

13 January 2022

Via email

Dear Ofwat



Green Lane, Walsall WS2 7PD
www.south-staffs-water.co.uk

South Staffordshire Water PLC response to Ofwat’s consultation on long-term investment planning

We read with interest your discussion document on long-term investments planning, published on 17 November 2021 and are pleased to have the opportunity to respond with our view of your proposals.

We welcome Ofwat’s commitment to setting the price review process within a more strategic, long-term context. We think this will give us additional flexibility when considering our future investment needs and provide more certainty for our customers.

We also welcome the move to more adaptive planning. This is an approach we used at PR19, employing a multi-criteria analysis tool that took us much further than the cost-benefit analysis we have used with previous business plan submissions. We believe the complexity of the model we used and the way that we applied it at PR19 put us at the forefront of the sector for adaptive planning. We are continuing to develop our work in this area for PR24.

That said, we would be concerned if this approach were to be used as a means of deferring capital expenditure. We want to continue delivering those things we are certain about as we think this will deliver the best outcomes for our customers and our business.

We are also concerned about the additional regulatory burden on the water companies of producing a 25-year investment plan. This is something that has never been done before and it represents a considerable step change compared with PR19.

[REDACTED] proportionate and less burdensome to test and evolve this approach to PR29, giving all companies the chance to plan and resource the work needed with producing a long-term investment plan more effectively. This approach is well thought out and implemented after a period of trial and error. It would have the effect of reducing the regulatory burden for future price reviews as companies will already have carried out some of the planning.

Again, this is an area where we have made a start – since PR19, for example, we have developed a greater understanding of our asset maturity. In addition, we are developing a long-term strategy that is underpinned by five ambition statements in the areas of our customers and communities, the service we deliver, the environment and our business. These ambition statements demonstrate our direction of travel and are designed to be viewed within a long-term context. But we still have quite a way to go in being able to better predict future outcomes.

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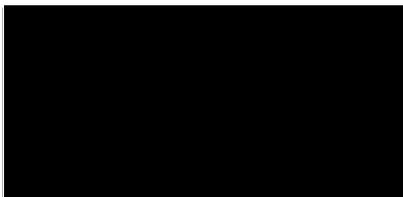
We also think that your proposed planning scenarios are too prescriptive. While we think a collaborative, sector-wide approach about long-term planning is desirable, we believe it is for each water company to decide on a long-term investment plan that not only delivers resilience and best value for customers and the environment, but that also continues to drive efficiency across the business. We think the approach should still be about delivering outcomes and that we should be looking at things like productivity assumptions, for example.

And we think it is essential to ensure consistency with the Water Resources Planning Guidelines (WRPG) and the regional planning process laid down in the Environment Agency's National Framework for Water Resources and. For example, one of your proposed scenarios includes growth as a key driver for demand and proposes using ONS data, whereas the WRPG requires company water resources management plans (WRMP) to use "local plan-based" projections.

In addition, it is our view that the 'low' scenario outlined in your proposals is not consistent with WRMPs, and places an unnecessary risk to customers and the potential for conflict with government or regulatory targets. We firmly believe that a long-term approach to investment planning should complement the existing WRMP process, and not contradict or duplicate it.

We are keen to continue working closely with you to develop proposals for long-term investment planning that meet the needs of the water sector as a whole. Please let us know if you would like more detail about any of the points raised in this letter.

Yours sincerely



Strategy and Regulation Director