a small part of the wholesale wastewater chain.

Q14: Do you agree with our proposal for allocating the RCV for water resources?

Yes. The ‘unfocussed’ approach (where a set % proportion of the RCV is allocated, rather than the value of individual incumbents water resource assets) is preferable because a focussed approach using asset values could lead to a greater amount of the RCV being allocated to water resources for some companies, and a small amount for others. A consistent RCV allocation across industry may help create a level playing field and avoid potential ‘winners and losers’ in terms of the customer bill impact from RCV based returns.

However, if this is set on the basis of the average percentage of water resource assets across industry, Ofwat will need to be mindful of the risk of creating uneven opportunities in the market (for example, if the percentage is too low, incumbent companies could have a competitive advantage in the market). We note that in due course Ofwat wishes to consult further on RCV allocations in more detail.

Q15: Do you agree with our proposal to address stranded asset risks by extending our commitment to protect efficient investment included in the RCV to 31 March 2020?

Q16: Do you agree with our assessment that there is no prospect for stranded assets due to the proposed form of control for sludge and water resources in the 2020-25 period?

We agree with the commitment to protect efficient investment included in RCVs up to when the new upstream markets will open.

However, companies are better placed to assess whether there is a risk of stranded assets in the 2020-25 period. We would be interested in seeing any evidence from incumbent companies of the risk of stranded assets after 2020 (and the potential customer bill impact this implies) in their responses to the Water 2020 consultation, when published in May 2016.

Q17: Do you agree with our proposed approach for an income guarantee recovered through the network plus control for protection against the risk of stranding, if a mechanism is required? How do you consider that such a mechanism could be designed to provide a simple, transparent ex ante mechanism that preserves incentives for efficiency?

We note Ofwat's intention to protect investors by giving them certainty as to the returns from assets paid for from their investment. However, we question whether this could lead to customers paying for a stranded asset, through the income guarantee to preserve shareholders' investment. The Water 2020 paper is unclear as to whether this is the effect of the mechanism for customers.

We have no comments on a detailed design for the mechanism, but agree that it should be created on principles of simplicity and transparency, and should encourage efficient investment.

Approach to access pricing

Key points:

- We support an approach to access prices for water resources based on an average cost to serve, as de-averaging could lead to some customers seeing a bill increase with no discernible service improvement in return.
- We agree that access prices for the sludge market should be based on a direct negotiation between trading parties.

Q18: In relation to water resources, do you agree with our proposals to implement an approach based on the average cost of providing 'network plus' activities?

Yes, as de-averaging could lead to 'winners and losers' with some customers possibly seeing bill increases as they are more expensive to serve.

Q19: In relation to access prices for water resources, do you agree with our proposal that water companies should be responsible for calculating and publishing these? Do you agree that they should be published by water resource zone, with network distribution and treatment costs separately identified?

Yes, as Ofwat will have determined companies' efficient costs, and this will enable companies to set access prices. However, we question how Ofwat will handle disputes over companies' access prices.

Making greater use of direct procurement for customers

Key points:

- We support greater use of direct procurement, if the cost of tendering is not disproportionate to the cost of the project.
- incumbent companies should be responsible for customer queries or complaints that relate to the third party's activities.

Q24: Do you agree with our proposals relating to the use of direct procurement on behalf of customers?

Yes. Major projects may be delivered (in terms of construction, operation and financing) more efficiently by a third party appointed after a tender process - if the cost of procurement is a reasonable proportion to the cost of the project. The tender process for the Thames Tideway Tunnel project revealed more efficient financing of this project than initially forecast.

However, the incumbent company should be responsible for handling any customer complaints or queries with regard to the third party's activities. This will provide an incentive to ensure the third party meets required standards of service.

Q25: Do you have any views on our specific proposal to set a £100m threshold above which point we would expect companies to procure at market on a standalone basis?

We question how many projects are likely to be subject to direct procurement above this threshold, and whether any analysis has been carried out by Ofwat on the cost of a tender process in proportion to the cost of the projects under different thresholds.

It is also unclear in the Water 2020 draft framework whether the incumbent's tender process and the evaluation of proposals would be overseen by Ofwat to ensure fairness and a level playing field.

2019 price control framework

Key points:

- Customers in Wales should see that the introduction of the new price controls leads to efficiencies and service performance that are comparable to the best performing companies in England - even in the absence of any new markets in Wales.
- We support continued use of the Weighted Average Cost of Capital, but would like to see Ofwat address the imbalance of risk between customers and investors that has led to over generosity and excessive returns in earlier price control periods.

Q26: Do you agree that our proposal for four binding wholesale price controls should apply to companies whose area is wholly or mainly in Wales, as well as to companies whose area is wholly or mainly in England?

Yes. We think that it is important that customers continue to see improvements in service quality and the benefits of greater efficiencies. Given that the Welsh Government is yet to move towards the markets that are being introduced in England, it is important that customers in Wales see that the introduction of these new price controls leads to efficiencies and service performance that is comparable to the best performing companies in England.

Q27: Do you agree with our initial view that the network plus controls for water and wastewater and the water resources controls should be total revenue controls?

Yes. This is consistent with the basis on which wholesale price controls were set at PR14.

Q28: Do you agree that future investment in relation to sludge treatment, disposal and transport should be exposed to volume risk and accordingly, what are your views regarding the appropriate form of control in this area?

We recognise that volumes in relation to sludge transport, treatment and disposal are uncertain, and this may be a risk to market participants. We agree that price controls for sludge should not include mechanisms to readjust revenues if such risks become reality, as this is a risk that market participants should carry, not customers.

Q29: In your view, how should new investments be remunerated in the sludge and water resources controls from 2020?

We agree setting a WACC is the preferable option as this is a familiar and 'tried and tested' regulatory approach for investor returns.

Q30: How can we best ensure that long term contracting arrangements are not disincentivised and that any continued application of a return on RCV approach for incumbents is on a level playing field with third party providers?

To help ensure that long term contracting arrangements are not disincentivised and required long term investment is not deferred, Ofwat would need to give incumbents and third parties clear signals that the regulation of the market will be stable. Demonstrating that five year price determinations are part of a longer term strategy may help with this.

Risk based price review

Key points:

- Regulatory scrutiny and intervention on the business plan should be proportionate to the quality of the evidence supporting it.
- 'Enhanced' status of a company should reflect the company's past performance and the level of customer satisfaction, as well as the quality of a company's business plan and the evidence supporting it.
- We agree that a five year price control should be part of a longer term strategy that a company has developed with its CCG using customer evidence.

Q31: Do you agree with our proposal to retain our 'risk based review' (RBR) approach for PR19?

Yes. We agree that regulatory scrutiny and intervention on a business plan should be proportionate to the plan's quality in terms of supporting evidence, particularly evidence of customers' views, proposed costs, efficiency, and the cost of capital.

Q32: Do you agree with our proposal to reflect current performance in our RBR assessment (and for CCGs to consider this as part of their report)?

Yes. We have stated in our response to the previous Water 2020 consultation, and in our review of PR14, that CCGs would benefit from receiving comparative performance data. This can inform CCG challenges (as reflected in CCG reports) and Ofwat's assessments.

We continue to question the value to customers of a financial incentive for the 'enhanced' status of business plans. Ofwat should be clear on how offering a payment under this incentive is beneficial to customers. In any future criteria for 'enhanced' status', we would like to see a consideration of

- a wider context of a company's performance against customer facing measures; and

- evidence of a high level of customer satisfaction with both service and value for money.

Q33: Do you agree that the RBR assessment should consider the extent to which business plans are part of a longer term plan?

Yes. Companies should show how their plan fits into a longer term strategy that has been influenced strongly by customer evidence and subject to scrutiny and challenge by CCGs. The long term strategy should focus on how companies will serve current and future customers in delivering safe, reliable water and wastewater service at a price that is acceptable to customers.

Assessing cost efficiency

Key points:

- We support improvements to the benchmarking of efficient costs. It is important that cost modelling is robust to give customers assurance that costs reflect efficient delivery of services.

Q34: Do you agree that the consideration of disaggregated cost models is appropriate given the price control structure proposed?

This is logical given that the price controls for the wholesale chain will be broken down further at PR19 (to network plus, water resources, sludge), with cost modelling needed to establish required revenue for each sub-price control.

Q35: Do you agree that the development of detailed cost allocation guidelines is appropriate?

Yes. The Competition and Markets Authority has highlighted the need to review how costs are allocated to improve the benchmarking needed to assure customers that costs reflect the efficient delivery of services. Providing companies with clear guidelines will be an important part of this process.

Encouraging a longer term approach

Key points:

- We support the use of a long term Strategic Direction Statement by companies, to show how a five year business plan is a milestone toward longer term outcomes. Long term strategies and five year plans should be underpinned by customer evidence.

Q36: Do you agree with our proposal to retain the current timings of our price controls - that is, not change the duration of wholesale price controls, not to stagger wholesale water and wastewater price controls and not to seek to further align the timing of controls with other planning processes?

Yes. We consider that the price setting process would be easier and more effective for companies and CCGs if there was greater alignment with the PR19 and Water Resource Management Plan processes.

We recognise that there may be risks in setting price controls beyond five years, as uncertain cost assumptions may require ‘true ups’ during a longer price control period, which could lead to revenue adjustments that affect the stability of customers’ bills. However it is important that

business plans and the resulting price determinations form part of a long term strategy, so that the five year price control is effectively a milestone toward the delivery of longer term outcomes.

Q37: Are there any other measures that could help encourage a longer term approach?

The PR19 methodology (and earlier drafts that are published for consultation) should emphasise how Ofwat will assess business plans in terms of how they fit into a company's longer term strategy (it's Strategic Direction Statement). Ofwat should also expect to see evidence that customers' views have been taken into account in the company strategy, and that CCGs have scrutinised and challenged both the strategy and the evidence used to develop it.

A more responsive regulatory framework

Key points:

- Further 'in period' revenue adjustments may reduce the risk of customer 'bill spikes' at the beginning of the following price control period, but could create instability for customers within the five year price control period.
- Companies could engage with customers to explore their views on what would be acceptable in terms of the bill impacts of various revenue adjustment options, whilst Ofwat could consider setting parameters to limit the bill impact of such adjustments.

Q38: Do you agree that we should amend the licence to allow for in period adjustments for some or all of the following - outcome delivery incentives (ODIs), revenues and cost sharing?

We recognise Ofwat's intention is to help reduce the risk of first year bill spikes resulting from the 'legacy' revenue adjustments and the payment of any ODI rewards. By allowing wholesale revenue adjustments to accommodate 'in period' ODIs or cost sharing incentives, along with revenue 'true ups', it may be possible to achieve a smoother bill profile for customers.

However we question whether allowing this should lead to instability for customers' bills during the price control period itself. While revenue adjustments are two way, upward revenue adjustments may lead to customers getting a higher bill than indicated at the final determinations, especially with the addition of inflation. This could lead to a reduction in customers' trust and confidence in the sector.

We would like to see Ofwat consider in period revenue adjustments within parameters that mitigate the potential bill impact. Mitigation could be via the timing of revenue adjustments during the period. Evidence of customers' views could also play a part in deciding the parameters and timing for in period adjustments, both by directly engaging with customers on this issue, or via an interpretation of evidence of customer satisfaction with value for money.

The indexation of future price controls (RPI verses CPI)

Key points:

- Some customers view the addition of inflation to charges as a mechanism that benefits companies at customers' expense. The water industry should be wary of considering inflation as an automatic addition to price limits that customers will accept. While CPI is historically a generally a more stable and lower index to RPI, the transition away from RPI is not straightforward and should not disadvantage customers. We consider that this transition needs to be in line with similar actions in other regulated sectors.

- In this context, we support Ofwat's intention to ensure the switch to CPI or CPI (H) has a neutral effect on bills.
- We agree that a gradual transition from RPI to CPI on company RCV's is preferable to help maintain stability for customers and investors. However, further evidence led discussion is needed to identify the appropriate pace of transition, and how the proportion of CPI indexed RCV can change over time.

Q39: Do you agree with our proposal to move to CPI (subject to the UKSA's final recommendations)?

We have found that customers can be aggravated and sometimes misled by the indexation of prices. Some customers view indexation as a mechanism that benefits companies at customers' expense. Customers can also be misled when future average bills are presented to them in real terms, when the annual addition of inflation could mean bill increases. This is a cause of some complaints to companies and CCWater.

The National Audit Office, in its review of the economic regulation of the water sector in 2015, also found that RPI was one of the drivers of excessive company returns during the 2010-15 period.

We await the UKSA's analysis on whether CPI or CPI (H) is more appropriate for regulated utilities. Historically, CPI has been lower and more stable than RPI, and this may benefit customers.

Q40: Do you agree with our proposal to implement a CPI based approach for both prices (revenue) and the RCV, subject to a transition process?

We agree that a gradual transition to CPI (or CPI-H) is preferable, particularly for how this index is applied to RCVs. A sudden switch to CPI on 100% of the RCV may be seen as risk by investors and price up the cost of capital to customers' detriment. However, we recognise that a gradual transition to CPI on company RCVs is not straightforward.

Many companies have long term RPI linked debt, and evidence shows that a CPI linked debt market is still in its infancy. We recognise that there is a lot more work to be done to understand the full consequences of this move, and welcome Ofwat's intention to conduct further analysis based on evidence of the impact on individual company's capital structures and through an exploration of investors' views. We would welcome further consultation on this analysis is complete.

Q41: Do you agree with our proposal to transition to CPI over time, both in terms of the overall method and the specific proportions of the RCV we are suggesting would remain indexed by RPI?

It is undoubtedly true that when inflation is high, it can aggravate customers as this can drive bill increases. CPI could help customers as it is historically lower than RPI.

However, such a change to the regulatory model is a risk that could have a short term impact on customers or company financeability (particularly smaller companies). Therefore we support a gradual transition and would like to see the pace of change, and the proportion of CPI indexed RCV that increases over time, managed in a way that minimises risk to customers' bills.

We note that Ofwat is seeking evidence from companies and investors on capital structures and how they can adapt to returns based on a CPI linked RCV. We would like to see Ofwat present this evidence and consult further after May 2016 on the proposed proportion of the RCV that will

be linked to CPI from 2020. We would also welcome an indication from Ofwat as to how other regulated industries are also moving toward CPI indexation.

Q42: Do you agree with our commitment to ensuring that any such change is value and bill neutral in NPV terms over time in nominal terms? What steps could be taken to make this commitment as credible as possible?

We support Ofwat's commitment to neutrality for customers, and would like to see more detailed proposals for the switch to CPI in future consultations measured against this commitment. The credibility of this commitment may be enhanced if Ofwat's analysis of capital structures and investors views gives a picture of the impact of different options for the percentage split between CPI and RPI on company RCVs (options that will drive the pace of transition to CPI).

Q43: Do you agree that we should calculate the RPI linked element of the RCV based on forecast RPI with a true up at the end of the period to protect companies from changes in the difference between RPI and CPI over the control period?

Previously, companies have carried the risk that actual RPI may differ from Ofwat's assumption of RPI applied to the RCV. By allowing an adjustment to accommodate the difference between assumed and actual RPI, we question whether this would have an impact on customers' bills, especially as only a portion of the RCV would be applied to CPI.

The level and balance of risk

Q44: To what extent does the current balance of risk and opportunities vary across the proposed wholesale controls and how does this impact on the cost of capital?

Q45: To what extent would our proposed market and incentive reforms impact on the balance of risk and opportunities and the cost of capital and would this vary across the proposed wholesale controls?

While these are questions for companies and their investors, who are better placed to identify risks that could price up the cost of capital, we have previously highlighted how risk has been over estimated to customers' detriment in the calculation of the equity beta within the Weighted Average Cost of Capital.

We note that Moody's have also raised concerns about the credit risk implied by Ofwat's Water 2020 proposals. The 'pricing up' of risk by investors can have a direct impact on customers' bills, so Ofwat should seek a balance between ensuring companies carry risk associated with their decisions, but without increasing the cost of capital to customers' detriment.

Customer engagement and CCGs

Key points:

- Customer engagement should be a daily company activity as they listen to and communicate with customers at operational and customer service levels. This knowledge of customers' expectations, combined with customer research and consultation on specific issues should lead to a 'pool' of evidence of customers' expectations and views for companies and CCGs to consider.
- We agree that there are weaknesses in the approach to WTP surveys and support an assessment of different techniques that can be used to improve it. The revealed

preference approach may have value, but such research should be part of a ‘suite’ of customer evidence. We would support any testing of revealed preference approaches by companies to explore how this could provide additional value.

- Companies should engage with customers on long term planning issues, exploring the balance between the needs and expectations of current and future customers, including price acceptability and the trade offs this may imply.
- CCGs need to be legitimate in customers’ eyes. Strong governance can help with this.
- We agree that CCGs should challenge the customer engagement carried out by companies, and how this evidence is used. The availability of comparative performance data will help CCGs in these challenges. But CCGs can add further value through a high level challenge of companies’ proposed costs if the ‘price tag’ of a business plan is found to be unacceptable to customers, or there is evidence that a company is comparatively inefficient or has proposed higher costs. However, this is a high level challenge that does not replace or replicate Ofwat’s work on setting efficient costs, but may reduce the level of Ofwat intervention needed.

Q46: What does good customer engagement look like? What are your views on our proposed principles? How can companies draw on good practice from within and outside the sector? How can companies make use of revealed preference techniques and information from their day to day interactions with customers to develop a richer set of evidence of customers’ needs and requirements?

Customer engagement should be a daily activity by companies, based on listening to and communicating with and informing customers so that a company can develop a picture of the diversity of customers’ views, and the effect on customer behaviour of different company activities or strategies.

There are several basic elements to customer engagement that should be part of a water company’s approach.

1. Statistically robust quantitative research

Companies would need to regularly use statistically robust research with representative samples of their customer base to find out about service expectations and priorities, and for some one-off projects at price reviews where additional information is needed to develop the plan. Our *Tide of Opinion*¹ research found that respondents expected companies to use independent research as the best way to reach a broad and representative understanding of views. Revealed preference approaches would provide valuable evidence of customers’ priorities.

2. Engaging hard to reach customers

Companies will also need to make a focused effort to engage with customers who are hard to reach, and in addition to going out to engage with those customers, companies must also make themselves accessible via a variety of channels. Hard to reach customers are likely to be offline or not have a landline, or have a vulnerability which means they are less inclined to engage proactively with water company information.

¹ CCWater [Tide of Opinion: the Customer Voice within the Price Setting process](#)

3. Consultative approach

Good customer engagement will mean there is a need to consult or research customers' views during specific projects or schemes as well as at price reviews. Our *Tide of Opinion* research² found customers particularly valued company consultations as they were '*seen to demonstrate a company's genuine intention to listen to customers*'; although the self-selecting nature of respondents was noted.

4. Qualitative research

The use of qualitative research on customer priorities can also be useful, if a more complex or in-depth topic is being discussed to enable customers to become informed and understand and reflect on the evidence they are being presented with.

These fundamental approaches can be supplemented by other innovative approaches to help deliver a rounded idea of customer views and preferences, and a greater 'pool' of evidence of views of different customer groups. The subject will dictate what is the most appropriate approach to take.

Ofwat's proposed reduction in the reliance on stated preference (WTP) survey based approaches and more emphasis on a richer set of evidence to genuinely understand customers' needs and requirements.

We agree that WTP has limitations. WTP surveys can be challenging for customers to engage with, and for CCGs to understand how the survey findings are translated into a numeric value of customers' priorities used in cost benefit analysis. We are planning to undertake further work to identify and evaluate alternative methods of exploring customers' priorities more effectively.

There needs to be an evaluation of customers' priorities to ensure there is evidence underpinning company proposals, and for this to be fed into companies' cost benefit analysis using both WTP and, where possible, revealed preference approaches.

We think there are two issues to consider when Ofwat and CCGs assess companies' WTP results:

1. how the companies input the results of WTP surveys into their cost benefit models. Working with CCGs, we will check that customers' priorities accurately translates into what is fed into companies' models and feeds into the outcome in the business plan.
2. how companies have used other sources of evidence of customer views to supplement the WTP findings. We agree with the need to encourage companies to develop a better understanding of their customers using a variety of techniques, and to cross-check their WTP results with other information they know about customers. This could reinforce the WTP findings, if other sources of evidence back up the customer priorities this has revealed, or could identify a flaw in the WTP results. Companies should engage with their CCGs through this process to allow opportunity to challenge. We believe the evidence on customer views needs to be triangulated in this way to see how findings from different engagement techniques add up to the bigger picture of customer views.

We agree that companies should continue to 'own' their research programmes, to encourage innovation, and are not arguing for a move away from this. However, Ofwat and CCGs need assurance from companies that the numeric values used in cost benefit analysis reflects customer evidence.

² CCWater [Tide of Opinion: the Customer Voice within the Price Setting process](#)

Ofwat's principle that good quality customer engagement also involves understanding and responding to the distinct needs and requirement of different types of customers.

We agree with this principle.

An example of customer engagement revealing the diversity of views among customer groups, our *Using Water Wisely*³ research showed that customers have different perspectives, due to their lifestyle, values and attitudes; and required different approaches to engage them on saving water.

Companies will need to understand the different motivations and perspectives of their customers in order to meet their needs and expectations.

Ofwat's principle that good quality customer engagement will involve informing and engaging customers on longer term issues to underpin policy development and business planning and the flip side which is about informing customers about service options which will benefit them to know about e.g. social tariffs, meter options.

Companies routinely deal with customer enquiries and contacts, and this should help build a picture of current customers' views and expectations. Our *Information on Stream*⁴ research takes this day to day interaction to another level. It shows where companies need to bridge the gap and understand their customer base so that they can target information to customers who are most likely to benefit (without the customer having to know to ask about the 'unknown' issue). This is achieved by companies segmenting their customers as other highly competitive consumer focussed businesses would.

In terms of engaging on longer term issues, we agree that customer input is needed to shape the debate around the resilience of our water and wastewater services, now and in the future.

Companies will need to engage with customers about long-term planning issues, and address intergenerational fairness; so customers understand and support the cases where it is necessary to pay now for assets their children or grandchildren will benefit from. Our work later this year on alternatives to WTP will explore this question of longer term inter-generational priorities. We will work within CCGs to ensure that companies' long term strategic plans reflect such evidence.

Ofwat principle that customer engagement should be a continual and on-going process of learning and responding that affects decision making at all level of the business

We agree with this principle.

Away from 'bespoke' customer research and consultation, companies interact with their customers on a daily basis, and it is important that companies use this communication to understand customers' expectations and respond accordingly with a continual improvement of the service provided. Greater customer trust and confidence can be achieved if companies act upon evidence of customers views. This culture of engagement, learning and responding to customers should be reflected in all levels of the company up to and including the Board. Evidence of customer views should shape the company strategy at Board level, as well as responding to customers' needs at an operational or customer service level.

Ofwat principle on Involving customers in service delivery

We agree where this is appropriate.

³ CCWater [Using Water Wisely](#)

⁴ CCWater [Information on Stream](#)

How could companies draw on good practice from within and outside the sector?

CCWater/Ofwat/industry or joint workshops to share good practice from within and outside the sector would allow companies to learn from each other and from outside the sector - where appropriate.

For example, CWater with Water UK, Ofwat and the Consultation Institute are planning a ‘good practice in customer engagement’ workshop in spring 2016. Good practice from within the industry will be shared, and the workshop will include at least one speaker from outside the industry to share techniques that could cross over to the water industry.

We plan to do more work on sharing good practice in response to requests from the industry. This could be through workshops, reports and conference work.

How can companies make use of revealed preference techniques and information obtained in their day-to-day interactions with customers to develop a richer set of evidence of customers’ needs and requirements?

We believe revealed preference can be useful evidence of customer priorities and behaviour. We support the testing of different approaches, such as revealed preference, to explore how this approach can add value to other available evidence of customers’ priorities, and how it can be used to present different choices of service/performance levels to give customers the ability to make choices and trade offs. Revealed preference could also allow companies to understand how customers may react when offered different service levels. The handling of the tests of differential service levels in a monopoly industry would need consideration.

Q47: What are your views in relation to our proposals on the future remit of CCGs; scope, timetable, governance arrangements and membership? In relation to the quality of a company’s customer engagement, do you agree with our list of issues that should be covered in a CCG’s report? What are your views on the division of responsibilities between Ofwat and CCGs?

Remit

It is important that CCGs are seen to be legitimate, as these groups should represent customers’ interests and challenge companies’ to respond to evidence of customers’ views on this basis.

We agree partly with the suggestion on remit, but believe it misses an important element of what the CCGs remit should be.

We agree that is for the CCG to:

- challenge the company;
- provide assurance on quality of customer engagement; and
- the extent to which results are driving decision making and are reflected in the company’s plan.

CCGs could also add value to Ofwat’s cost challenges by

- asking the company to demonstrate the relative value for money for each option they consider by showing how the cost compares to the benefits.
- if customer research on the acceptability of the plan reveals that a significant proportion of customers (or particular customer groups) find the proposed prices unacceptable or unaffordable, the CCG should challenge the company to address this, possibly by increasing cost efficiency or spreading cost recovery further.

- using any available Ofwat evidence of the company’s past performance in terms of cost efficiency to deliver a high level challenge. For example, if a company is relatively inefficient in terms of its past performance, a CCG could challenge a company to demonstrate how it is going to improve.

We do not suggest that the CCGs would have the expertise or the data on comparative efficient costs to replicate Ofwat’s cost challenges. However, there could be a role for the CCG to question the company when costs seem high, or if customer acceptability of the prices proposed in the plan is low. CCG’s could be making a high level challenge on costs, which may act as a precursor to Ofwat’s more forensic cost assessment and possible interventions later in the process. In this scenario, it is important that CCGs also consider the supporting evidence to justify both the overall outcome the company wishes to achieve, as well as evidence supporting the options for delivering it.

We also agree with the suggestion that CCGs should be challenging companies on the development and execution of their customer engagement strategies from now on. This is particularly important in light of the need to continuously engage customers and use the results of those on-going engagement pieces to influence work on priorities.

Through the PR14 process, CCWater’s CCG members acted as experts on customer engagement and added further value with information on areas of companies’ comparative performance, which helped to inform CCG challenges. We would like to see Ofwat’s guidance to CCGs recognise the importance of member organisations sharing their expertise and knowledge, and inform and improve the quality of the group’s challenges to the company. CCWater is able to provide useful comparative information on companies’ operational and customer service performance.

Timetable

CCGs should submit their report a week or two after the company submits their final plan to Ofwat. The company should be required to submit their final business plan to the CCG at the same time as its submission to Ofwat, to allow the CCG to make final checks before issuing their report.

We agree with Ofwat’s view that an early signal that a second CCG report would be needed if companies do not achieve ‘enhanced’ status for their plan.

Membership

We agree that it is not necessary to prescribe a list of organisations that should be on the CCGs, given the difficulties some organisations had in committing to the large number of CCG meetings required during the price review.

We agree CCWater should be represented on the group. We found this is what customers expected during our *A Tide of Opinion: the Customer Voice within the Price Setting process*^[1] research. The findings said “all [respondents] believe they [CCWater] should have a key role to play in the business planning process as the industry’s ‘customer watchdog’”. This role was expected both within the CCGs and, separately, directly by CCWater with each water company.

Our research also found that customers had other expectations on who should be on the groups:

- Customers and community representatives wanted to see a broad membership on committees or groups that can represent customers, with participation expected from both **industry experts and consumer champions**.

[1] CCWater [Tide of Opinion: the Customer Voice within the Price Setting process](#)

- Respondents were asked to consider who would be an ‘industry expert’ as part of a CCG. These were described as specialists who did not work for the water company but who had professional knowledge linked to the water industry e.g. Drinking Water Inspectorate, Environment Agency, Natural Resources Wales, local government, NHS, academics, scientists, and engineers.
- Respondents were asked to consider who would be a ‘professional customer champion’ as part of a CCG. These were described as people who as part of their professional work have an insight into the views of customers, and often specific groups of vulnerable customers, for example the Consumer Council for Water, Citizens Advice Bureau (CAB), Age UK, Consumer Futures, National Farmers Union/Farmers Union Wales and parish councillors. It is important that business customers are appropriately represented in the groups.

Gaining other organisations input

In terms of managing the input of organisations that are not able to commit to the full meeting cycle, there could be other ways to gain their input:

- Invite them onto a sub-group created to cover their area of specialism;
- Invite the organisation to main CCG meetings, but only when there is a relevant agenda item (e.g. the Drinking Water Inspectorate is present when drinking water quality issues are considered).
- Allow those organisations to adopt an occasional attendance approach thereby having a closer involvement with the groups dealing with companies that have the biggest or more challenging issues to address within their area of specialism.

Access to the Board

We agree that the CCG Chair should have regular access to the company’s Board.

Access to the Board should be conducted in a transparent way, which would include:

- updating the CCG on planned meetings and sharing meeting agendas in advance;
- reporting back after they have taken place; and
- noting the meetings and topics discussed on the CCG’s public website.

The communication lines and the feedback mechanism between CCG and a company’s board should be described in the terms of reference established by the group and its Chair and reviewed annually.

Governance arrangements

We strongly support the need for transparency about CCG funding and governance arrangements; and the encouragement to publish notes of meetings, and information received from companies.

We believe CCGs should improve their governance arrangements from their PR14 arrangements, and our views below have been developed using customers’ views from our *Tide of Opinion*^[2] research.

Based on this research, CCGs governance arrangements should include:

- Each CCG publishing **Terms of Reference**.
- A **formal, transparent, open, appointment process** for the Chair’s post.

^[2] CCWater [Tide of Opinion: the Customer Voice within the Price Setting process](#)

- **Periodic refreshing of the membership** - to ensure fresh voices come into the process over time.

In relation to the quality of a company's customer engagement, do you agree with the consultation's list of issues that should be covered by the CCG report?

We agree that the answers to the questions^[3] Ofwat has suggested should be included in a CCG report.

As mentioned earlier, CCGs can have a broader role in challenging at a high level the customer acceptability of proposed prices in the business plan. CCGs could add value to Ofwat's cost challenges if they have already made such local challenges - but at a high level and without duplicating Ofwat's role (as CCGs would not have the expertise or the data on comparative efficient costs to imitate Ofwat's cost challenges). CCGs can question the company when costs seem high, or if customer acceptability of the plan is low, which may be based on bill impact factors.

We agree that CCGs should be able to note outstanding issues of disagreement with the companies and strongly agree they should not be expected to 'endorse' the plan. To inform a CCG report accurately minutes of CCG meetings should record collective agreements but also dissenting views.

It would add value to the process if the CCGs were given the chance of greater interface with Ofwat. When the CCG has a query about what it is being told by a water company, being able to test their thinking with Ofwat could help resolve the query or allow a problem to be highlighted early with Ofwat and potentially allow some early 'deep dives' for large scale issues.

What are your views on the division of responsibilities between CCGs and Ofwat?

We generally agree that Ofwat has properly judged the division of responsibilities between itself and the CCGs. Ofwat is better equipped to judge efficient costs using its comparability tools; and has the capacity to assess cost of capital, which the local CCG would not have.

However, the CCGs will need to have within their remit, the inclusion of a role to challenge the price acceptability of a business plan (based on customer evidence), as well as recognition that a CCG can challenge companies to demonstrate the cost/benefits of different options for delivering required outcomes by demonstrating the costs of each option compared to the benefits.

CCWater will nationally also consider the evidence around the cost of capital, to inform Ofwat's thinking.

Q48: What are your views on our proposal to facilitate more collaboration between CCGs? What are your views on our aspiration to publish information on the WACC and outcome RoRE ranges early on? Without inserting ourselves between companies and their customers, what else can we do to incentivise good quality customer engagement?

We agree with the need to increase collaboration between the CCG chairs to share good practice and to bolster independence. We are happy to help facilitate this if the current arrangements need additional support.

We agree that CCG chair workshops should start earlier in the process, and would like to see key points (useful to all CCG Chairs and members) published to help increase the take up of good practice and useful information.

^[3] Water 2020: Regulatory framework for wholesale markets and the 2019 price review- pg 150.

What are your views on our aspiration to publish information on the WACC and outcome RoRE ranges early?

Publishing Information

We welcome Ofwat publishing a table to show how each company is performing against its commitments. While companies should be sharing this information with its CCG anyway, it will allow CCGs to compare relative performance of other companies.

It would be helpful if Ofwat grouped performance commitments into:

- Those that are comparable
- Sub-groups where only a few (maybe 5-6) are comparable
- The rest that do not have a comparator.

CCGs will also find CCWater's comparative reports such as *Delving into Water*; *Complaints and Water Matters* helpful to assess how their company is doing compared to others.

Early WACC and RoRE

We welcome the aspiration to publish the WACC range earlier in the process, as this may discourage companies from over-inflating proposed costs in the business plan

In our PR14 review document - [A Step in the Right Direction](#), we said:

- Too early could be advantageous to companies, as they might not challenge themselves to deliver on a lower cost of capital.
- Too late would mean CCGs could not use it to challenge companies in their discussions with them.

We welcome further industry debate on the most appropriate timing.

Without inserting ourselves between companies and their customers, what else could we do to incentivise and encourage good quality customer engagement?

- Praise where there are examples of good practice.
- Share examples of good practice.
- Reflect on good practice in other sectors.
- In terms of incentivising it, where there is evidence of good customer engagement in the development of business plans, this should be a factor in attaining 'enhanced' status for the plan.

As mentioned earlier, CCWater is holding a joint workshop on customer engagement with Water UK, Ofwat and the Consultation Institute. This is one way to address bullet points 2 and 3.

Outcomes

Key points:

- Five year ODIs should be a milestone toward a longer term outcome, particularly in areas of service that are affected by long term challenges such as resilience.

- We support mandating long term ODIs on improving customer satisfaction with service and value for money, as this could drive a range of improvements by companies to benefit customers.
- Greater consistency in some of the ODI measures applied to all companies could improve performance targets (through challenges based on comparative analysis) and increase transparency. We welcome further consultation in 2016 on the appropriate customer facing measures that should be applied consistently.

Q49: How can the outcomes framework encourage a longer term approach? Should we encourage or even mandate that certain measures - for example asset health - span more than a single regulatory control?

In our responses to several of the questions in the consultation paper we have supported the principle of business plans and resulting price determinations being a five year instalment of a longer term strategy. To help make this happen, the performance commitments in ODIs should be milestones towards a long term outcome.

We would support a mandate to provide a longer term ODI for areas of performance that are related to long term challenges such as climate change and population growth (e.g. asset resilience, sewer flooding, leakage), though companies may develop long term strategies for all areas of performance.

Mandating long term ODIs relating to customer satisfaction with both the service received and value for money could drive a range of improvements over a long period.

Companies would need to explore customer views on what they consider to be priorities for the long term reliability and security of water and wastewater services, and use this evidence with performance data and 'external' evidence (such as population growth estimates) to design long term strategies to address these priorities. CCGs should be the platform for the proposed strategies and the evidence underpinning them to be scrutinised and challenged.

Q50: What are your views on the proposed contents of our November 2016 consultation on outcomes (balance of bespoke versus comparative measures, and role of comparative information)?

We welcome Ofwat's intention to consult further on this. We have previously raised concerns that the diversity of ODIs, while reflective of local customer priorities, has reduced the level of comparability in company performance. Comparability can be beneficial for customers in that CCWater, CCGs and others can challenge a company in the context of how their performance in some areas compares with others. Greater comparability also improves the transparency of the industry to external commentators, showing both industry performance and company's performance in the context of the industry rather than in isolation.

There needs to be dialogue across industry to identify which measures should be common and comparable. Ofwat has already partly moved toward this with six areas of performance included in the PR14 horizontal review of ODIs. We would like to see customer facing areas of service subject to comparative measures. This may increase the credibility of the industry if customers can see that areas of service that are of most value (or are most visible to customers) are subject to comparative analysis to drive poor performing companies to improve. However, we recognise that given the diversity of customer views at local level, there will need to be bespoke ODIs that reflect areas of service that may be of concern to an individual company's customers only.

Q51: What are your views on our proposal that companies submit the definitions - but not the targets or any associated incentives - for their performance commitments to us in early 2018 before they submit their business plans?

We support this as it may help CCGs and others to challenge more effectively by breaking down the development of ODIs into different stages. Once the appropriate measures have been identified and agreed, CCGs can then move on to performance targets and incentives. This pacing of the process may be easier for CCGs and lead to more effective challenges.

Q52: What are your view on our proposal for a licence modification to allow for the in period payment of outcome delivery rewards and penalties?

We agree that a licence change will be needed to facilitate further in period revenue adjustments. Our views on allowing in period revenue adjustments can be found in our answer to question 38.

Timescales

Q53: Do you agree with our summary of potential licence changes and the process for achieving them?

Yes, as they are licence changes that will facilitate the Water 2020 proposals if they move forward. The process appears to fit in with upstream market development and the draft timetable for the 2019 price review.

Q54: Do you agree with the next steps for establishing the necessary data for the 2019 price review?

We recognise that companies will need to submit new or more detailed data to meet the Water 2020 requirements in terms of setting upstream wholesale price controls. The next steps set out by Ofwat appear logical though it is for companies to identify if this is practical.

Q55: Do you agree with the indicative timetable for the Water 2020 programme?

The timetable after the announcement of the PR19 methodology to the business plan submission and CCG report looks daunting with only six months between the two. Early signals on key parts of the methodology would help this process.

Engagement with the CCG on how the company's (on-going) customer engagement will feed into business plans and outcomes/performance commitments will have to begin well in advance of the methodology being announced.

We would also expect companies to include engagement related to their WRMPs in their discussions with their CCG as this forms an essential part of their business planning.

While Ofwat say that there will be another chance of engagement after the risk based review, this is for companies who don't get 'enhanced' status for the business plan. It is surely better to for companies try and get it right first time round.

Enquiries

Enquiries about this consultation response and requests for further information should be addressed to:

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