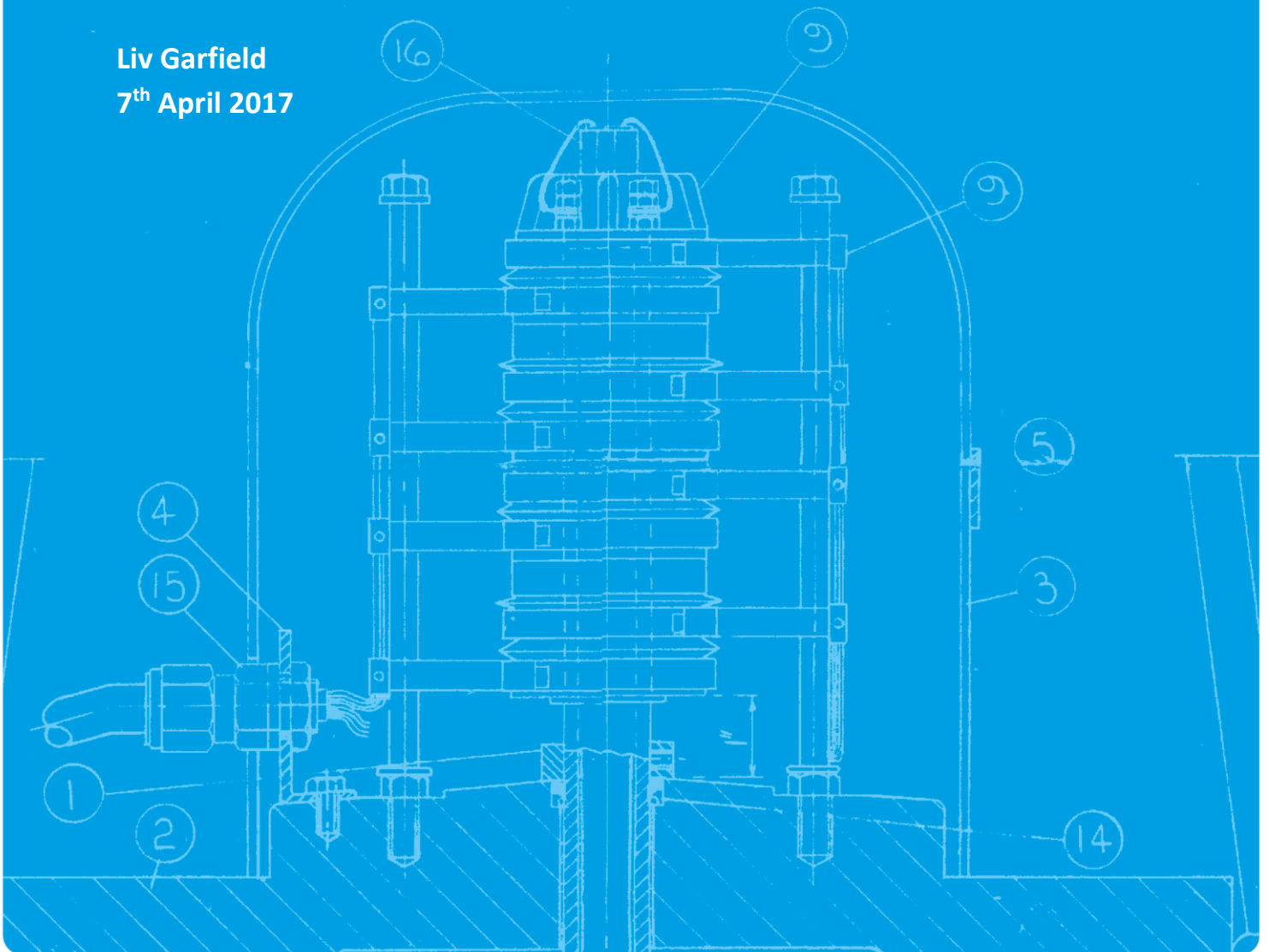


# Water Industry: Strategic Policy Statement to Ofwat 2017

*Severn Trent Response*

Liv Garfield  
7<sup>th</sup> April 2017



Thank you for the opportunity to comment on the government's draft strategic priorities for Ofwat.

The UK benefits greatly from the robust, internationally-respected system of independent regulation that we have in place for the water sector. It is important, however, that independent regulation operates within a framework of priorities set by government.

The government's draft guidance sets out these priorities in a clear, coherent and focussed way. Crucially, based on the research we have undertaken for our *Charting a Sustainable Course* series of publications, we also believe the guidance addresses the right issues:

1. The focus on long-term resilience is necessary if we are to maintain services in the long term in the most cost effective way. Failing to address known challenges today is likely to result in more expensive solutions in future years. We particularly welcome:

The twin track approach set out in the draft to maintain future water supplies (for a larger population) through a combination of demand management and new supply solutions.

Reducing leakage and helping customers to use water more efficiently are crucial. Demand-side measures alone are, however, unlikely to be sufficient. The sector will also need to invest efficiently in new resources and develop greater connectivity of supplies. The 50 year plan recently published by the water sector sets out a practical, evidence-based way forward.

The draft government guidance provides the right challenge to the water sector to use a balanced approach to enhance the resilience of water supplies for the long-term.

The challenge to improve waste water planning, to enhance resilience against flooding and to promote the sustainable use of natural capital to ensure the long-term resilience of waste water services. We also welcome the fact that these objectives support each other. The challenge to provide clearer long-term plans will help focus the necessary investment to protect services, the environment and to enhance natural capital.

2. The focus on going further to identify and support those customers who are struggling to afford their water charges is important socially, economically and for the long-term health of the water sector.

The water sector is more efficient than it ever has been and delivers excellent value for money. We must not, however, lose sight of the fact that a significant minority of customers struggle to afford their water (and other utility) bills. The draft guidance draws specific attention to this critical issue.

We are proud that Severn Trent offers its customers the lowest overall bills in the country and we will continue to work to provide excellent value for money. We recognise, however, that the primary test for affordability should be how any changes affect the most financially vulnerable customers.

3. The focus on innovation and even greater efficiencies, by using markets and market-like mechanisms, is an important means to achieving the broader objectives of the water sector.

A highly efficient and innovative water sector is necessary to enhance resilience and ensure services are affordable, particularly for financially vulnerable customers. Although the supply of water services is largely a natural monopoly, Severn Trent has long argued that the introduction of markets

and market-like regulatory mechanisms, where they make sense, has an important role to play in promoting even greater efficiency and innovation.

Specifically, we support the approach to introducing markets to water resources, bio-resources and non-household retail. We also support the use of direct procurement for large, stand-alone projects such as supply inter-connectors.

The area in which we believe greater progress could now be made is with the use of Outcome Delivery Incentives (ODIs). ODIs are an important innovation that have proved very effective at aligning the interests of companies with those of customers. We would like to see an increase in the scale of ODIs.

In short, we believe the government's draft guidance establishes the right policy framework in a clear and concise way. The crucial test will be whether the outcomes delivered by the water sector meet the challenge set by the government's guidance. To monitor progress on this, we suggest that the government considers announcing now that it will publish a report in 2020, after the final determination of company's business plans, on the progress that has been made on the stated priorities. This will provide a clear and healthy focus for regulated companies and the industry as a whole.

We look forward to both delivering the government's objectives and achieving even better outcomes for our customers, both now and in the long term.

Yours sincerely

Liv Garfield