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Via email

14 July 2020

Dear

### **AMP7 company performance during the pandemic**

Over the past weeks and months, I have welcomed the regular discussions I have had with all CEOs about how your companies are performing and delivering for customers during the pandemic. It is clear from these conversations that there are great examples of flexible and innovative approaches to operating in the changed circumstances brought about by COVID-19.

We have seen significant efforts across the sector, from the coordination by the Platinum Incident Management Group, through to individual operational actions that have ensured the continued delivery of core services. I have been impressed by the speed at which many significant operations were transferred to enable staff to work from home, for example. We are grateful to all your staff who have overcome challenges and shown their public service spirit to focus on delivering essential services to your customers. I have also been encouraged to see some in the sector examining ways in which they can support a green economic recovery.

Through our conversations, I have heard different views about how the situation might play out, the role of the regulatory regime, and whether or not any adjustments to PR19 will be needed. And while most people have been supportive of the approach I signalled in March – that we would align the timing of our assessments with our normal reconciliation processes for PR19, once performance for the first year of the AMP has been reported – some of you have raised concerns that the regime might not work in customers' favour without some early adjustments. We have yet to be persuaded that there is a need to act immediately.

In March, we assured you that Ofwat would assess whether any ex-post adjustments were appropriate once there had been sufficient time to understand the impacts of COVID-19. It is still too early for a rounded and balanced assessment across all of the issues, not least because there is still a lot of uncertainty about what will unfold over the coming months. Without pre-judging whether anything other than the mechanisms already built into the price control will be needed to ensure that companies bear the appropriate level of risk, we have been able to start some important joint work with Water UK. I'm delighted that this engagement is underway as it will help develop a stronger understanding of what the possible impacts (both positive and negative) could be on the sector. We are confident that detail from the joint work will help us build up the evidence and understanding to inform our assessments.

As many of you have flagged to me, there are opportunities as well as challenges in the current situation. We have been encouraged that some companies currently expect to outperform despite the challenges. The situation has evolved since March – thankfully employee absence rates have not so far been anything like as high as some feared initially, for example. When I wrote about companies' obligations and regulatory flexibility then, my primary aim was that you should not be distracted by any fear that the regulatory regime would act as a barrier to prioritising the needs of your customers and the safety of your staff. This is still important, but I hope it is helpful for me to set out now some further thoughts that will guide our assessments, and to assure you that we will continue to keep the position under review.

Our conversations have shown that, as regulator and companies, we share the same ambitions in these difficult times, including the need to:

- Move forward with capital programme investment as quickly as possible, working collaboratively with supply chains and other partners so that any time lost at the beginning of the period can be made up quickly and suppliers have visibility of future work;
- Hold fast to the commitments to stakeholders by pursuing PR19 performance commitments with determination. We have seen many companies taking innovative approaches to achieving their commitments despite setbacks and challenges to normal ways of working. There are now significant opportunities for companies to share and apply best practice;
- Prioritise customers' interests, particularly those in vulnerable circumstances, and be proactive in planning for further challenges, including how to provide flexible support to those struggling to pay bills and the operational challenges associated with weather events in parallel with COVID-19 restrictions.

When we consider whether or not to make any ex-post adjustments, we will be evidence-based, considering all relevant circumstances in-the-round. And we will be

careful not to undermine the ambitions listed above. We will consider and take account of how different companies have responded to challenges in order to make our assessment. And, while we will be careful to ensure that we do not reward poor management or poor governance, or companies that seek to put aside key ambitions of PR19, please be reassured that we will not assume the benefit of hindsight when considering a company's performance during the crisis. Please continue to keep appropriate evidence surrounding decisions taken and outcomes.

Please get in touch with us by emailing [OfwatPandO@ofwat.gov.uk](mailto:OfwatPandO@ofwat.gov.uk) with any queries or concerns on specific issues. We are happy to discuss. And I will continue to update you with our thinking in advance of our in-the-round assessments.

Yours sincerely

**Rachel Fletcher**  
**Chief Executive**