South West Water

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PR19 draft methodology
Water 2020
Ofwat
Centre City Tower
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Birmingham
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Dear Sir,

DELIVERING WATER 2020: CONSULTATION RESPONSE ON METHODOLOGY FOR THE 2019 PRICE REVIEW

Thank you for the opportunity to respond to the consultation on the methodology for the 2019 Price Review. The themes for the PR19 methodology have been well signalled through previous Water 2020 consultations and Ofwat engagement with the industry. The methodology is helpful in offering companies a clear framework at this stage, as preparations are made for the PR19 business plan submission.

General observations we would make on the methodology are summarised below:

- a move toward a greater comparative and more prescriptive price review needs to ensure that company specific customer engagement remains central to the development of plans and is incentivised accordingly. We would urge further careful consideration of the process that appears to shift the emphasis to rigidly mandating consistent operational performance targets across all companies – as we believe that retaining the flexibility afforded at PR14 would better encourage innovation, retain a focus on regional specific priorities and further strengthen customer focus
- we support stronger incentives for better performing companies on cost and service although a move toward frontier based incentives (rather than upper quartile) for totex and financing, appears to result in the overall risk being skewed to the downside

- whilst it is useful that Ofwat is sharing early thoughts on the cost of equity, we would expect that Ofwat would update its analysis ahead of determinations in 2019, as current market conditions and dynamics that may give rise to an apparent reduced cost of equity will undoubtedly change. We would also expect Ofwat to continue to consider longer term historical averages in its assessment of the cost of equity.

Our strategy in South West Water remains focused on ensuring our PR19 plan is innovative, efficient and closely reflects our own customer views and priorities for both service and prospective bills.

We have provided detailed responses to the questions set out in the consultation as an Appendix to this letter, whilst our key concerns and observations are summarised below.

Customers

Firstly, we strongly believe that the customer focused methodology introduced by Ofwat for PR14, promoting new concepts such as Customer Challenge Groups (CCGs), outcomes and outcome delivery incentives have proved to be a success and have given companies the opportunity to innovate and deliver what their customers value most. It is noted that the PR19 draft methodology has introduced additional prescription for companies and whilst we understand the reason for this, it is essential that the methodology still incentivises innovation and allows companies the flexibility to deliver plans based firmly on what their customers want and value (supported by the necessary evidence).

We have also supported the new concept of in-period ODIs at PR14 and the proposal to strengthen these ODIs to drive further improved service performance for customers. However, as one of three companies with an in-period licence adjustment from PR14, we would strongly recommend consideration of allowing flexibility when passing through over / under performance on ODIs to customer bills. South West Water customers have valued regular discussion of our performance and how best to share any such outperformance as part of our WaterShare mechanism. They have consistently told us that they do not like volatile bills - a mechanism passing through a bill reduction one year only to experience an increase the next year or vice versa is not considered to be in the best interests of our customers. This issue would be further exacerbated by the proposed removal of performance deadbands.

We welcome the continued and indeed enhanced involvement of CCGs recognising the important part and contribution they have already made to the price review process and particularly welcome the additional engagement that Ofwat has undertaken with the CCG chairs. In our view this engagement has been invaluable thus far in the process, help to validate the perceived benefits of any proposed methodology changes.

Investors

We have consistently stated that it is our belief that retaining investor confidence in the sector is paramount to effectively managing risk, securing long term efficient finance for the business and hence lower costs for customers in the longer term. The stronger incentives for ‘good’ performing companies in terms of cost efficiency and high quality service assists in retaining such confidence.

However, we are concerned that Ofwat is minded to depart from its long-established approach of giving weight to historical evidence over the long term (i.e. prior to 2000). The approach followed by Ofwat over multiple price reviews has been to make moderate adjustments to Total Market Return (TMR) assumptions such that these are adjusted away from long-term historical averages and towards shorter-term forecasts of expected returns. If Ofwat is proposing to make an assumption about the cost of equity based solely on the best estimate of expected returns in the 2020-25 period, this would represent a clear departure from Ofwat's well-established and understood approach. We believe this risks undermining investor confidence and therefore disagree with such an approach.

Assurance

South West Water welcomes Ofwat's focus on Board governance, leadership and assurance of company business plans. This is an area which we firmly believe is essential to the development and delivery of a Board owned, balanced and well evidenced plan that delivers for customers, regulators, investors and all other key stakeholders.

The increased amount of data and information submissions required for PR19 will however generate significant additional assurance activities for companies, their Boards and CCGs. Whilst a timetable is already in place that ensures appropriate engagement with our Board and CCG it is important to note its challenging nature.

To assist company Board's and CCG's with the increased data provision and assurance demands, it would be helpful if a process to capture and communicate all companies queries on the data tables could be established by Ofwat. A process similar to that created during PR14 would be welcomed, as from reviews of the data requirements undertaken to date, there have been various gaps and areas of clarification identified. To date these have been communicated through the Ofwat working level teams.

Concluding remarks

Finally we welcome the constructive engagement we have had to date with Ofwat during the development of this draft methodology. As we develop our thinking and plans for PR19 we would welcome further opportunity to share our thoughts and plan development.

We would be delighted to discuss any aspects of our response in more detail.

Yours faithfully,

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APPENDIX – DETAILED CONSULTATION RESPONSE

Affordability and vulnerability

Q1 Do you agree with our proposal to use the five principles of customer engagement; customer support, effectiveness, efficiency and accessibility to assess how a company is addressing affordability in their business plan?

Agree.

Overall we agree with the proposal to use the five principles of customer engagement to assess how a company is addressing affordability in their business plan. However with any quantitative assessment used to compare performance it is essential that the methodology is applied consistently across companies. An example of this can be seen in a measure assessing the number of customers receiving financial assistance. In this example the number of customers receiving financial assistance is dependent on the eligibility criteria used by each company which would be different among individual company schemes.

Q2 Do you agree with our proposal to use information and measures, including possible common measures, to assess how a company performs against the five principles in addressing affordability in their business plan?

Agree.

See above answer to Q1.

We assume that the customers finding bills acceptable measure is based on the overall acceptability of the plan and if so that it reflects overall customer acceptability of the plan and phasing of investment, ensuring that both current and future customers are protected.

Another point of comment we would like to make is in respect of the benefits of applying affordability measures (for example, a decrease in revenue outstanding). This does not take into account tariffs that help customers classed as the 'struggling silent' that may not be in debt with South West Water but who are still in water poverty. Our WaterCare tariff has around 50% of customers receiving help who are not in debt and therefore this would not impact the revenue outstanding measure.

In respect of the 5th and 6th measures noted in Appendix 4 it is important to ensure all financial assistance that customers receive are included and not just ones receiving tariff based support e.g. Freshstart and Restart.

Q3. Do you agree with our proposed option for requiring companies to propose bespoke performance commitments for addressing vulnerability in their business plan?

Agree.

This is an area already under development as part of our PR19 plans. It is important to acknowledge each company is at a different stage in their vulnerability journey and therefore we need to have the flexibility to identify bespoke commitment levels to reflect that. Performance commitments should encourage best practice and not competition in this area to ensure best practice is shared for the benefit of all customers irrespective of where they reside.

We would also like flexibility to extend tariff related affordability measures where appropriate and we would seek to engage with Ofwat on this.

Q4. Do you agree with our proposed option for using measures in our assessment of companies' approaches to addressing vulnerability in their business plan?

Agree.

We assume in our response that this measure does not include customers receiving help under affordability measures, as this is identified as a separate metric. The first measure - proportion of eliglible customers receiving support through vulnerability assistance options does not reflect the transient nature of vulnerability as it is difficult to understand at any one time who would be eligible in order to measure how a company is performing. How 'eligibility' is defined for this measure is also an important consideration, as is how customers who are eligible but do not want assistance are accounted for.

In respect of the second measure - customers contacted by the company about eligibility for vulnerability assistance options, it is important to clearly explain how a contact is defined. For example it may not encourage the right behaviours in terms of making a meaningful contact over mass marketing to reach the right customers. Indeed it would be more appropriate to encourage regular reviews of Priority Service Registers to ensure customers on it are receiving the right level of help to meet their needs.

In respect of the third measure we have no concerns with seeking views from customers receiving vulnerability assistance, this could be done at the time of any data cleanse calls such that it is not overburdening the customer.

Outcomes

Whilst we recognise the overall aims and principles of Ofwat's proposals for outcomes and ODIs, we believe the proposals may dilute the importance of company specific customer views. The proposed balance between bespoke company specific PCs and the common PCs is not appropriate, with the approach to the common PCs being prescriptive and largely inflexible. There is a significant risk that the approach to common PCs moves away from incentivising best value, with a package focused on South West Water customers priorities and we believe might represent a backward step.

In addition:

- some of the common PCs suggest a move towards incentivising inputs / outputs instead of outcomes
- the balance of service areas across the common PCs appears skewed with a weighting on specific areas which would need to be supported by customer views
- the suggested step change achievement in 2020/21 of the forecast upper quartile in 2024/25 is not likely to be possible without significant investment which would need customer support for the impact on bills and would in practice entail penalties for the vast majority of the industry

The above points are covered in more detail below.

Q1/1a-c Do you agree with our proposals for common and bespoke performance commitments?

Neither agree nor disagree.

We agree with the principle to have a mixture of common and bespoke commitments but believe the balance of common and bespoke PCs is biased too much towards common PCs (four of which Ofwat propose to measure on a comparative basis against an upper-quartile benchmark).

For common PCs, there is no flexibility to adjust these where customer or stakeholders drive this or company specific circumstance makes this appropriate. Our view is that such company-specific circumstances should be accounted for when identifying an upper quartile benchmark, as has been proposed within the cost assessment framework. We discuss this further below.

For bespoke PCs, the proposed scope is currently too narrow due to the bias towards common PCs as most of the important aspects of service (as fed back to us by customers) are covered by the 14 common PCs. As a result, the role for customers has been considerably diminished in contrast to Ofwat's stated aims of involving them more.

Common PCs

We have a number of specific points we wish to make in respect of the proposals for common PCs:

- research undertaken by SWW during PR19 and PR14 suggests that our customers have different priorities compared to the 14 common PCs proposed by Ofwat. It is also unclear if the 14 common PCs really are the ones that matter the most to customers nationally. Given the difference in customer’s priorities regionally, it would help if there was more flexibility in the framework, such that local priorities were given the appropriate focus

- the asset health PCs move the focus away from outcomes. While asset health is clearly important, the measures seem to indicate a return to inputs / outputs which the ODI framework was intended to move the industry away from
- we are particularly concerned with Ofwat’s proposed comparative ODI on Category 3 pollution incidents. SWW currently has an ODI in this area relating to the absolute number of Category 3 and 4 pollution incidents in each year. While we have issues with the measurement of these incidents the PC was specific to South West Water. Ofwat is now proposing to shift to a measure based on the number of Category 3 incidents divided by 1,000 km of sewer network. We would argue that any comparative assessment needs to take account of company-specific factors. In addition, for SWW the 1,000 km of network is not a true driver of pollution incidents, rather the number of environmentally sensitive sites and the proximity of these sites to the sewer network provides a stronger indication. Our view is that the framework proposed by Ofwat risks unfairly penalising SWW if it fails to make adjustments for these issues
- there appears to be an imbalance in the common PCs in wastewater. PC 14 ‘asset health: wastewater asset failure causing pollution’ overlaps with PC 8 ‘wastewater pollution incidents’. Both have the same service impact on the customer and 14 is a sub set of 8. As a result, there is a risk of too much emphasis on pollution as this is covered by the two PCs mentioned above in addition to Environment Agency (EA) regulation. In contrast, wastewater quality (river quality or consents) is not represented in the common PCs. This means that only acute wastewater issues are covered and chronic issues are not. This imbalance is emphasised when comparing wastewater asset health to water asset health where there are separate infra and non-infra focused PCs
- water resilience: there are lots of assumptions made for the assessment behind this PC so there is a need to examine the consistency of the measure. For example, the treatment of confidence and the future forecasts. Also, is there a need for normalisation when comparing this measure (to address issues like population density and divergence in geography).
- resilience metrics are still in development. We note that there is one on flooding of wastewater but not of clean water assets? There should be a metric on water supply interruptions under extreme conditions.

Bespoke PCs

We agree with the proposal of no aggregation of measures for transparency purposes and support the wide coverage, as this was one of SWWs aims at PR14.

Q2/2a-c Do you agree with our proposals on setting performance commitment levels?

Agree.

We agree with Ofwat's expectation that companies 'use wide sources of information on customer preferences (such as experiments, operational data and social media sentiment).'

However, we are not clear on the importance of the customer view in setting the PCs based on approaches in table 4.4. It is not clear that this provides the right balance for customers, or that they have enough of a role. More generally, the approach appears to be too prescriptive about the range of areas to consider.

This can be demonstrated in the case of leakage where there are a large number of requirements. The PC levels for the different approaches will not be the same so it is unclear what the priority is and what weighting should be given to the customers view. It is important to consider leakage improvements where this represents best value for money over the long term.

We assume that Ofwat is proposing for companies to target the forecast (at the time of the business plan submission) of the upper quartile performance in each year. In addition, Ofwat invite views on an alternative approach as to how to update the PCs during 2020-25 to ensure upper quartile. We consider that, while it is a good idea to publish data so that companies know how the upper quartile changes throughout the AMP, the ODI penalty and reward rates and PCs should not change during the AMP. Changing PCs and when the penalties or rewards kick in creates uncertainty and has the potential to increase bill volatility for consumers. A company needs to know the regulatory contract upfront and plan how to achieve and, if possible, outperform that contract. Changing the PCs annually has the potential to undermine incentives for leading companies and undermine longer term planning as well as in period decision making as companies need to know if it is economic to make the required investment which would have both an immediate and lagged impact on outcomes.

Q3/3a Do you agree with our proposals for strengthening outcome delivery incentives?

Neither agree nor disagree.

Overall we support the proposals for strengthening outcome delivery incentives; however, we have a number of specific points to make.

The methodology suggests that companies should engage with customers when developing financial ODIs for the Asset Health PCs. The asset health PCs are lead indicators (or a subset in the case of pollution) of the wider common PCs. For example, one of the service outcomes of a water main burst is an interruption which is a separate PC. This duplication could mean that companies are penalised twice for underperformance and customers could pay twice for improvements. If the methodology continues to set the PCs at the economic efficient level then linking customer value to asset health suggests benefits and costs should be allocated between the asset health ODIs and the wider ODIs in order to avoid this double counting. This will dampen the individual ODIs although the overall level should be the same. The methodology states that Ofwat will intervene if the asset health penalties are too low but this interaction should be considered. If a well evidenced allocation has been used and the ODIs are then increased this could lead to double counting penalties and rewards. (Note the PR14 asset health ODIs were not linked to customer value and were cost only penalties based on costs not allocated to other ODIs).

Pollution penalties also overlap with the fines. The penalty was adjusted in PR14 to avoid duplication but given the multiple pollution PCs the ODI incentive could be low for each ODI individually.

The methodology also appears to rule out gated ODIs. Whilst we agree they are generally not appropriate, they probably shouldn't be ruled out in all circumstances and companies should have flexibility to develop the ODIs that suit customers best. This is relevant for asset health given the duplication discussed in 5a where instead of being a financial ODI the asset health PCs could be used as a pre-requisite (gate) for the other common ODIs. This links to company rewards in the wider commercial environment where bonuses for good performance are often dependent on basic KPIs being met.

We agree with common ODIs not being applied as common incentives throughout the business plan process, i.e. the value used in triangulation should be consistent with the ODIs otherwise perverse incentives could exist.

The methodology proposes increasing the strength of the ODIs by increasing the impact ODIs have on reputation, greater use of in-period ODIs, linking ODIs to revenue rather than RCV and having a greater onus on financial ODIs. Generally, we support this part of the methodology as long as this is what customers and stakeholders support but there is strong, consistent evidence that customers prefer smooth bill profiles so we suggest a flexible approach to in period ODIs in order to avoid too much bill volatility. In period ODIs and end of period revenue ODIs were feature of SWW at PR14. In our response we highlight the use of mechanisms like WaterShare that include in period customer engagement and flexibility on passing on ODI impacts to customers as this ensures their involvement in the service and bill package and a way of managing the bill volatility.

The removal of the deadbands and averaging could also affect the asset health PCs. This means that companies cannot oscillate around an average value without being penalised. If measures such as stable are not used due to the disaggregation of the asset health PCs then the use of deadbands could be useful.

Q3b Do you agree with our proposals on enhanced rewards and penalties?

Neither agree nor disagree.

We feel greater clarity is needed on how enhanced rewards or penalties will be set, whether they will be applied consistently and if such enhanced rewards would be in line with customer priorities and affordability considerations. Further consideration is needed of the impact on the wider industry where innovative and frontier performing companies deliver benefits for customers in other regions.

Q3c Do you agree with our proposal to remove the RoRE cap?

Agree.

Q4 Do you agree with our proposed Customer Measure of Experience (C-MeX)?

Neither agree nor disagree.

We are supportive that SIM is replaced with a new measure that seeks to capture views of customers that have not contacted us alongside those that do we also support.   However, it is difficult to comment further without seeing the methodology behind how the 1-5 scaling will be converted to 1-10 scaling for the purposes of comparison with UKSCI when applying the financial incentive.

Q4a. Do you agree with our proposed methodology for the C-Mex surveys, as set out in table 4.2 of Appendix 2?

Neither agree nor disagree.

We are supportive of a new measure that takes into account customers who do not contact us but our own survey that we carry out asks a question have you contacted us within the last 12 months - Ofwat will need to consider a timeframe otherwise sample sizes maybe too small.

We are pleased that Ofwat recognise the difficulty of asking customers about the resolution of a contact if they are part way through if all contacts are to be submitted for survey (like current SIM) and agree if the survey is to be based on a resolution question as well then the sample will need to be restricted to resolved contacts only.

We assume that the survey scale in table 4.2 is meant to read 1-5 very dissatisfied to very satisfied (as good practice is always to use the 1-5 scale with 5 being the positive end and 1 being the negative end). Also Ofwat need to ensure with the 8 surveys that will be taking place how this coincides with other customer surveys of a similar nature, as this can lead to over surveying of customers.

We would need confidence that the non-water sectors in the UKSCI are comparable to water. Ofwat notes that higher rewards (of up to 12%) could be available for companies achieving upper quartile performance on this cross-sector basis. Ofwat is not explicit on what rewards will apply for other companies (although the current 6% reward cap is mentioned). Our concern is that whatever reward/penalty system is introduced this should be achievable. The benchmarks and timescales to achieve better performance should be realistic.

Q4b. Do you agree with the C-Mex contact survey focusing on customer satisfaction with both contact handling and resolution?

Neither agree nor disagree.

We assume that the measure '*customers finding bills acceptable'* is based on the overall acceptability of the plan and if so that it reflects customer acceptability of the plan as a whole.

Q5 Do you agree with our proposed Developer Measure of Experience (D-MeX)?

Neither agree nor disagree.

We would support the inclusion of a quantitative measure as it will provide a more rounded score of our performance to developers. It has been clear as part of the setting up of the current quantitative measure, that there is a big challenge in having clear and understandable definitions so that it is all being monitored in exactly the same way.

We support the need for a Task and Finish Group and a trial period and would welcome the opportunity to be involved in this.

Q5a. Do you agree with our proposed approach to implementing D-MeX, in particular by conducting a satisfaction survey amongst past developer services customer contacts?

Neither agree nor disagree.

In relation to customer contacts for the last month, as these schemes are very fast moving it is essential that the customer is surveyed when the contact is fresh/relevant as opposed to when things might have changed.

Resilience

Q1. Do you agree with our resilience planning principles?

Strongly Agree.

We agree with the seven resilience planning principles set out in the consultation, these are an effective set of principles on which to judge company plans when they are submitted in September 2018. They set out an effective series of planning principles which companies can deliver and test their plans ahead of this submission and reflect the duties Ofwat has with regard to resilience. These principles are sufficiently flexible to encourage long term planning in water and wastewater assets and to support resilient decisions across a wide range of hazards and risks.

We are pleased that the principles recognise the 4Rs approach developed by the cabinet office and encourages a range of economic and efficient solutions to be identified and assessed.

We support the alignment with both Water Resource Management Plans and developing frameworks that are being developed by the 21st Century Drainage Board.

Q2 Do you agree with our approach to assessing resilience in the initial assessment of plans?

Agree.

We agree with the two stage approach to the initial assessment of resilience plans.

Test 1 being to identify the risk, the resilience of the ecosystem and economy and the extent of customer support for the activity. We recognise the value of all of these components. We also consider it important that the approach recognises the alignment with resilience standards being examined by other stakeholders such as Cabinet Office, EA, Natural England and the DWi, who as stakeholders may also express views and support for specific risks to be mitigated.

Test 2 being aligned with Ofwat economy and efficiency duties. To ensure that the solutions proposed represent best value for money over the long term and effectively identify the risk and cost balance of the solution. This is an important test and will require a level of engineering judgement with regard to the solutions applied. There is a risk that this level of engineering judgement could result in disagreements over the type of solution and the economy and efficiency of the solution between company and regulatory. It will be important to test this approach in advance to understand the appropriate level of regulatory scruitiny to be applied and to ensure that this is not overly burdensome to the process.

Wholesale controls

Q1 Do you agree with our proposals for the form of control for network plus water and network plus wastewater set out in the 'Wholesale controls' chapter and appendix 7, 'Wholesale revenue incentives'?

Agree.

Overall, the proposals are similar to PR14 with further disaggregation. We have three specific points to make in order to improve transparency:

- *revenue forecasting incentive mechanism* - inclusion of a worked example for each part of the control would aid transparency
- *cross price control decisions* - it is not clear how cross price control decisions are made. For example, if a company does not propose a 15% leakage reduction, but this is imposed later, it may negate the need for a resource scheme that might have been in the plan. Some commentary on how cross control decisions will be made and applied would be helpful
- *inflation* - the inflation pressure across the different price controls is markedly different. For example, water resource costs will have a higher proportion of power costs. Historically with one control this difference between the inflation index used and the controls is less marked but the separation into further elements means the delta between CPI-H and the actual inflation costs will grow. For the final methodology an assessment of the systematic risk of the difference in inflation pressure on the controls would aid transparency.

Q2 Do you agree with our proposals for the form of control for water resources as set out in the 'Wholesale controls' chapter and appendix 5, 'Water resources control'?

Agree.

We have previously responded to Ofwat on the unfocused approach to the pre-2020 RCV allocation, and therefore we have not repeated these points here.

Overall, the total revenue and building blocks approach is sensible. Specific points to note are:

- **access pricing** – Ofwat notes that the triggering of any bilateral market requires a government decision and that, ahead of 2025 any market will be *'small and nascent'*. As such, the interaction of the control with access pricing may not be a major driver of allowed revenues. However, the consultation notes that access prices will still need to be calculated, and these *'…will include a combination of cost-based charges for network plus services; and an equalisation (formerly compensation) payment that reflects the incumbent's forward-looking incremental water resource costs'*. More work is required across the sector in understanding forward-looking incremental water resource costs by resource zone.
- **charging of water resources to retailers** - for the next price control, it would be sensible to have a common structure for the charges. This would give retailers a common approach across the sector. A lesson from the non-household retail market is the large number of tariffs is complex for retailers to

manage across multiple areas. Given the size of the water resources market, to begin with a simple, common tariff structure would appear a sensible approach.

- **water resource yield** - licence changes may be required by the EA within a period that is not in the WRMP. Although this is highlighted in Annex 1, an example of how this would be dealt with would aid transparency.

Q3 Do you agree with our proposals for access pricing for English water companies set out in the 'Wholesale controls' chapter and appendix 5, 'Water resources control'?

Neither agree nor disagree.

Q4 Do you agree with the proposals for company bid assessment frameworks set out in appendix 9, 'Company bid assessment frameworks: the principles'?

Agree.

We are supportive of the proposals for company bid assessments. Specific points:

- **bid framework** - the idea of a framework for the bidding process seems sensible, but Ofwat need to give companies the flexibility to choose different approaches to tailor the bid assessment to the problem in hand.

Q5 Do you agree with our proposals for the form of control for bioresources as set out in the 'Wholesale controls' chapter and appendix 6, 'Bioresources control'?

Disagree.

We have responded to Ofwat previously on its intention that companies should calculate a focused RCV for bio-resources based on economic value, which we believe significantly increases the complexity and uncertainty in this area.

On other points, we have some concerns as the control is a mix of both ex-ante regulation and competition which are in conflict with one another. The issues we have identified are set out below:

- **forecasting volume of sludge treated on behalf of other company (p128)** - Does the 'forecasting' referred to on page 128 relate only to 'existing arrangements'? Page 24 of the RCV valuation document (Table 4.1) states [NB: This April 2017 document] - *We do not expect companies to speculate on potential trades with other companies beyond those that have already been agreed. We would expect that, unless there is clear evidence to the contrary, any trades in existence will continue.* SWW therefore requires clarification on the page 128 forecasting being related to existing arrangements. If page 128 does not relate specifically to existing arrangements this will no doubt contain significant error as it requires future knowledge of how the market will operate or 1-2-1 business discussions. The latter in theory could be considered collusion. It would be helpful to set out more clearly why this data is needed.

- **assess company plans on evidence of third party delivery -** it would be helpful to set out why this is needed for the price control. The controls in theory should promote competition. Assessing the company plans in the proposed approach leads to a market bias - if the control is set up to promote markets, why is the assessment required and how does one determine the harm to customers if an review of third party delivery has not been done?
- **evidently the bio-resources control exposes SWW to volume risk post-2020** – since it is an average revenue control. We would be concerned if this led to stranding of efficiently-incurred pre-2020 assets.

Direct procurement

Q1 Do you agree with our draft guidance that appointees should focus on projects likely to deliver the greatest customer value for DPC at PR19? (We ask that appointees provide a list and description of which projects, based on our guidance, they consider would be in scope at PR19.)

Agree.

We agree with the draft guidance but the option to choose projects below £100m totex should be allowed if the company thinks direct procurement could deliver a better outcome for customers. This could be for example, the delivery of a specific technology; such as wastewater re-use.

To this end, the guidance should include a final category on ad-hoc high technology solutions as identified by the company.

Q2 What are your views on the type of tender model (i.e. an early or late tender model) appointees should use? Do you have any views on whether or not we need to specify a tender model companies should use?

Agree.

Early tender is our preferred option. Generally, the greatest benefit in a project (be it financial or performance) is gained in the initial design phases. Once the design has been agreed, the main cost benefit is from productive efficiency. Early tenders allow much more for dynamic efficiency. Early tenders also give greater clarity on roles and responsibilities between the client (the incumbent) and the provider (the contractor).

Q3 What are your views on the overall commercial and regulatory model, including our draft procurement and contract principles set out in appendix 10, 'Direct procurement for customers'?

Neither agree nor disagree.

We agree with the draft principles but as mentioned above companies should be allowed to build on the approach as appropriate if certain projects have specific requirements. For example, the principles for a desalination plant may be materially different from a pipeline through an Area of Outstanding Natural Beauty (AONB).

We would recommend an approach which allows 'reverse auctions' to take place, enabling incumbent companies alongside their strategic delivery partners to tender and be awarded projects where their bids provide innovative solutions and are the most cost effective for customers.

Retail controls

Q1 Do you agree with using a weighted average revenue control, where appropriate taking account of different costs by customer type for the residential retail price controls for English and Water welsh companies?

Agree.

We agree with using an average revenue control (therefore adjusting in period for outturn number of customers), and for a different control for different types of customers as proposed (p153). Our analysis supports a different cost to serve associated with dual service customers compared with single service customers, therefore we welcome Ofwat's proposal to re-examine and continue this to ensure the differences can continue to be reflected in revenue allowances.

As discussed below, we welcome the proposed introduction of an econometric assessment in order to provide a more level playing field; reducing the risk of not appropriately accounting for exogenous characteristics that impact upon retail costs.

Q2 Do you agree with using an average revenue control for business retail price controls for Welsh companies not subject to competition?

Agree.

We agree with a consistent approach to regulation and price controls for customers of retail business that are not in a competitive market and therefore not able to switch.

Q3 Do you support price controls for business retail activities for English water companies that have not exited the business retail market?

Neither agree nor disagree.

We support continued protection of customers of companies who have not exited (and therefore the retail exit code does not apply). However, given that these customers are now part of the competitive market and free to choose their retailer, we question whether this protection is needed through regulation / price controls.

Q4 Do you support price controls for water service customers of Welsh companies using more than 50 megalitres a year?

Neither agree nor disagree.

We support continued protection of customers of companies who have not exited (and therefore the retail exit cost does not apply). However, given that these customers are now part of the competitive market and free to choose their retailer, we question whether this protection is needed through regulation / price controls.

Q5 Do you support a three year price control for residential retail activities and business retail activities?

Strongly disagree

The methodology suggests that the main advantage of a shorter control would be to enable a more comprehensive reflection of evidence from the first five years of business competition and so allow the benefits to be passed on to customers well in advance of a five year control however, business customers can already receive the same or enhanced benefits in advance of the five years through switching retailer and not through regulatory determinations.

We note that Ofwat's approach to assessing efficiency for retail household includes cross benchmarking across other industries. We therefore question whether the availability of non-household data is a valid driver of a three year price control. Consideration also needs to be given to the cost to the retail business of managing a price control on a three year cycle - this would add cost to customers without a direct service / performance gain.

Therefore we would support the retention of a five year price control.

Cost assessment

Q1 Do you agree with our overall approach to cost assessment?

Neither agree nor disagree.

We welcome Ofwat's objective of further strengthening the incentives for the industry to provide efficient service for consumers, promoting long-term resilience and innovation, however, we have a number of concerns as to whether the proposed framework will achieve this, especially with regards to:

- whether the upsides are strong enough for efficient performers to be ambitious enough and really push their performance further

- innovation, long-term resilience, and leading service performance all entail higher costs in terms of improvements from the current position and/or short term increases in costs for longer term consumer benefits and require different approaches as they are driven by local customer priorities. It is unclear how such trade-offs and priorities are captured in the proposed framework. At the moment, it appears that the cost assessment (and outcomes) framework pushes all companies to a common lowest cost (and highest outcomes) point in year one, making it difficult to innovate, provide something different given local customer priorities, improve long-term resilience or improve service performance. This does not appear to provide the optimal outcome for consumers. We would value a more balanced/holistic approach across the price control that takes account of such trade-offs and local customer priorities

- there are also trade-offs across the value chain. However, it appears that Ofwat is seeking leading performance on service performance, innovation and improved resilience, while simultaneously pushing costs to the bottom across the value chain. Given trade-offs across the value chain, leading performance in each area is extremely challenging. Again, we would value a more balanced approach that recognises such trade-offs

- while we recognise Ofwat's acknowledgement of the difficulty of enhancement modelling and proposal of including elements of enhancement expenditure in totex and separately modelling other elements, we feel that it will still be important for the framework to capture the overall position and recognise trade-offs where such costs are separately modelled

- while we support Ofwat's objective of incentivising the industry to provide the most efficient service for consumers, there remains a practical difficulty in identifying where exactly efficient performance lies. No model is without limitations, however robustly developed given the available data. In the proposed framework, with the exception of cost adjustment claims, there appears to be little, if any, account for the impact of 'model imperfections'. We think it will be important for Ofwat and the industry to investigate the accuracy of any efficient cost prediction.

Q2 Do you agree with our proposed cost sharing incentive? We welcome thoughts on the calibration of the incentive.

Agree.

Given the greater challenge proposed for the industry in the PR19 cost assessment framework and the additional focus of the initial assessment, we agree with Ofwat that the complexity of the menu and its intention for truth revelation is an unnecessary complication.

We also agree with the asymmetric nature of the scheme. Given our first point in our response to question 1 above and the fact that the illustrative table is both based around a more challenging benchmark than the upper quartile and has lower sharing rates than those in PR14, we would welcome greater sharing incentives for those companies with most ambition as such companies bring wider benefits to all customers and the industry as a whole. However, given the dependence of the cost sharing rate on Ofwat's baseline and the practical difficulty in identifying efficient performance, we would caution against using overly penal sharing rates.

Q3 Do you agree with our proposals to funding unconfirmed environmental requirements? Which of the two options do you consider is more appropriate, and why?

Disagree.

We understand the challenges arising from the mismatch between the five-year price review and six year river basin management planning (RBMP) cycle.

Option 1 suggests funding a proportion of the expected Water Framework Directive (WFD) - driven enhancement through the PR19 framework, and allowing companies to seek funding retrospectively through the PR24 framework for additional requirements in the final WFD that had to be delivered in the 2020 - 2025 period. This would create additional financial risk and uncertainty, as well as an adverse impact on the cashflow position, which would not be allowed in the financing proposals.

Option 2 suggests setting an (efficient outcome based) unit cost for expected schemes, that would be adjusted based on variations between the agreed outcome (FD) and that actually required and delivered. This would incentivise companies to be efficient whilst providing an adjustment mechanism for any decrease or increase in actual delivery required. While this would seem preferable to Option 1, further information is needed to understand the expected timing and mechanism for this adjustment. In addition, consideration of scale is needed when determining efficient unit costs as economies of scale drive lower unit costs. This needs to be taken into account when setting company level unit costs to avoid the need for scale related special cost adjustment claims.

Q4 Do you agree with our approach to cost adjustment and our proposed approach to make the process more symmetric?

Disagree.

While we welcome a more symmetric approach to cost adjustments in order to provide a more level playing field, we do not think the approach illustrated by Ofwat is robust. If, for example, Thames Water is the company proposing a £10m uplift in Ofwat's example, given Thames' size, it is likely that their high labour cost base would rotate the cost function rather than shift it. As a result, some companies may already have costs predicted below their efficient level, yet the proposed adjustment would further reduce this. We consider that this area warrants further development and perhaps lessons from academic work in this area could be informative.

We note that companies would need sight of the submissions made by other companies in order to review their proposed claims and enable evidence to be provided, where relevant, to mitigate any potential symmetric adjustment that could inappropriately reduce allowances. This has been discussed at the working groups but is not explicit in the consultation.

We note that Ofwat has indicated that only material upwards adjustments will be allowed but consequential upwards and downwards adjustments to other companies would be made regardless of materiality. This seems to create a downward bias to allowances.

Q5 Do you agree with our proposed approach for assessing retail (residential and business) costs at PR19?

Neither agree nor disagree.

We welcome the proposed introduction of an econometric assessment in order to provide a more level playing field, reducing the risk of not appropriately accounting for exogenous characteristics that impact upon retail costs.

However, we do have concerns about the lack of indexation as, in contrast to the proposed econometric modelling, this approach risks not appropriately accounting for input price inflation across the industry (see our response to the question below).

We consider that benchmarking outside the water sector is useful. However, given differences across industries, in particular not being able to disconnect supplies in the water industry, it will be important to ensure a level playing field is achieved when undertaking such comparisons.

Q6 Do you agree with our preferred approach not to index the retail controls to a measure of general inflation, and, if appropriate, deal with input price pressure as part of our totex allowance?

Disagree.

Ofwat has proposed, as its preferred option, no indexation of retail costs, although companies can submit evidence on input price pressure. In PR14 no indexation was acceptable 'in the round' as the use of an average benchmark provided some buffer with which input price inflation could be absorbed. Indeed, we have experienced significant input price inflation over the current regulatory period - staff costs form a significant proportion of household retail business costs. Customer service staff are at the forefront of driving retail customer service improvements. There is market pressure to award annual pay awards to reflect (at least in part) cost of living increases each year in addition to increases in national minimum wage / living wage thresholds. These cost of living increases are driven by wider economic influences including government policy and we do not consider that this is within companies' control.

Moving from an average benchmark to frontier benchmark combined with the possible addition of benchmarks based on forecast data necessitates the need for input price adjustments to be made. Once at the efficiency frontier further efficiency improvements are driven by frontier shift (technological progress) net of input price inflation. Input price inflation, such as wage growth is driven by general market dynamics, and not fully under management control (not paying comparable nominal wage increases would result in retail staff moving to similar jobs in other sectors). Only if the use of forecast data is dropped from the PR19 methodology, i.e. a static efficient benchmark is used, and it is shown that frontier shift exactly offsets nominal input price pressure would no additional adjustment be required. In reality, it is generally the case that nominal input price pressure is significantly greater than frontier shift, so an adjustment would, in fact, still be required.

Q7 Do you agree with our proposals for the transition programme?

Neither agree nor disagree.

We understand Ofwat's desire to move to a less prescribed transition mechanism; however, as noted in the consultation there is still cyclical activity around price controls with low investment in the first year.

For PR19, Ofwat is expecting companies to achieve a step change in efficiency, performance and service outcomes. As set out in the consultation companies are expected to make changes through technology, innovation, use of markets and business process redesign to achieve a step change reduction in costs. The transitional arrangements will be needed to facilitate this delivery.

We agree that companies should set out in their plans why this is needed.

We will respond to the proposals on the Isles of Scilly separately.

Risk and return

Q1 Do you agree with our proposed approach to setting the cost of equity, based on the best estimate of expected returns in the 2020-25 period?

Disagree.

We accept that the evidence points to lower total market return (TMR) than at PR14. However, we are concerned that Ofwat is minded to depart from its long-established approach of giving weight to historical evidence over the long term (i.e. prior to 2000). The approach followed by Ofwat over multiple price controls is to make moderate adjustments to TMR assumptions such that these are adjusted away from long-term historical averages and towards shorter-term forecasts of expected returns. If Ofwat is proposing to make an assumption about the cost of equity based solely on the best estimate of expected returns in the 2020-25 period, this would be a break from Ofwat's well-established track-record. We would disagree with such an approach.

In addition, we have some concerns with regards to Ofwat's analysis and conclusions, specifically:

- **reliance on model-based estimates of the TMR.** Estimates from such models are very sensitive to assumptions, which was commented on by Ofwat at PR14. Furthermore, the assumptions themselves are volatile and change more frequently over time than long-term averages. Figure 25 of the PwC report shows that the TMR estimate has varied by around 200bps over the last five years, and by 400bps since the year 2000. While we agree that no evidence is perfect for TMR, we consider that this sensitivity and volatility of estimates should be addressed if that is to become the primary source of evidence in Ofwat's determination. If Ofwat chooses to put more weight on model-based estimates of the TMR, it is important that these models are subject to more robust checks than in previous price reviews, and that they are interpreted with care. It would also be appropriate consider making an allowance for the volatility of these estimates in the allowed cost of equity.
- **ERP and RFR relationship.** The evidence presented by PwC on this relationship shows almost perfect negative correlation (see footnote 144 on page 78 of PwC's report 'Refining the balance of incentives for PR19'). Additionally, Figure 25 of the PwC report suggests the nominal TMR has if anything increased rather than decreased since the year 2000. It is unclear how this evidence, which points to stability of the TMR, has been taken into account in Ofwat's proposal to reduce the TMR assumption by 125-165bps relative to a price control that was set just over three years ago.
- **balance of risk and return.** While we welcome higher incentives to improve performance and reduce costs, it is possible that some investors will view this as moving away from the basis on which they committed capital to the sector. The current market prices of relatively low risk assets with relatively stable cash flows, reflect the scarcity of such assets. The proposed revisions to the incentives package may cause some investors to withdraw from the sector, which would reduce competition for assets and increase required returns.

Q2 Do you agree with our approach to indexing the cost of new debt?

Neither agree nor disagree.

The approach outlined in the consultation mirrors the approach we set out in our WaterShare mechanism for PR14. We were pleased to see that this element of WaterShare (i.e. sharing of outperformance on the cost of new debt) has now become part of the regulatory regime, providing benefits to all customers in England and Wales. We consider it to be in line with good regulatory practice to incentivise the whole industry to follow examples set by the leading companies, i.e. in this case in the form of the WaterShare mechanism.

We would like to highlight that one of the benefits of our WaterShare mechanism is that our customers are consulted on how the outperformance should be shared with them. While we agree that bill reductions would represent the most straightforward way to share outperformance with customers, it is not always their preferred way of receiving that benefit. As engagement with customers is an integral part of WaterShare, we would like to continue to have flexibility on how we share this outperformance, based on what our customers want.

In addition, while we agree that, all else being equal, in-period adjustments could result in higher volatility in bills, it is also important to consider how other parts of our WaterShare scheme interact with the adjustment for cost of new debt indexation. Specifically, it might be the case that the effect from the cost of new indexation could offset some other potential in-period adjustments that would otherwise increase customer bills.

Q3 Do you agree with our proposal to index price controls to CPIH (subject to its redesignation as a national statistic before we publish our final methodology)?

Neither agree nor disagree.

We accept Ofwat's proposal to switch to an index that appropriately reflects the level of inflation.

Given Ofwat's expectation for companies to consider effects of their business plans on bills over a long term, we consider that Ofwat should also give weight to long-term impact on bills of switching to CPIH, i.e. Ofwat's assessment should cover the period beyond the next AMP.

Q4 Do you agree with our approach to setting tax allowances at PR19, including the proposed true up mechanism?

Neither agree nor disagree.

We support that the underlying approach to setting tax allowances at PR19 has remained largely consistent with previous reviews, with companies providing specific information relating to capital allowances and that the overall tax position is considered at both the appointee and individual control levels.

We recognise that both before and during a regulatory period core assumptions, such as the headline corporation tax rate can change and would in term impact the level of revenue recovered from customers.

However this arises across a number of areas within the business plan and true-up mechanisms focused on individual elements may not reflect the overall position in the round.

As part of South West Water's WaterShare mechanism changes in the headline corporation tax rate are already shared with customers, however such impacts are considered alongside other cost variations (including the cost of debt) and therefore reflect a 'basket' of variations which inevitably arise during delivery of the business plan. In addition our customers are consulted on how any net outperformance should be shared with them. As engagement with customers is an integral part of WaterShare, we would like to continue to have flexibility on how we share this outperformance, based on what our customers want.

Q4a Should the true up mechanism be limited to change in corporate tax rates and capital tax allowances or should we extend that true-up mechanism so we can also make adjustments for other changes in tax legislation or accounting regulations which have a material impact on the amount of tax companies are liable to pay?

Neither agree nor disagree.

Q5 Do you agree with the set of scenarios for RoRE analysis we have prescribed, the guidance we propose and to use our financial model to provide the suite of prescribed scenarios?

Neither agree nor disagree.

We accept the set of scenarios that Ofwat has prescribed but we consider that companies should be able to run their specific scenarios as well, whenever they are affected specifically by certain factors which are outside of their management's control.

The overall widening of the range of potential returns in Ofwat's suggested methodology presents both opportunity and risk for companies. We consider that the proposed level of reward for an exceptional business plan would not provide enough incentive for companies to target this category. Targeting the exceptional category implies adopting more stretching targets and a higher risk of missing these targets and being penalised rather than rewarded. There is also uncertainty over whether Ofwat will assess the plan as exceptional, and therefore the expected level of reward for a company proposing an exceptional plan will be adjusted for the probability that the plan will be graded as exceptional. Making a higher level of reward available would increase the chance that companies would aim for exceptional status. We note that the rewards available to companies for obtaining the enhanced status at RIIO-ED1 were considerably larger.

We agree to use Ofwat's financial model to provide our estimates for the prescribed scenarios.

Financeability

Q1 Do you agree with our overall approach to assessing financeability?

Agree.

We note that Ofwat's approach has not changed considerably since PR14, with financeability assessed at the overall appointee level, however we welcome the approach which will consider and check the financial position at the individual control levels. Specifically, we consider that such checks are important for retail and parts of the value chain with higher risk.

Given Ofwat's long-term resilience duty, we consider that it is no longer enough for Ofwat to assess financeability for a single price control period. It is important to consider the impacts of financeability levers on the next control periods, especially where these levers result in delaying rather than resolving finaceability issues.

Q2 Do you agree the calculation of the metrics (as set out in Section 11.5 in the Financeability chapter) that we are proposing to use in our assessment?

Agree.

In general, we agree with Ofwat's approach using consistent measures as used in PR14. We consider that for financeability tests ACICR should not be adjusted for the indexation accretion on index-linked debt as this does not reflect the financeability implications over the longer term. In addition, if it remains an adjustment we suggest that in the calculation of that metric, that Ofwat assumes that all new debt will be issued in a fixed rather than index-linked form. This might affect the overall proportion of index-linked debt assumed by Ofwat.

We also note that the calculation of the return on regulated equity (RORE) has been included based on the PR14 methodology (calculated on EBIT) and not the approach developed for regulatory reporting over the current AMP which is calculated on a Base Returns + outperformance. The approach to financial metrics should be consistent with current performance measures to enable comparability in performance and returns between the regulatory periods.

2015-20 performance

Q1 Do you agree with our proposed approach for dealing with PR14 reconciliations and SIM? If not, please explain your alternative approach and why this would be in customers' interests.

Agree.

We agree with the true up proposals at the end of the AMP for inclusion in the FD19 and in particular the flexibility afforded to companies to spread adjustments over 1-5 years.

Q2 Do you agree with our proposed approach for reflecting how well the company is delivering for customers over the 2015-20 period in the initial assessment of business plans? If not, please explain your alternative approach and why this would be in customers' interests.

Strongly agree.

Since submitting our business plan for PR14 we have been focused on delivering this plan that was built on what customers told us was important to them. It is imperative that companies are held to account and deliver what customers have told them and been included in the FD14. We have stretched ourselves not only to deliver our business plan commitments but also consider our performance relative to others in and out of sector.

An assessment over the 2015–20 period is a crucial element of the initial assessment. In particular, we welcome Ofwat's assessment of how well each company has performed 'in the round'. There are many trade-offs across the business and it is important that a broad picture of performance is reviewed alongside how such performance has been discussed and distributed with customers.

Securing confidence and assurance

Q1 Are the business plan and data requirements clear and sufficiently specified?

Agree.

After an initial review it appears business plan and data requirements are on the whole generally clear and sufficiently specified. We have already identified areas where there are gaps or errors whether in the tables or the feeder models, and these are being sent back to the working teams. We will continue to review and feedback on any queries / points of clarification throughout the process.

In respect of requirements for business plan data assurance requirements, we would concur with the approach that assurance is the responsibility of the Board and that the Board is responsible for a 'consistent, accurate and assured set of information in line with our data table requirements.'

Q1a Are there any areas we need to look at again?

Neither agree nor disagree.

None identified at this stage.

Q1b Is there any data missing, or included but not required?

Neither agree nor disagree.

See response to Q1 above.

Q2 Do you agree that our approach to assessing assurance can provide us and stakeholders with confidence in the companies' business plans?

Agree.

We agree with the general 'taking assurance in the round' approach as well as focusing on specific assurance plans in place for the business plan process and that business plans should provide a clear summary of assurance measures taken to enable the Board to sign their assurance statament.

There is no clarification as to whether requirements for assurance would vary in line with the Company Monitoring Framework rating of a company. Although the 2018 company monitoring framework assessment will be used in the initial assessment of the business plans, this assessment would presumably be after submission of the inital business plan.

In assessing the record in producing high-quality data, it could also be relevant to consider the company's track record, transparent reporting to customers and previous performance under the company monitoring framework (CMF) and not solely the 2018 CMF assessment.

The initial assessment of business plans: securing high quality, ambition and innovation

Q1 Do you agree with our proposed approach to the initial assessment of business plans?

Agree.

We are supportive of the differentiation of plans; the approach is clearly laid out and is a resonable extension of the Risk Based Review (RBR) approach taken at PR14. The categories and test areas are well aligned and it is clear what criteria will need to be satisfied for plans to be categorised in the fast-track or exceptional categories.

Q1a In terms of the nine test areas?

Agree.

We are supportive of the nine test areas, there is a clear line of sight from the Government draft strategic priorities through to the draft methodology. We welcome the inclusion of the test framework and support the view that this mechanism will enable effective and timely assessment of plans.

Q1b In terms of the business plan characteristics we want to see? (high quality, ambition and innovation)

Agree.

We are supportive of the high level characteristics and expectations. These will of course need to be considered within the context of customer expectations and willingness to pay.

Q1c In terms of the business plan categories we propose to assign companies to? (significant scrutiny, slow track, fast track, exceptional)

Neither agree nor disagree.

Whilst categorisation is clear and consistent and the expectations for high quality / ambitious and innovative plans are set out under each of the test areas the specific quantitative and qualitative measures which will be used are still uncertain.

Q1d In terms of the financial, procedural and reputational incentives we propose to put in place?

Neither agree nor disagree.

We are supportive of the incentives proposed but there appears to be less opportunity for anyone to be fast-tracked given trade-offs across the value chain and the need to be 'best on all controls' to be fast-tracked on any control.

Q2 Do you agree with our proposed approach to assessing a company's ability to deliver results for customers and the environment from innovation?

Agree.

We are supportive of this proposal but again this will need to be carefully balanced against the specific priorities and expectations of our customers.

The initial assessment of business plans: appendix 14

Q1 Do you agree with the key questions under each of the test areas?

Agree.

The questions map well to the test areas and overall theme and are unambiguous. When considered alongside the key characteristics it is clear where the bar is set for plans to be categorised in the fast-track or exceptional categories.

Q2 Do you agree with what we will look for in terms of high quality, ambition and innovation under each of the test areas?

Neither agree nor disagree.

In addition to our response to question 1 above the only other comment is the difficulty to objectively assess and compare innovation across companies.

Q3 Do you agree with our high-level approach for scoring business plans into the four categories (significant scrutiny, slow-track, fast-track, exceptional)?

Agree.

We are supportive of an approach where plans are able to be differentiated in terms of assessment.

Q4 Do you agree with our proposed schedule for the initial assessment of business plans?

Disagree

We accept the approach Ofwat has taken which seeks pre-business plan submissions for key areas (such as RCV allocations). Whilst we have plans in place to ensure extensive customer and stakeholder engagement, as well as robust oversight and assurance from the Board is in place for the business plan we note that the proposed submission of September 2018 does not give sufficient time for companies to reflect on 2017/18 actual performance and potential impacts to their plans. We would therefore suggest a submission date which is later in 2018 which gives companies time to reflect and also update the Ofwat data tables and models accordingly.