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To all Water Company CEOs

4 November 2013

From Rt Hon Owen Paterson MP
Secretary of State for Environment, Food and Rural Affairs

Dear CEO,

We met on 10 July to discuss the Water Bill. At that meeting I set out my views about the need to secure the best deal possible for customers while continuing to attract essential investment in the long-term resilience of the sector. I wanted to take this chance to follow up.

This Government's focus is on helping hardworking people wherever we can. As providers of essential services, you will be acutely aware of the very real cost-of-living pressures experienced by households across the country. The downturn has affected household incomes -since 2009 the average increase in water and sewerage bills has been in line with inflation but has, nevertheless, substantially outstripped increases in household income. Over the same period, the downturn has led to lower financing costs for the water sector and, as a result, water companies and their investors have seen record profits.

The independence and stability of economic regulation are fundamental principles fully supported by this Government. In this letter I would like to set out my support for the work being done by Ofwat in partnership with the industry to ensure a fair deal for customers. In particular, I applaud Jonson Cox, the Chairman of Ofwat, who has made it clear that there needs to be a fair balance of risks and rewards between companies and their customers. It is essential that unexpectedly high profits for companies are translated into real and tangible benefits for customers through higher investment or lower bills. I therefore welcome the positive response the industry has made to this challenge so far through absorbing some additional costs and investing in services that benefit customers.

I hope to see this positive action continue into the coming charging year. I know that Jonson Cox has written to you emphasising that each company will have to decide whether or not to implement the full price increases for next year that were allowed for in the 2009 Price Review. These price limits were set by Ofwat before the lower cost of financing that you have enjoyed over the last few years was fully understood. In considering this choice about



price rises at a time when many households are feeling the pinch, I know that you will be fully alive to concerns about the public perception of the industry.

The Price Review now in progress presents an even more significant opportunity to secure a good deal for customers. Ofwat estimate that this could reduce pressure on bills by between £120 million to £750 million a year. I welcome this scale of ambition.

Of course I do not expect any of us will want to wait for the next Price Review to tackle bills. Bad debt is a long standing challenge for this sector. You will be aware that we took the decision not to implement a regulatory approach but to focus on improving performance across the industry. At present customers in some regions are paying much more than others to cover the cost of unpaid bills. We expect the industry to up its game and ensure that all companies match the performance of the best. We fully support the approach Ofwat are taking in the Price Review to drive forward this crack down on bad debt.

I do appreciate there are real issues with collecting bad debt, particularly because of tenants moving on without paying bills. I therefore welcome the industry's proactive response to this challenge by creating a new database to make it easier for landlords to provide information about their tenants to water companies. I would like to challenge landlords to help you drive down debt and demonstrate that further regulation is not needed. I will write to the relevant landlords' organisations setting out my support for the voluntary approach and emphasising that we expect to see meaningful progress in this area.

I also recognise that debt problems can be linked to customers' ability to pay. Support for struggling households should help reduce levels of bad debt. We expect all water companies to know their customers and to offer targeted tariffs and payment plans designed to minimise the numbers falling into debt and to maximise the numbers addressing their debts. I know that this is something the industry as a whole takes extremely seriously and that a number of schemes are already in place. I look forward to seeing many more social tariffs come forward in response to our guidance on this matter.

Finally, I want to touch on the issue of customer service. Customers rightly expect governance standards in a regulated industry to be high, with customer interests put first. Questions about these standards go to the heart of the sector's public legitimacy. Ofwat, with support from Government, is taking action to ensure improved standards of governance across the sector. I particularly support the drive for increased independent and customer representation on Boards and look forward to seeing this implemented as swiftly as possible.

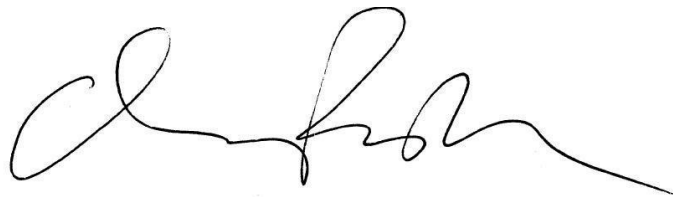
Many of you are working to improve the response to customer complaints in this industry. Most complaints should be handled swiftly and effectively by the companies themselves or with support from the Consumer Council for Water. But for the most difficult cases we want customers to have access to high quality independent arbitration. The Water Bill includes measures that will allow me to appoint an independent arbitrator to handle the most challenging complaints. We will also look to take new powers for Ofwat to amend licences if they consider this is necessary to ensure companies engage with the new structures.



I would like to reiterate my strong support for Ofwat's drive to secure efficiencies through the Price Review that will allow you to keep bills for customers as low as possible, while ensuring that you can continue to attract significant low-cost investment in the sector.

The water industry has been one of the greatest success stories of privatisation, but the industry has also changed significantly over the last two decades. It is important that customers remain at the heart of each company's business, and we fully support Ofwat's drive to ensure no water company takes its customers for granted.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Owen Paterson', written in a cursive style.

THE RT HON OWEN PATERSON MP

