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By email

SOUTH WEST WATER ACQUISITION OF BOURNEMOUTH WATER - RESPONSE TO CMA FROM CHARLES HOWESON (IN THREE DIFFERENT CAPACITIES)

Following the acquisition of Bournemouth Water by Pennon Group and in response to the CMA's invitation of 10 June 2015 to provide views on whether the merger has or may be expected to prejudice the ability of the Water Services Regulation Authority, Ofwat, to make comparisons between different water companies I am pleased to submit some observations.

THE THREE ROLES IN WHICH I NOW MAKE COMMENT

Firstly, I would like to record my role as Chair of both South West Water and Bournemouth Water's Customer Challenge Groups during the PR 14 process where, as an independent Chair I led the two Committees quite separately in challenging and testing their respective company's plans.

I have also been the Defra appointed Chair of CCWater's Western Region Committee (covering an area that included both SWW and Bournemouth Water as well as three other Companies) since 2005, only standing down in January 2015 at the end of my term. In this capacity I also led the PR09 process for all five companies in the South West.

I have very recently been appointed Chair of South West Water's WaterShare Panel, following a competitive process led by the Company's Non-Executive Directors. I tell you all of this to indicate the length and depth of my experience in scrutinising, challenging and at times supporting the businesses in their delivery of service to their customers and stakeholders, from an entirely independent position.

THE BOURNEMOUTH ACQUISITION

I have consulted a number of my former colleagues (and now copy the key personae from all three groups on the conclusions jointly reached). I have encountered no dissenting views to those recorded below.

Our overall view of the acquisition of Bournemouth Water by Pennon Group is that this is an opportunity for the customers of both companies to benefit. As a result of the merger I would expect to see Pennon delivering improvements in a number of areas which I set out below.

Bournemouth Water has been a leading company throughout my period in office with

CCWater at both a national and regional level in terms of customer service performance.

South West Water has made significant improvements during that time but was robustly challenged by my CCG at PR14 and has committed to do more on SIM. Integration of customer service operations will provide such an opportunity. I would expect Pennon to deliver performance improvement for SWW, with no reduction for Bournemouth Water.

During the PR14 process South West Water was able to demonstrate an innovative approach in a number of areas. Areas that may be relevant to Bournemouth Water's customers include:-

- affordability and social tariffs where SWW has taken a leading role in the industry,
- catchment management where the company's 'Upstream Thinking' approach presents efficiency opportunities for future customers, and
- Watershare which provides transparency in the sharing of net outperformance gains between customers and investors.

I would expect Pennon to apply these approaches to Bournemouth Water for the benefit of its customers in due course.

Turning to the question of loss of comparator. It would appear from the last Price Review Process in which I was fully engaged, that as much can be achieved from companies in terms of efficiency and service improvement through requiring a plan to be developed by deep and broad customer engagement, and reflection of customer views and priorities, as can be achieved by comparative competition. The plans produced for PR14 were substantially more focused on the desires of customers than previously, and I observed through the process, the company Boards pushing themselves to achieve greater efficiency commitments and investment rationalisation than the former approach of regulator led comparative competition appears to have done.

I would therefore question whether 'loss of comparator' is in fact the right question. Furthermore, we are expecting the shape of the industry to change in the coming years as competition is introduced across parts of the value chain, and separate price controls offer the chance for growth or divestment. In this context comparators may be less relevant as markets open up to real competition rather than a proxy.

In my new role as the first Chairman of South West Water's WaterShare Panel I will be leading an independent committee, which will include the main regulators, in holding South West Water to account for delivery of all its PR14 business plan commitments and efficiency challenges. I would not expect to see any diminution in delivery as a result of the acquisition, and indeed will be providing challenge around the opportunities that the merger can offer. I would expect that Bournemouth Water's WaterView Chair will be doing the same.

CONCLUSION

My work with both Company's CCGs has given a detailed insight into the operation of the Boards and the underpinning governance. The oversight of experienced NEDs and transparency brought by being part of a quoted Group can only strengthen the sustainability of a business with long term benefits for all its customers.

In conclusion I believe there is more to be gained than lost from bringing the two companies together and I would expect that I and my Committee would play a key role in ensuring

that there is no detriment to customers.

Finally, in terms of my experience within a wider regulated environment, I enclose a copy of my present and past appointments together with my full contact details.

Charles Howeson

Former Chair, Bournemouth CCG PR14

Former Chair, South West Water CCG PR14

Chair, South West Water WaterShare - 2015 onwards