



The voice for water consumers
Llais defnyddwyr dŵr

**PR24 and beyond:
Long-term delivery strategies and
common reference scenarios.**

**CCW's response to Ofwat's discussion
paper**

January 2022

Introduction

1. CCW is the independent voice for water consumers in England and Wales. Since 2005, we have helped thousands of consumers resolve complaints against their water company, while providing free advice and support. All of our work is informed by extensive research, which we use to champion the interests of consumers and influence water companies, governments and regulators.
2. We welcome the opportunity to respond to Ofwat's discussion paper on its expectations for what companies should include in their long-term delivery strategies as part of the business plan submission for PR24.

Summary

3. CCW welcomes Ofwat's guidance to companies on how to integrate long term strategies into the five year price setting process. CCW supports a price control that acts as part of a milestone toward a longer term strategy that addresses long term risks to service delivery and environmental protection. This is particularly important given the range of long term risks from climate change, an aging asset base and increasing customer expectations that the discussion paper lays out. The adaptive planning approach set out in the paper builds on what companies have already been doing with their Strategic Direction Statements in previous price reviews.
4. We agree that consistency on how companies model possible long term scenarios and produce options to address them would be helpful in the price setting process, and we welcome Ofwat's move towards achieving this.
5. It is important that customers find both the business plan and the long term strategy acceptable in terms of the value this should give customers, and the short and long term bill impacts that may be needed to achieve them. Therefore we welcome the requirement for companies to engage meaningfully with their customers as they develop strategies that are built on their modelling of long term risk scenarios¹. This will help companies develop solutions that customers accept both now and in the future
6. If long term scenario modelling and adaptive planning is applied consistently by companies, this could mean that future price reviews will be a process where long term strategies are revised every five years with any new evidence, and could see

¹ Blue Marble's report 'Engaging water customers for better consumer and business outcomes' (commissioned by CCW in May 2020), includes several recommendations for improving the value and meaning of consumer research - see [here](#).

some of the options identified at the earlier adaptive planning stage taken forward, potentially leading to a 'smoother' price review process.

7. Below we offer comments on the sections of the paper that set out Ofwat's proposed approach to developing long term strategies and the use of common reference scenarios.

Approach to long term strategic planning

8. Both the UK Government and Ofwat² expect companies in England to shift toward long term adaptive planning. This involves companies setting out their strategies in terms of adaptive pathways up to 2050. We support this approach as it should enable companies to model a variety of possible scenarios, identify trigger points, and identify appropriate solutions.
9. We also support the adaptive planning approach where long term scenarios may have more than one option for how to address them, depending on new information, evidence or technology that could emerge over time. This is important as some potential long term scenarios are currently uncertain, but should be evaluated and options identified now on how to possibly address them.
10. We agree that companies' long term strategies should be adapted to different scenarios that may emerge over time. We support Ofwat's proposal that 'enhancement' investment may be needed (above and beyond 'base' cost allowances) where preparatory work is needed to address a long term risk. Allowing preparatory investment early (where strong evidence justifies this) could help spread costs and be more efficient over the long term.
11. While we support the five principles which companies should demonstrate to justify proposed enhancement investment to address long term scenarios (on page 7), we would also like to see evidence that companies have engaged with customers on what they are planning to do.
12. While we do not expect customers to be consulted on the technical solutions, customers will have a view on the outcomes the companies are aiming to achieve, and the timing of delivery in relation to the cost recovery from bills. This should help companies achieve the right balance between costs carried by current and future customers, so it is important that companies also engage with future customers as part of this evidence gathering.

² In Ofwat's 'Creating tomorrow together' PR24 framework, and the Defra draft Strategic Direction Statement (2021)

13. Companies' strategies should include evidence of customers' priorities and preferences to help justify the outcomes the companies aim to achieve. Ofwat's price review methodology should also give companies clarity on how Ofwat will assess customer evidence and make decisions as a result.
14. To assist stakeholders such as CCW to assess and (where necessary) challenge the long term strategies (and the scenario modelling and adaptive planning that should be included in them), we support Ofwat's five stage structure for how this should be set out in business plans.

Scenario testing

15. We agree that companies should model a range of possible long term scenarios to help identify appropriate options to deliver the right outcomes. This process should enable companies to stress-test their long term strategies against different scenarios that may arise that companies may need to adapt to.
16. While we agree that the main scenarios relate to climate change, technology, demand, and environmental ambition, companies should be able to apply wider scenario planning to further potential scenarios even if they are uncertain. This is particularly important for possible scenarios that may be unique to a single company or a region. The scenario testing shown in the long term strategy accompanying the business plan should also be consistent with other long term planning frameworks companies use such as WRMPs and the new approach to the WINEP in England.
17. We support the requirement to include customer bill impacts as part of the long term strategic planning and scenario testing. Ofwat's paper has welcome guidance on how companies should consider how their strategic plan will protect customers' bills in the long term, and get the right balance between current and future customers.
18. In addition to this, we recommend that companies model different potential customer affordability scenarios. While this may be hard to predict for the long term, it would enable companies to evaluate how solutions could be delivered in different economic contexts (e.g. in a recession with high unemployment and cost of living, or where there may be economic growth and wage increases).
19. In addition to this, companies should model different scenarios based on the possible affordability support available to customers in the future. If customers are to pay for the solutions, modelling the possible customer affordability should be an important part of this planning.

Adaptive pathways

20. Given the uncertainty with some long term scenarios (e.g. the impacts of climate change), we welcome the approach to adaptive planning Ofwat proposes. Companies should set out a 'core pathway' toward delivering a solution, which has alongside it alternative pathways that take account of potential changes or new information.
21. Alongside this should be metrics to measure the potential scenarios, with 'trigger points' set for when actions need to be taken once new information arises.

Foundations: what underpins the strategy

22. We agree with the range of factors where companies should make key assumptions about uncertainties in their strategic plans. This is particularly useful for stakeholders such as CCW as it will enable us to understand what assumptions companies are making about possible long term scenarios and the evidence available to justify them.
23. It is particularly important that socio-economic factors, consumer behaviour and attitudes and customer affordability and vulnerability are considered in long term scenario planning as without customer support, and customers' ability to pay, the solutions needed to achieve long term strategic aims may not be acceptable to customers.
24. We also support companies' providing a long term forecasts of their Performance Commitment targets as part of the long term strategy. As these are key metrics (with financial incentives attached), it will be useful to see forecasted targets to assess whether they are sufficiently ambitious to meet the requirements of the long term strategic aims.
25. Finally, companies should be clear on what evidence is available to justify their long term strategic aims, where there is uncertainty, and when the strategic aim should be reviewed and suitable changes applied in light of new evidence that may emerge.

Common reference scenarios

26. We agree the companies should use common reference scenarios to help assess how far their proposed activities are appropriate and are being delivered at the right times, given future uncertainties, to efficiently meet long-term outcomes.

