



## **WRSE submission to the CMA in relation to determination of Ofwat PR19 price determinations**

**11 May 2020**

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Water Resources South East (WRSE) company members are making a submission to the CMA in support of the points made in WUK's response, in particular relating to resilience and customer engagement, and how the approach taken by the regulator in these areas at PR19 could undermine best value long term planning for future price reviews. We do, however, recognise the progress Ofwat has made in the PR19 process, particularly the improvements in transparency compared to previous reviews. The more open and inclusive process to developing the PR19 methodology was appreciated by our members. We would also like to highlight our support for the initiative taken by Ofwat, in combination with the Environment Agency and the Drinking Water Inspectorate, to establish the Regulatory Alliance for Progressing Infrastructure Development (RAPID) which is providing valuable joined-up regulation for our members.

Water Resources South East (WRSE) is an alliance of the six water companies operating in the south east of England. The water companies involved include Affinity Water, Portsmouth Water, South East Water, SES Water, Southern Water and Thames Water. Together they provide around 5 billion litres of water per day to over 35% of the nation's population, supporting almost 40% of the national economy. WRSE also involves a number of advisory stakeholders including other major water users, Defra, the Environment Agency, Ofwat and CCW. Ahead of PR19, WRSE developed a regional strategy that was used to inform the Water Resources Management Plans (WRMP) of the six member companies.

The purpose of regional planning is to identify the best value package of investment (infrastructure, demand management and catchment interventions) needed to secure long-term resilience and deliver environmental improvements across the South East on behalf of domestic customers and business. It contributes to delivery of the UK Government's policy objectives to leave the environment in a better state than when they found it and secure resilient water supplies for the future. The National Framework for Water Resources sets out expectations for regional planning to have a strengthened role ahead of the next round of WRMPs and the 2024 price review. Whilst regional planning is not currently statutory, the regulators have asked that the regional plans should directly inform future company WRMPs. Furthermore, the current drafting of the Environment Act contains the provision for regional planning to become statutory if and when required.

The policy expectation set out by UK Government is that WRMPs, which are the statutory process for water resource planning, identify the 'need' for investment in water resources. Ofwat, along with the Environment Agency, are statutory consultees for WRMPs and at that stage have the opportunity to raise issues related to 'need' and how resilient supplies are met. The role of the economic regulator's price review is to enable delivery of the required

investment – in the best value way – to enable the policy objectives to be met. In discharging its duties, the regulator should not revisit either the case for ‘need’ or the best value interventions which have been determined through the statutory process, which includes customer engagement and consultation.

WRSE is currently developing the sector’s first multi-sector regional resilience plan which will directly inform WRMPs24 and PR24 Business Plans. We hope this pioneering approach will contribute to Ofwat’s future methodology related to resilience which will be necessary if the sector is to transition to the more system/multi-sector based approach needed to delivery against the Government’s policy objectives.

PR19 has resulted in uncertainties around how Ofwat will fund future resilience schemes and the delivery of environmental improvements - beyond those required through the Water Industry National Environment Programme - which are supported by customers and consistent with government policy. This is potentially a barrier to companies feeling confident in the promotion of key infrastructure and clarity will be needed for the future, particularly to ensure the successful delivery of schemes identified through the regional plan and the associated WRMPs.

We are concerned that the approach being taken by Ofwat may not be fully consistent with their primary duty to ‘further the resilience objective’. Whilst Ofwat’s approach on some infrastructure schemes have been positive, such as Portsmouth Water’s Havant Thicket, we would ask that the CMA consider the line of sight and accountability between policy, statutory processes and the final determination.

The way in which customer engagement was used to inform in the PR19 final determinations is an area of concern within the sector and one shared by WRSE company members. Companies carried out extensive customer engagement activity with oversight and scrutiny from Customer Challenge Groups to ensure that their PR19 Business Plans used high-quality engagement methods and the insight gathered appropriately informed investment decisions. It is a concern if the preferences and priorities of customers have ultimately been diverted, resulting in them playing a more limited role in the final decisions at PR19. An important role of the customer engagement is to identify where there are regional differences in customer priorities and expectations. This must be understood to ensure that customers, who do not have a choice in who supplies them, have confidence in their water supplier and the investment decisions they make. We understand this is an issue the CMA will be considering, and we look forward to its diligent assessment of this important issue with its implications for future determinations.

The sector faces a series of critical challenges over coming decades. It is essential for the long-term ability to deliver against key government policy priorities that Ofwat’s approach to economic regulation is aligned with the prescribed outcomes. We would like you to note our support for the issues raised by WUK and particularly those related to resilience and customer engagement. We believe it will be essential that advancements made by the companies in these areas over the last two price reviews, and the outcomes of the engagement are not disregarded.