

1. REGULATORY UPDATE

The purpose of this paper is to update the Water Forum on the latest regulatory developments in terms of messages from Ofwat and legislation relating to drinking water quality and environmental management and associated guidance. This summary highlights guidance from Ofwat and signposts the level of engagement that NWG achieves with the Drinking Water Inspectorate (DWI) and the Environment Agency (EA) as part of our regulatory approach. It provides insight into areas that need to be addressed within our Business Plan for PR19.

2. OFWAT

13 October: Ofwat boss talks of the 'decade of falling bills'

Ofwat's chair, Jonson Cox, has signalled that water customers could be at the start of "the decade of falling bills" as he suggested prices could fall in real terms until 2025 at least. Speaking at the Utility Week Congress yesterday, Cox said that managements of water companies needed to "step up and improve service and cut bills."

Following the event, Ofwat's chair elaborated further, saying that "water companies must be exemplars and the spotlight – both from Ofwat and the press – will expose those who fall short."

Cox went on to say that "while overall, the sector has improved its delivery for customers massively over the past few decades, the behaviour of a handful of the big water companies has cast doubt over every other company. Customers often trust their local water company, but when firms construct highly complex, offshore capital structures, they do so at a cost to customer trust."

Ofwat has already made progress in driving changes to the structure of company boards and introducing new levels of transparency in the sector and Cox confirmed this would remain a priority.

Referring to the upcoming price review, Cox said that he sees PR19 as "helping to deliver even more for customers, with stretching performance commitments, and a tough challenge on efficiency". In a warning to water companies, he said that "more than any price review I've ever known, this will be the most challenging." But the price review, he said, would also "present more opportunities for those companies that break new ground and deliver more than ever before for their customers."

Cox also said that in other, non-monopoly sectors "it is every day business for companies to strive to cut bills and improve service" and that he wanted to see "more of that mindset in water, too."

Ofwat's chair also said he sees the upcoming price review as likely to set "a new record for the lowest ever regulated cost of capital for water". This means that the returns for companies are likely to be even lower – so to deliver returns for their shareholders, companies need to achieve even more for their customers, for even less.

And this lower return base could also see water bills continuing to fall from 2020-2025, carrying on with the trend of a fall in the current period of 2015-2020.

"This price review", Cox said, "will remind companies who is their boss: customers. If their plans are not based on customer participation and engagement – they will get what they deserve from Ofwat".

19 September: Customer Matters

Speaking at the Consumer Council for Water's 'Customer Matters' event, Ofwat Chief Executive, Cathryn Ross, confirmed that customers will be at the heart of the next price review and that Ofwat will strive to deliver lower bills and better service. In describing the challenges and opportunities facing the sector, Cathryn Ross confirmed Ofwat's ambitions for the 2019 price review to deliver better customer service, greater resilience and lower bills.

Delivering this would mean bills on average across the sector could continue to fall in real terms until 2025 at least.

14 September: Resilience in the Round Event

Senior figures from across the water sector gathered to discuss what 'resilience in the round' should look like in practice and how water companies can learn from the past experiences and best practices of other sectors.

Experts from the worlds of food manufacturing, cyber-security and academia shared their unique insights on how resilience features in their organisations and offered some real-world examples of when that resilience has been put to the test.

The event featured the publication of Ofwat's ['Resilience in the round: Building resilience for the future' report](#), which offers water companies some food for thought on how best to entrench resilience into long-term business planning and processes, with a selection of case studies from companies and organisations across a range of industries.

Speaking in advance of the event, Ofwat Senior Director of Strategy and Planning John Russell said:

"Given the crucial service they provide to their customers, water companies must ensure they are thinking long-term about resilience – operational, financial and corporate. They must ensure they are prepared for the many – often unpredictable – challenges the future may hold, such as climate change, cyber-attacks or extreme weather events. Through today's event and our 'Resilience in the round: Building resilience for the future' report, Ofwat is aiming to help companies get a better understanding of what resilience means in practice, by exploring best practice in the water sector and beyond".

28 September: Speech from David Black, Bad debt and residential retail efficiency event

Speaking at an event to share the findings of a PwC report commissioned by Ofwat on bad debt and residential retail efficiency, David Black, Senior Director for Water 2020 said:

As we approach the next price review period, we expect water companies' Business Plans to demonstrate clearly how they will improve retail efficiency and bad debt management in the years 2020-25.

- We hope today's report provides interesting reading and that it will prompt companies to think carefully how they can tackle bad debt.*
- This is one of the areas, when we review companies' plans from next September, where we'll be challenging companies to push new frontiers and make a step change reduction in the level of bad debts.*

3. DRINKING WATER INSPECTORATE

On 12 September 2017, DWI issued a guidance note on 'Long Term Planning for the Quality of Drinking Water Supplies'. The document sets out the expectations of the Inspectorate on how companies should meet obligations around recent and imminent legislative changes over a long term planning context. The guidance is not highly prescriptive in content, and generally signposts areas for consideration in line with industry good practice from catchment management through to delivery of water to the customer tap.

The guidance also sets out the DWIs timeline for PR19 management based on the need for companies to submit a draft business plan to Ofwat by September 2018. Where companies identify schemes requiring DWI support, evidence needs to be submitted to the Inspectorate by December 2017 and should be founded on robust risk assessment data. The DWI is aiming to have

any Final Decision Letters issued back by May 2018; this will allow time for Customer Forum consultations ahead of Ofwat's Final Determinations.

In addition, DWI is requiring all companies to prepare and submit by the end of May 2018 a concise statement that sets out significant new future risk mitigation measures that a company considers it will need to provide for. Starting from 2020 and covering a minimum duration of 25 years, items for consideration could include:

- significant costs for the sustainability of long term catchment management;
- replacement for water treatment or storage facilities; and
- 50 year strategies for lead (plumbo-solvency) control.

The DWI has also started consultation on a revision to the drinking water regulations, the closing date for which is 24 October 2017. The main changes in legislation relate to a move towards risk-based monitoring at customer taps as opposed to the regulations stipulating how many samples should be taken at any given location. In NWG, we broadly support the proposals although certain aspects do require additional clarification as part of the consultation.

4. ENVIRONMENT AGENCY

The second release of the Water Industry National Environment Programme (WINEP2) was circulated to all water companies on 29 September 2017. WINEP2 sets out the actions that companies will need to complete to meet environmental obligations and inform the development of business plans. A third release is due in March 2018 although WINEP2 contains the majority of the measures to be delivered.

WINEP2 lists obligations in areas such as Water Framework Directive (Surface and Groundwaters), Urban Wastewater Treatment Directive, Bathing Waters and Drinking Water Protected Areas, and the EA is applying a traffic light system to each of the measures listed per company to give an indication of certainty to final plan inclusion. Of the 730 measures currently listed for the north east, 309 are categorised as green and 15 amber and so cost allowances will be included within the Business Plan. There are just over 400 measures currently designated red and these will still be subject cost estimation in readiness to becoming more certain for delivery.

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