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

Dŵr Cymru Consultation Response

February 2016

Sludge treatment, transport and disposal market design

1. **Do you agree with our proposal to have one separate binding price control for sludge treatment, transport and disposal?**
    - We support the proposals to facilitate the development of sludge markets in principle. Having established modern sludge treatment facilities, we may be in a position to provide a service to others for the benefit of our customers.
    - However, we believe that the benefits of wider markets could be achieved without creating a separate price control. A separate price control has a number of disadvantages, as set out below. Furthermore, without knowing how the price control will work, it is not possible to weigh up the overall costs and benefits.
    - The introduction of Totex already incentivizes companies to seek lowest whole life cost solutions and puts third party solutions on a level playing field with internal options. Simply requiring companies to demonstrate in Business Plans the consideration of a full range of solutions, including the various third party arrangements would appear to be a simpler step, at least in the first instance, that would enable the benefits sought with the necessity for a separate price control.
    - It is true that a separate price control can help increase focus on and understanding of costs in the sludge treatment, transport and disposal business. However, we think that these benefits can equally be achieved with complete and robust accounting separation.
    - Since customers do not directly pay for a "sludge service", there is no existing transaction to which a price control could be directly applied. It is possible that the extra complexity that would be necessary in order to "manufacture" a price control would add costs that would not be worthwhile.
    - The incentives for companies to consider decisions in sewage treatment and network management 'in the round', for the best interests of customers, may be weakened by a separation of price controls.
    - As further points for consideration:
        - Value in sludge is not inherent; rather it is created through the activities and costs associated with sewage treatment, sludge dewatering and transport to concentrate tonnages in locations such that cost effective energy recovery, ahead of disposal or recycling, can be undertaken. There would need to be a way of reflecting upstream activities and costs (e.g. trade effluent control, sewage treatment, sludge dewatering, sludge transport etc) in the prices charged/offered for sludge at the 'gate'.
        - If a separate price control for sludge is created, we believe that the treatment of sludge liquors should be included in this. This means that a sound basis for

determining the relevant price would be needed. The Mogden formula is not suitable for this purpose.

2. **Do you agree with our proposal to make a range of cost, price, capacity and location information available to facilitate the identification of traders? Do you agree that the data should be published on a STC and STW site level? Do you agree that the data should be published annually? Do you agree with categories of data that we are proposing are necessary and appropriate, as illustrated in the tables? Are any missing?**
    - We agree that the provision of information can help to expose potential gains from trade and facilitate the development of the market. The key question will be how much data is appropriate and at what level.
    - We have over 800 STWs, some of which are very small and do not have a power supply to them. The costs of putting in place systems for collecting information from them all would therefore be significant. We would instead suggest an incremental approach, which starts with a more limited and manageable amount of data being requested. This could then be reviewed as the market develops and further information requirements added if a case could be made that it would be beneficial.
    - Sludge from most of our smaller STWs are transported to central thickening centres and from then on to STCs. Rather than requiring data from all STWs, our preference would be to provide data from the last processing point before arrival at STCs, which would number some 36.
    - Annual returns of data is probably the right frequency for data collection, at least to begin with. Capacity and volumes fluctuate significantly during the year, so this should be reflected in the data provided.
3. **Do you agree that the information should also contain details of 'bids' in from third party providers, and that there should be guidelines for ensuring that such bids are assessed on a level playing field basis?**
    - Yes, we agree that the information should contain details of 'bids'. Regarding the guidelines, this is a sound proposal in principle, but any such guidelines would need to take into account a range of considerations that must be weighted up by an undertaker when deciding where its sludge should be treated. Careful work would be required around the detailed design of the guidelines to ensure that only genuinely viable bids were positively assessed.
4. **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 might best be managed?**
    - No, we do not think that it would be necessary to create a centralised information platform. We suggest that annual publication of data by companies would be sufficient as well as being simpler and cheaper solution.
5. **Do you agree with our proposal not to make any change to the status quo in relation to system operation activities?**
    - Yes.

6. **Do you agree with our proposal not to have any specific financial incentives to support trading in relation to sludge at this time?**

    - Yes we agree that specific financial incentives will not be necessary at this time. The nature of markets mean that companies will only do trades that are cost beneficial.

Water resources market design

7. **Do you agree with our proposal to have a separate binding price control for water resources?**

    - We are in favour of the proposals to extend water trading and encourage the development of markets for the provision of water resources.
    - While bilateral markets, as defined in the consultation document, do not apply for companies wholly or mainly in Wales, we continue to believe that seeking opportunities for trading between undertakers offers potential benefits for our customers. We are already the largest net exporter of water in the UK, and we hope that our Water Trading and Procurement Code will become the first to be approved by Ofwat later this month.
    - We do believe that existing as well as new trades should be considered as part of any revised approach to the pricing of water, in order to avoid distortions and inefficiencies in the market.
    - As for sludge activities, we do not believe that a separate price control is necessary to produce the expected benefits of extending water trading. We believe that robust accounting separation of water resources is more appropriate . A separate price control has a number of disadvantages that must be weighed against any specific benefits. In particular:
        - Since customers do not directly pay for a “water resource service”, there is no existing transaction to which a price control could be directly applied. It is possible that the extra complexity that would be necessary in order to “manufacture” a price control would add costs that would not be worthwhile.
        - The incentives for companies to consider decisions in water resources and network management ‘in the round’, for the best interests of customers, may be weakened by a separation of price controls.

8. **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?**

    - Yes, we agree in principle, subject to due consideration of the detail.

9. **Do you agree with our proposal to create a market information database and bid assessment framework to allow for the ‘bidding in’ of third party resource options on an ongoing basis- as set out in the Deloitte report?**

    - We see no need for the creation of a centralised market information database, as long as companies publish the information in a consistent format. We already do this as part of the Water Resource Management Plan.

10. **Do you agree that a third party organization may be best placed to manage the information database?**

- We believe it would be cheaper to impose obligations on companies to publish certain information on their websites, rather than incur the additional costs associated with the creation of an intermediate step. Evidence from other markets suggests that where there is a demand for a centralised market information platform, it will be developed and run by third parties.

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

- We support the further exploration of the ideas listed for increasing transparency and certainty around water trading, including addressing the issue of security of supply, especially in light of an uncertain future under climate change. Importers are likely to be cautious in their due diligence and expect robust analysis of security of supply not only in terms of quantity but other levels of service risk given the ever increasing levels of service offered to customers.

Allocation of the RCV

12. Do you agree with our rationale for allocating the RCV?

- If there is to be a binding price control for water resources and/or sludge then a method for allocation of the RCV will be required. However, as noted above, the case for separate price controls would need to be made.

13. Do you agree with our proposed approach for allocating the RCV for sludge?

- Yes. A focused approach is appropriate. However, based on experience at PR09, a clear MEAV methodology is needed to ensure a level playing field.

14. Do you agree with our proposed approach for allocating the RCV for water resources?

- Yes. An unfocused approach is appropriate. However, based on experience at PR09, a clear MEAV methodology is needed to ensure a level playing field.

RCV protection

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

- Yes, we welcome this commitment as it gives certainty and clarity to our investors and customers for the remainder of the current AMP. However, it will be necessary to examine the exact mechanisms by which Ofwat intends to achieve this objective.

16. 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 for the 2020-25 period?

- Existing RCV is protected, however there is no protection for new investment post-2020.

17. Do you agree with our proposed approach of 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, largely ex ante mechanism that preserves incentives for efficiency?

- Yes, we agree that an income guarantee recovered through the network plus control would be an effective way of remunerating stranded assets. However, as noted above, such a mechanism would only be required if there is a separate price control, and we do not believe this is necessary. In fact, the need for such a mechanism illustrates the complications introduced by having a separate price control.

Access pricing

18. **In relation to water resources, do you agree with our proposal to implement an approach based on the average cost of providing 'network plus' activities?**

    - In principle we have no objection to the proposed outline approach. However, it will be necessary to examine the detail of Ofwat's proposals in order to give a more informed view. Further, whatever approach Ofwat promotes, it is essential that it takes an approach that is consistent across all of its price regulation functions. It would be no good, for example, if the regulator adopted one approach for access pricing and another for its determination of pricing disputes (e.g. access, bulk supply, and section 56 cases).

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

    - Yes, we calculate these at the moment, and believe we are in the best position to continue to do so.

20. **In relation to water resources, do you agree with our proposal to implement a mechanism that offsets the difference between LRIC (or potentially the AIC in the absence of LRIC data) of new resources and the prevailing average cost of resources?**

    - Yes, we agree in principle.

21. **Do you further agree that it is the incumbent's, rather than the entrant's LRIC, that should form the basis of the payment, to provide a stronger incentive for entry?**

    - We would note that there is a trade-off between providing benefits to customers (from lower costs), and providing incentives for entry (from higher prices). On balance, we believe the entrant's LRIC should form the basis of the payment.

22. **In relation to sludge, do you agree that price and non-price terms should be the outcome of the commercial negotiation, supported by the cost or price and capacity information previously set out?**

    - Yes.

23. **Do you support our proposal to develop high-level guidelines as to how rival offers in relation to sludge treatment, transport and disposal should be evaluated?**

    - Yes, but as noted above, there are a number of factors (other than price) that will need to be taken into account by the incumbent in deciding whether to accept an offer from another company or a third party. Any such guidelines will need to strike the right balance between reflecting all of these factors appropriately, and not becoming overly prescriptive.

Direct procurement for customers

24. Do you agree with our proposal relating to the use of direct procurement on behalf of customers?

- Delivery of our major schemes are already outsourced through a competitive tendering process, but we believe that valuable lessons may be learnt from the experience of the Thames Tideway, and applied more broadly in the sector.

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

- We believe that this is an appropriate threshold, but believe that other factors, such as the degree to which the scheme is integrated with existing infrastructure, should be taken into account also.

Form of controls

26. **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 believe it is appropriate that the proposals on price controls should where possible apply equally to companies whose area is wholly or mainly in Wales. This would allow us to continue to work on the same basis as the English companies, which has the benefit of facilitating continued comparability and benchmarking.
    - However, as stated above, we are not convinced that it is necessary to have a separate binding price control for water resources and for sludge in order to achieve the stated objectives of improving efficiency and further developing market activity in these areas.

27. **Do you agree with our initial view that the network price controls for water and wastewater and the water resources controls should be total revenue controls?**

    - Ofwat introduced total revenue controls at PR14. We believe there may be merit in seeing how they perform in relation to Ofwat's objectives, before committing to continuing them at PR19.

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

    - Our preferred approach would be to have a revenue control for sludge (if the proposal to have a separate price control for sludge is pursued, but see our reservations on this above), and postpone the volume risk element until 2025. This would enable companies to focus on achieving the benefits of efficient procurement, and removes any disincentives to trade.

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

    - If there are to be separate price controls for sludge and water resources (see our reservations above), we believe these should be based on a return on RCV.

30. **How can we best ensure that long-term contracting arrangements are not dis-incentivised- and that any continued application of a return on RCV approach for incumbents is on a level playing field with third party providers?**

    - We would note that a return on efficiently procured RCV is an approach which delivers good value for customers. It would not be of benefit to customers to reduce the efficiency of this approach in order to increase the incentives for new entrants to the market.

Risk based review

31. **Do you agree with our proposal to retain our RBR approach for PR19?**
    - Yes, we believe that this approach was helpful in PR14 and would welcome its continuation.
32. **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?)**
    - We believe that the main focus of the RBR assessment should continue to be the quality of the Business Plan, including the degree to which it takes customer views into account. Current performance should be taken into consideration only to the extent to which it undermines the credibility of the company in relation to commitments made to customers.
33. **Do you agree that the RBR assessment should consider the extent to which the business plans are part of a longer term plan?**
    - Yes, we agree.

Assessing cost efficiency

34. **Do you agree that the consideration of disaggregated cost models is appropriate given the price control structure?**
    - Yes, given the difficulty producing whole service totex models, it is sensible to consider disaggregated cost models.
    - The formation of a benchmark level of expenditure will need to be carefully considered. In particular, there will need to be careful consideration of how the outputs of the models are used. Due to the different circumstances that companies face they may have implemented different solutions to resolve issues. For illustration, take three companies who have chosen the most cost effective solution for themselves to supply an increase in demand. One company may have extended a resource, another increased capacity in a treatment works and another improved network resilience. When the companies are compared in disaggregated modelling, the costs of the schemes would fall into a different disaggregated model for each company and lead to a different view of "inefficiency" from each model despite the fact that the solution was an efficient solution for each company. Combining the models to give an "efficient" frontier would led to an infeasible frontier for all three companies. In fact, the potential for arriving at infeasible frontiers through disaggregated modelling means that it is more important than ever to have a full framework in place to explore reasons for differences between submitted plans and the output of the models other than attributing it solely to efficiency.
    - The use of deep-dives to examine evidence for levels of expenditure not captured in the modelling process – such as exceptional maintenance, enhancement expenditure, effects of differing levels of performance commitments and cost effects of factors outside management control - was a sensible addition to the limitations of econometric modelling and should be used again. A framework and process that makes clear the level of evidence required to support the deep-dive process would make this an efficient and cost effective method of arriving at an appropriate assessment of costs.

35. Do you agree that the development of detailed cost allocation guidelines is appropriate?

- Yes. It is equally important to have clear definitions for any data collected to inform the cost assessments to ensure that like-for-like comparisons are made.

Consultation questions- price controls

36. 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 seek to further align the timing of controls with other planning processes?

- Yes we agree. We would, however, urge further consideration of the proposal of rolling 5-year price reviews, as outlined in our submission to the 'marketplace for ideas' in the future.

37. Are there any other measures, not considered above that could help to encourage a longer-term approach?

- We have no additional suggestions at this time.

In-period adjustment

38. **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, revenues and cost sharing?**

    - Yes, we are in agreement that licence amendments would be required if the proposals were implemented. We agree that in-period adjustments for ODIs can help make the regulatory system more responsive and current for customers, but they would only be appropriate for some of the ODIs. In relation to cost-sharing, it is only appropriate to do this at the end of the 5-year period. (One of the benefits of our proposal to introduce rolling 5-year price reviews is that it would allow these to be reviewed annually).

Indexation

39. **Do you agree with our proposal to move to CPI (subject to the UKSA's final recommendations)?**

    - We understand the technical weaknesses in the RPI measure of inflation, and support Ofwat's exploration of alternatives for regulatory purposes. We believe that any such change should be a 'once in a generation' change, to provide the stability and certainty that investors expect, particularly given the long-term nature of this industry. It is therefore important that an appropriate and enduring measure of inflation is chosen, and it is not clear at this point that CPI will emerge as the best measure. We would therefore urge caution in making the transition before a stable consensus on the best long-term measure of inflation has been reached.

40. **Do you agree with our proposal to implement a CPI based approach for both revenues (prices) and the RCV, subject to a transition process?**

    - We agree that prices should be adjusted using a measure of inflation that is meaningful to customers.
    - RPI indexation of the RCV is a positive feature of the regulatory system. As a consequence, this has attracted investors looking to hedge their RPI liabilities (eg pension schemes). Whilst in principle, we are not opposed to moving to CPI indexation of the RCV, the transition needs to be over a longer period. We would prefer RPI indexation of the 2020 RCV is maintained in perpetuity and CPI indexation applying to new RCV created post-2020.
    - For totex (and hence revenues), it is important that the actual cost pressures are taken into account, rather than defaulting to a single measure of inflation.

41. **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?**

    - We are concerned that moving immediately to 50% CPI-linked indexation of the RCV would increase our costs of capital. There is a deep and liquid market for RPI-linked debt, and it will take time for the CPI-linked debt market to develop in the same way. There remains a great deal of uncertainty around the nascent markets for CPI-linked debt or, to put it another way, there is a lack of evidence that CPI-linked debt markets will be able to provide the requisite capital at the low rates currently available for RPI-linked debt.

- Whilst we agree that there is some evidence of demand from pension funds for CPI linked debt, both the CPI bond and swap markets are embryonic.

- **CPI Bonds** – there have been three issues to date nominally raising some £450 million of long dated CPI debt. We would note that:

  (a) for two of the issues – Warrington Borough Council (£150m) and Charm Finance plc (£100m) that £100 million and £30 million of the issues respectively were unable to be sold and "retained" by the issuer. We understand from a major UK capital markets bank that this is common practice where the issuer wishes to give the appearance of liquidity[1];

  (b) two of the CPI bonds were not true gilt style bonds with Warrington Borough Council and Charm Finance plc having amortizing features and year-on-year CPI coupons respectively;

  (c) in the absence of a CPI gilt market, it is difficult to interpret the price signals from the three issues to date. A major UK bank has attempted to back-solve the implied RPI/CPI wedge from two of the issues and estimated a wedge of 1% for Warrington and 0.44% Community Finance Company. The difference in implied wedge is an indicator of an inefficient market.

- In contrast, the RPI corporate bond market is well developed and underpinned with some £279 billion of RPI gilt issuance. Pricing utility RPI bonds, at a premium to the underlying gilt yield is relatively straightforward.

- **CPI swaps** – we understand from conversations with swap banks that this is also at an embryonic stage and that pension funds, in the absence of a CPI gilt market, do not have back office systems yet in place to price and enter into CPI swaps. The lack of liquidity in the market can be seen by contrasting the bid/offer spreads for CPI and RPI swaps. For example, according to Bloomberg (as of 3 February) a 10-year zero coupon CPI swap has a bid/ask spread of some 40 basis points (a sign of illiquidity) and a RPI swap only 3 basis points (a sign of liquidity).

- In the absence of evidence of an efficient CPI bond or swap market, a precautionary approach is likely to be advisable. In particular, we believe that an established CPI gilt market is required before an efficient CPI bond market can develop.

- We agree that continuing to index RCV to RPI for a transitional period is appropriate and agree with the proposed 50% for the 5 years to 2025. However, demand for inflation linked debt is more efficient at the long end of the curve (noting the signals from the limited CPI issuance to date) and we have some £0.5 billion (or some 17% of our debt,

[1] We would also observe that, based on the limited CPI issuance to date, that demand has been at the long end of the curve (2055, 2048 and 2040) presumably reflecting pension fund demand for long dated matching of their liabilities. This may have particular relevance when considering the merits of a cost of debt tracker.

10% of RCV, as at 30 September 2015) efficiency-incurred[2] long-dated RPI bond issuance outstanding for over 30 years as of today. A 5-year transitional period will therefore be too short.

- The RPI/CPI swap market is embryonic but, in any case, swap banks will not enter into derivatives with corporates without credit breaks even in well-developed and efficient swap markets. Typically credit breaks are required at 5/10 years although for higher rated credits this could be stretched to 20 years with some banks. It will not therefore be possible to convert the efficiently-incurred long-dated RPI bonds into CPI liabilities through derivatives without bringing in additional financing risk (that does not exist today) at the credit breaks.

42. 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 acknowledge that Ofwat's proposals are NPV neutral from an investor perspective, and welcome this commitment. However, if the proposals increase the cost of capital, they cannot be NPV neutral from a customer perspective. None of the regulatory 'levers' that could shift the impact between present and future customers, such as PAYG rates, will change this.

43. 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?

- Yes, we agree if the proposal of a 50-50 split of the RCV is taken forward, a true-up mechanism such as this would be required. However, this true-up would add to the long list of true-ups and incentive mechanisms already required at the end of each period. And as noted above, we believe a transition period of longer than 5-years will be needed to reflect efficiently-incurred long-dated RPI debt.

Consultation questions- cost of capital

44. 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?

- Currently the balance of risk and reward does not vary significantly across the wholesale controls, but the introduction of the proposed changes to sludge and water resources is likely to lead to a higher risk profile for water resources and sludge activities.

45. 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 control?

- See above answer to question 44.

[2] The outstanding long dated RPI bonds are £131 million (2057), £65 million (2057) and £309 million (2048) at indexed-linked rates of 1.35%, 1.375% and 1.859% respectively, well below the cost of debt assumed in the WACC.

Customer engagement

46. **What does good customer engagement look like? What are your views on the principles outlined above? How could companies draw on good practice from within the outside the sector? 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 agree that good customer engagement employs a variety of approaches to engage different customers in appropriate ways. The objectives of a particular piece of research will shape the choice of methodology employed to understand customers' views on the topic at hand.
    - Our experience is that most customers at the highest level simply want reliable and good value water and sewerage services, and if we are providing them with a good level of service, rarely have the need to think more deeply about trade-offs in service levels and willingness to pay. Engaging customers in a meaningful way on more detailed questions is therefore always likely to be a challenge. This is why involving expert outside suppliers who understand this challenge, and can bring their experience of other sectors to bear on this challenge, is valuable.
    - We would welcome more sharing and collaboration within the water industry about customer engagement, so as an industry we can continue to refine our customer engagement techniques.
    - We are also engaging actively with companies outside the water sector who have demonstrated good customer relationships.
47. **What are your views in relation to our proposals on future CCG remit; scope; timetable; government arrangements; and membership? In relation to the quality of a company's customer engagement, do you agree with the above list of issues that should be covered by the CCG report? What are your views on the division of responsibilities between CCGs and Ofwat?**
    - We believe the proposals are sensible, and are aligned with our current thinking about the future role of the CCG.
    - In particular we believe it is important that the CCG does not represent customers and take the place of direct customer engagement, but challenges companies on how they have engaged customers and reflected the results of engagement in their business plans.
48. **What are your reviews on our proposal to facilitate more collaboration between CCGs? What are your views on our aspirations to publish information on the WACC and outcome RoRE ranges early? Without inserting ourselves between customers and their customers, what else could we do to incentivise and encourage good quality customer engagement?**
    - In our view Ofwat could usefully do more to facilitate inter-CCG dialogue and seek a more active role with the CCGs to ensure the findings of the CCG provide greater weighting as part of the business plan process.

- An early view on WACC and RORE ranges would be very useful. It should also not have a significant impact on company plans or customer engagement as there are other levers companies can use to balance the affordability of plans.

Outcomes

49. 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 period?

- It will be difficult to use the outcomes framework to encourage a long-term approach to planning, as long as the price reviews continue to take place every 5 years. Any measure spanning more than one period will inevitably be subject to review at the price review, and could be subject to change.

50. 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 support the proposed consultation as we believe there is value in having a limited number of comparative measures and we welcome debate about how to apply these. We do believe, however, that there are inherent risks in applying standard measures across all companies, owing to the possibility of a single measure not being appropriate in some circumstances, leading to poorly designed rewards or punishments.
- However, we are concerned about the timetable for the consultation. In order to allow time to take customers' views into account in our business plan submission, we are planning to undertake the business plan consultation in the summer of 2017. In order to ensure we have effective debate about the costs and targets we need to have our measures agreed by December 2016. So on the proposed timing we would not be able to incorporate the outcome of the consultation in our detailed engagement with customers.

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

- We are happy to submit the definitions for commitments early. We will have already discussed them with customers so will have them ready. There will however be very limited opportunity for changes to the overall plan before submission if any issues are identified at that stage.

52. What are your views on our proposal for a licence modification to allow for the in-period payment of outcome delivery rewards and penalties?

- This would allow companies to take a more flexible approach.

Timescale and next steps

53. Do you agree with our summary of potential licence changes and the process for achieving these outlined in section 9.1 above?

- We agree that the proposed licence changes would be necessary, given the proposals. We would suggest, however, that the proposals are finalised and the details clarified before the process of implementing licence changes is embarked upon.

54. Do you agree with the next steps for establishing the necessary data for the 2019 price review outlined in section 9.2?

- Yes, we agree. In particular, we would stress the importance of instigating a consistent and well-defined approach to MEAV valuation across companies.

55. Do you agree with our indicative timescale for the Water 2020 programme?

- Yes, we agree, and welcome the earlier publication of the methodology statement, and the earlier business plan submissions.