Following the oral evidence session on 11 July I am writing to provide the additional information asked for by the committee and to offer one point of clarification.

On the point of clarification, during the oral evidence session I said “the matter of compulsory metering is a matter for Government and it is governed by primary legislation”.

That is true, but I want to make sure that the position is absolutely clear. It is right to say compulsory metering is a matter for Government and universal compulsory metering would require primary legislation. However, for completeness, I should also make clear that secondary legislation could be used to extend the circumstances in which water companies can choose to impose metered charges on household customers.

On the areas of additional information, the committee was interested in the composition of company debt, and the review we commissioned from Water UK on water companies’ co-operation and collaboration.

You also commented on the possible changes to the water company licence modification regime that might benefit our system of regulation and I thought it might be helpful if I addressed this point, too.

Company debt

The committee expressed an interest in company debt. We believe companies are best placed to manage how they finance the investment needed and debt finance has an important and appropriate role in that. In terms of the level of debt, as at 31 March 2017, the net debt of regulated companies was £47.7bn.

We don’t have a figure for debt that has been incurred in relation to changes of ownership, but we can advise that as at 31 March 2017, £5.1bn was loaned from regulated companies to parent companies. Typically these loans were put in place when the companies were acquired or refinanced. Since 31 March 2017 we are aware that at least £1.6bn of the loans to parent companies has been repaid, leaving a balance of £3.5bn. In terms of the figure for investment in regulated activities, since privatisation, there has been more than £140bn invested in the sector.

Reviewing how water companies co-operate and collaborate

The committee was interested in the work Water UK are doing to co-ordinate a review of how companies collaborate, especially in circumstances like those
experienced following the ‘beast from the east’. In particular, Water UK will report back to us by the end of September on companies’ response on the following areas:

a) Establishing a co-ordinated approach regarding the sourcing and delivery of bottled water and other alternative water supplies in emergency situations.

b) Sharing best practice regarding communicating with customers and key local stakeholders before, during and after incidents to ensure they are well informed and kept up-to-date. This will include how best to target communications and support to different types of customers, particularly those in vulnerable circumstances.

c) Sharing best practice between companies regarding emergency response.

d) Considering how to improve the co-ordination and the sharing of information between wholesalers, retailers and business customers in emergency situations.

If helpful, we would be happy to share details of that work when we receive it in the autumn.

Licence changes

Currently, to make changes to water company licences, we need their consent, failing which we have to take the matter to the Competition and Markets Authority.

This requirement is significantly out of step with other regulated sectors whose regimes were reformed and updated a number of years ago. While effective appeal mechanisms are important, there is no question that this old-fashioned mechanism impedes the pace and extent of change we can deliver, raising questions about the long-term desirability and effectiveness of this approach.

We simply think it would be appropriate for Ofwat to be given more modern powers to make licence changes, with commensurate appeal mechanisms, to allow us more readily to introduce changes where required to serve customers’ interests.

I hope this is a helpful follow-up and if there is more information or further clarification the committee requires, please do let me know.

Yours sincerely,

Rachel Fletcher
Chief Executive

August 2018