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By email [REDACTED]

Dear [REDACTED]

PR24 AND BEYOND: LONG-TERM DELIVERY STRATEGIES AND COMMON REFERENCE SCENARIOS

We welcome the opportunity to respond to Ofwat's consultation on long-term delivery strategies and common reference scenarios.

The consultation sets out appropriate planning principles with a focus on the long-term, which has always been an important focus for the water sector, and we are generally supportive of this approach. We strongly believe in the importance of having a clear long-term focus, and our business planning is already underpinned by consideration of long-term needs. We believe that genuine change is needed from both companies and stakeholders and we want to see this commitment of focusing on the long term across price reviews instead of different approaches every five years.

We support Ofwat's ambition to place PR24 within a long-term framework. We agree that an approach which considers five-yearly plans in the context of adaptive long-term delivery strategies could provide significant opportunities to respond to changing situations and customer preferences, as well as offering opportunities to introduce innovative approaches in the future whilst ensuring that the balance of risk and reward remains appropriate for customers and companies. Ultimately, we believe companies can use the benefits of adaptive and dynamic strategies and remain accountable, through Board assurance, for the delivery of plans that can meet customers' and environmental expectations, now and in the long term. However, to do so may require Ofwat to consider how any significant in-period adjustments to performance expectations and investment can be made. Without an in-period adjustment mechanism, any true altered approach to adapt to changing circumstances is stalled until the next five-year period, thus limiting the power of adaptive planning.

Ensuring that the funding mechanism is right for in-period changes to investment scope due to adaptive pathway triggers being met is important and we see the green recovery process as a good template for how this can be achieved. Similarly, we need to consider how an adaptive approach would impact delivery against performance commitments/outcomes, price control deliverables, or environmental obligations. For example, it may be possible for price control deliverables to be used to fund additional activity required due to hitting an adaptive pathway trigger, rather than them being used as penalty-only claw-back for non-delivery.

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In addition, we would like to see commitment from Ofwat in terms of the associated long-term funding and financing of the investment that is implied by a five-yearly plan being the first step in a long-term delivery strategy. If companies produce long-term enhancement investment profiles then it is surely appropriate for Ofwat to review the profile and commit to allowing, with some degree of certainty, the associated scope of investment and level of financing of that investment beyond the five-year period of the price review, even if not to the full 25-year projection. This is particularly important where companies, through plan optimisation or affordability constraints, propose to delay to future periods what could legitimately be started sooner.

As PR24 encourages greater use of nature-based solutions, an adaptive planning approach should help to address their inherent uncertainty in delivering the required service levels. Adaptive planning may require matching adaptive regulation as the costs of adaptation need to be fairly borne. This is of particular relevance where fixed approaches are required, e.g. how WINEP requirements have been set in the past, and we are keen to ensure that all regulators support the adaptive planning approach and can accommodate it within their frameworks. With so much of the enhancement funding requirements being driven by the quality regulators and statutory planning frameworks, it is important that all such stakeholders are aligned to the long-term delivery strategy approach. This ensures that at each five-yearly review, new priorities or a lack of appropriate adaptation do not override appropriate proposals derived through a strategic and adaptable long-term delivery planning approach.

Whilst we commend Ofwat's ambition and accept that it may want to set out some common themes or expectations, we urge caution around setting overly prescriptive common requirements that may not reflect local conditions companies may reasonably expect. Such an approach would detract from developing long-term approaches that are aligned with customers' expectations and differing regional needs. We would welcome further clarification on how Ofwat will use the outputs of the common scenarios as part of the price review process and longer term. When comparing across companies, it may not be appropriate to expect a standard output, or common triggers for investment. Reference scenarios such as climate change will impact companies in different ways, due to differing geographies and topographies. In short, not all comparisons will be appropriate, and each company will face their own unique challenges.

Similarly, not all scenarios will apply to all strategies and investment is not all affected the same by uncertainties. Uncertainty analyses are to build confidence in the selected central plan and need to be proportionate and nuanced rather than systematically applied. Some strategies may need many more scenarios including cross/combined scenarios; and some will need very few.

We are of the view that an adaptive planning approach should not have the perverse outcome of delaying beneficial investment thereby closing off pathways. That is, strategies should identify the optimal timing of investment, not the 'drop dead' timing for investment.

We agree that price reviews should support long-term solutions, especially around investment in environmental improvements, where we welcome a longer-term view aligned across regulators. We support the environmental ambition reference scenarios proposed and our approach will align with those scenarios in the regional and company WRMP.

We strongly recommend that the technology reference scenario should be removed as it is currently excessively prescriptive. No one can know the dominant forms of technology in 25+ years and their use in the water sector. By focusing companies on particular technology types, Ofwat runs the risk of making the analysis too specific, and missing broader, and/or as yet unknown trends. A more encompassing and technology-agnostic approach would be to apply different productivity assumptions to the cost base. This would enable companies to identify tipping points at which key strategies may change due to technological (or other forms of) innovation without having to make speculative assumptions about individual technology types.

Should the technology reference scenario remain, we seek clarification as to whether areas identified in the technology common reference scenario will no longer be able to be an enhancement case, and instead have to be included in our maintenance spend.

We would welcome industry working groups to discuss the approach and requirements further.

In summary, we welcome the steps towards increasing the approach to long-term delivery strategies, and support further work required to understand what this will mean in practice. The two principles that we think are fundamental are; a commitment to the long-term funding and financing associated with delivery strategies, and appropriate in-period funding adjustments to truly underpin an adaptive approach.

If you have any further questions, please do not hesitate to get in touch.

Yours sincerely

