



Regulating the water and sewerage
sectors in England and Wales

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Overview of the sectors



There are 21 regional monopoly companies

10 companies provide both water and sewerage services and 11 are water only companies

335,000 km network and 24 million+ connections

Annual turnover is £9.2 billion (1% of GDP) – £94.5 million is invested every week

Competition is limited to inset appointments and water supply licensing

Overview of the sectors



Standard setters:

EU

Westminster

Welsh Assembly Government

Economic regulator:

Ofwat

Quality regulators:

Drinking Water Inspectorate

Environment Agency

Consumer body:

Consumer Council for Water

AND...consumers

Who we are



Economic regulator of the water and sewerage sectors in England and Wales

Small non-ministerial government department set up when the companies were privatised in 1989

Independent of government and the water companies, but accountable to Parliament and the Welsh Assembly Government



Northern Ireland and Scotland both have separate economic regulators

What we do



Make sure the companies provide customers with a good quality, efficient service at a fair price

Limit the prices companies can charge and make sure that bills are kept as low as possible

Monitor the companies' performance and take action, including enforcement, to protect consumers' interests

Set the companies challenging efficiency targets

Make sure companies deliver the best for consumers and the environment in the long term

Encourage competition where it benefits consumers

Before privatisation

- Neglected infrastructure
- Increasing leakage
- Lack of investment
- High industry debt
- Less efficient companies
- Taxpayers unwilling to spend more
- Little incentive to improve service
- Drinking and river water failing quality tests
- Lower compliance with environmental standards
- Political interference



1989 – privatisation

- Water Industry Act 1991 defined roles and responsibilities of water companies
- Created regulators (Ofwat, DWI and EA)
- Introduced medium-term incentive-based price cap regulation



Ofwat – Protecting consumers, promoting value and safeguarding the future

What we have achieved so far



Leakage has fallen by 35% since peak in 1994-95



£80 billion has been invested. Companies are more efficient – bills are 30% lower than they would have been



Network is functioning better – more companies have stable serviceability than ever before



Water and environmental quality has improved – fish in the Thames again



Customer service is significantly better than 17 years ago – only 4,825 properties (0.02%) are now at risk of low water pressure, compared with 344,259 (1.6%) properties in 1990-91

Monitoring performance



We publish an assessment of service and delivery each year

Companies are making progress, but there is no room for complacency



Service mostly good but we are monitoring service failures



Seven companies' supply levels could lead to hosepipe ban once in ten years



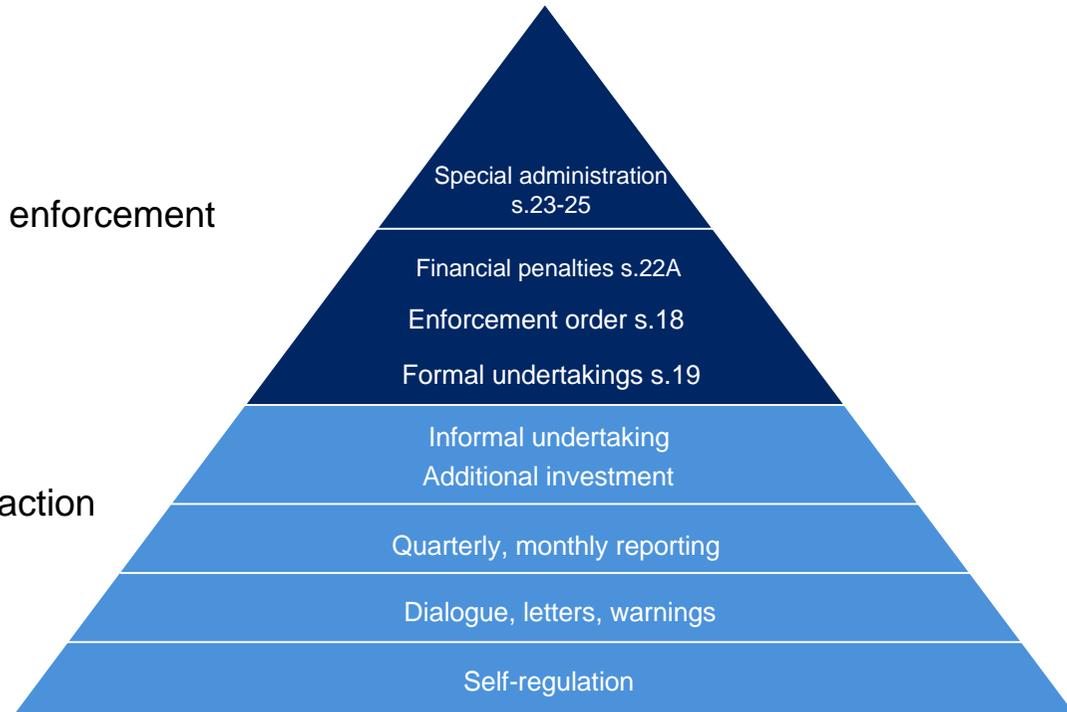
Leakage targets met in 2007-08 but still 3,291 Ml a day – enough to fill almost three Wembley stadiums. We will reset targets in 2009

Current performance – enforcement



Formal enforcement
action

Regulatory action



Total financial penalties since 2005: £74.3 million
(€85.5 million)

Current performance – financial



Duty to ensure the companies can finance their functions

Companies have maintained financial indicators consistent with investment grade credit rating

Expenditure is pre-funded until 31 March 2010

Current performance – expenditure



Capital investment in 2007-08 – £4.9 billion

Overall investment still 9% below expectations

Capital maintenance 5% above expectations

Increased investment and improved management has led to better serviceability



Total capital investment since 1989: £75 billion (€83.3 billion)

Capital expenditure over next 18 months



Companies are asking for £8 billion

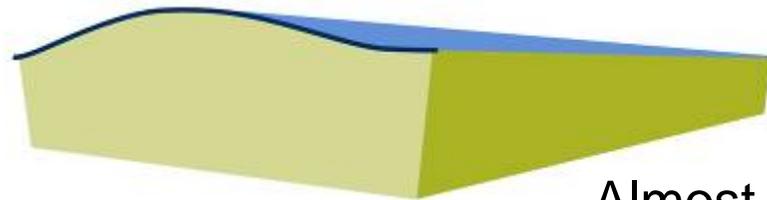
£8 billion can buy:



10 Wembley stadiums



25 hospitals



Almost two Heathrow Terminal 5s

Setting price limits



We set price limits every five years

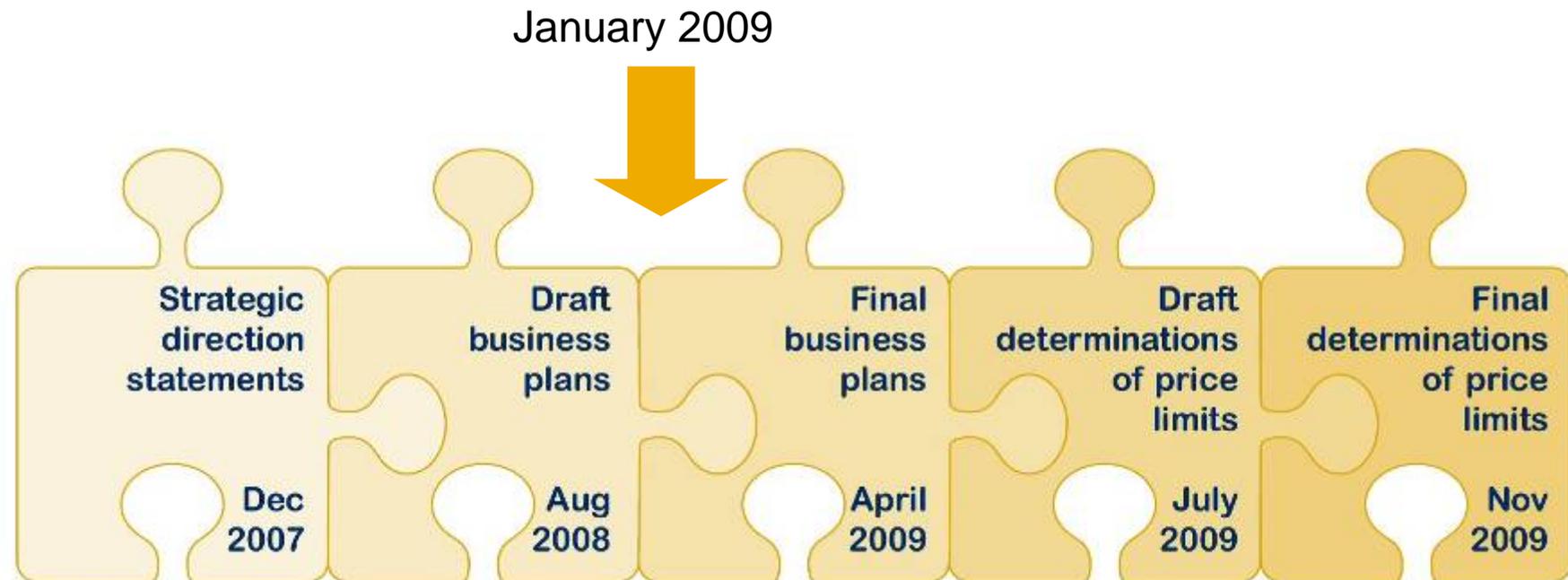
In 2009 we will set price limits for bills in 2010-15

Companies are only allowed what they need to meet consumers' needs and deliver national and EU requirements

We consult widely on our plans

We monitor each company's performance against its investment programme

Setting price limits for bills in 2010-15



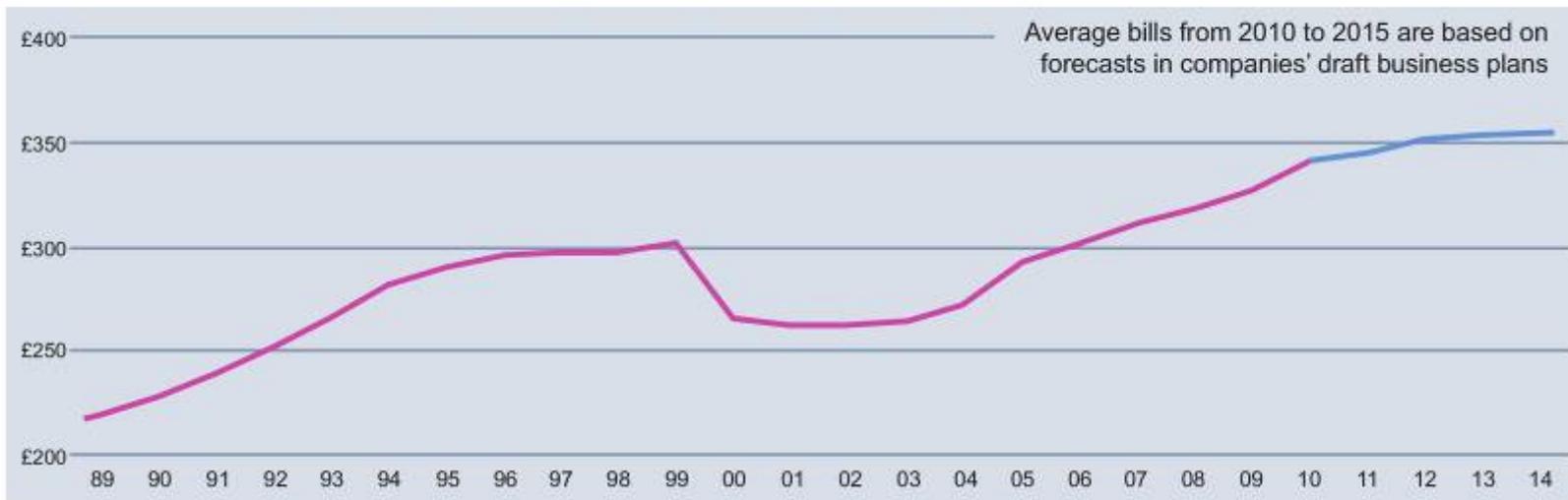
Average bills



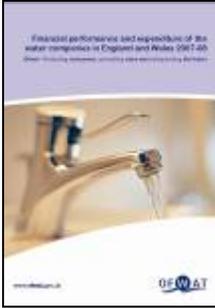
Water and sewerage services cost around 90p a day

Since 1998, average water and sewerage bills have increased by £23 (in today's prices)

Average bills 1989-2014 in 2007-08 prices

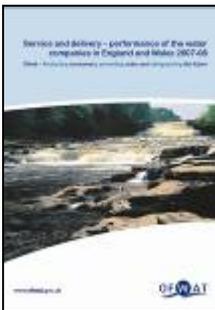


Useful documents



Financial performance and expenditure of the water companies in England and Wales 2007-08

<http://www.ofwat.gov.uk/regulating/reporting/>



Service and delivery – performance of the water companies in England and Wales 2007-08

<http://www.ofwat.gov.uk/regulating/reporting/>



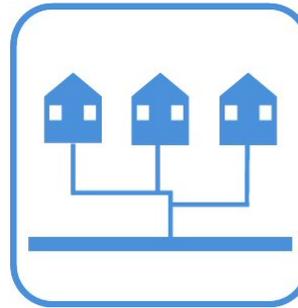
Setting price limits for 2010-15: overview of companies' draft business plans

<http://www.ofwat.gov.uk/regulating/reporting/>

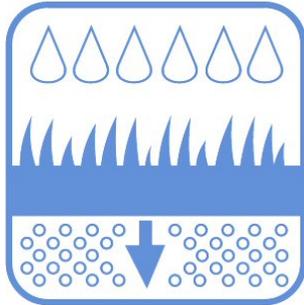
Future challenges



Climate change already bringing more droughts and floods



Need resilient infrastructure – network is 335,000 km long, much of which is ageing



Building on flood plains increases burden on drainage systems



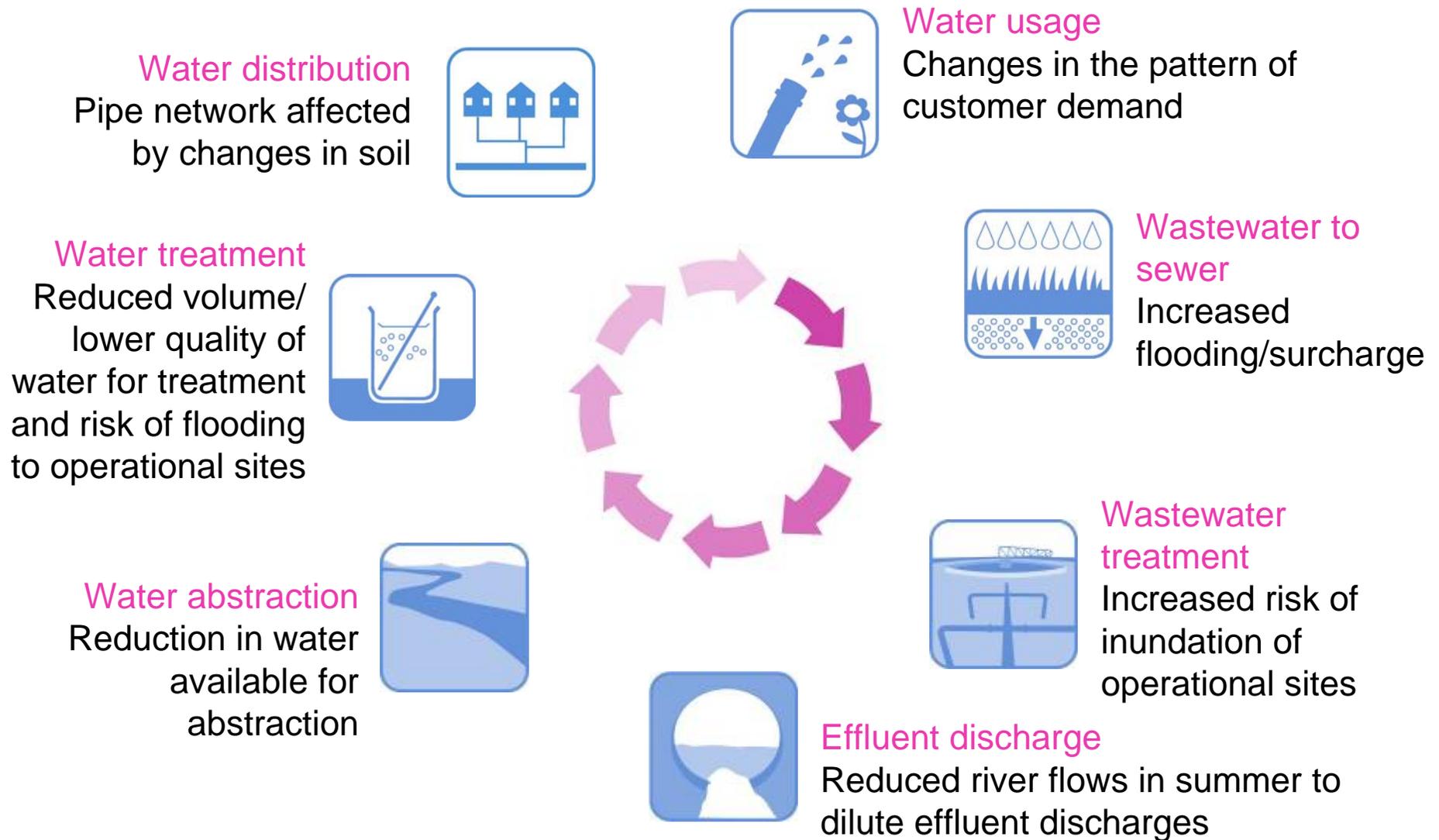
Growing population – UK will have largest population in EU by 2060



Rise in single households, which use more water. Need to be more water efficient

Water is the new oil
– Goldman Sachs

Climate change risks



Our commitments



Assess the effectiveness of including the shadow price of carbon in cost-benefit analyses

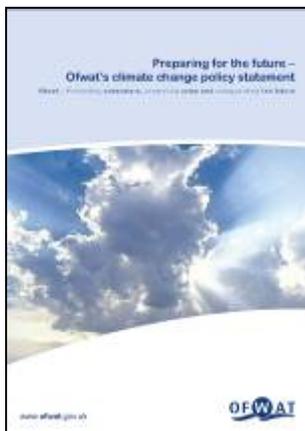
Publish a wide-ranging summary of climate change adaptation

To develop the reporting of non-CRC greenhouse gases and consider the case for further policy instruments in this area

To re-examine serviceability indicators in order to 'climate proof' asset management and performance

Publishing our own carbon footprint for the first time

Our climate change statement



Climate change policy statement:
Integrates existing policy
Contains new policy messages
Contain new actions for us

Commitment to acting in consumers' interests to
face long-term challenges



<http://www.ofwat.gov.uk/sustainability>

Developing the regulatory regime



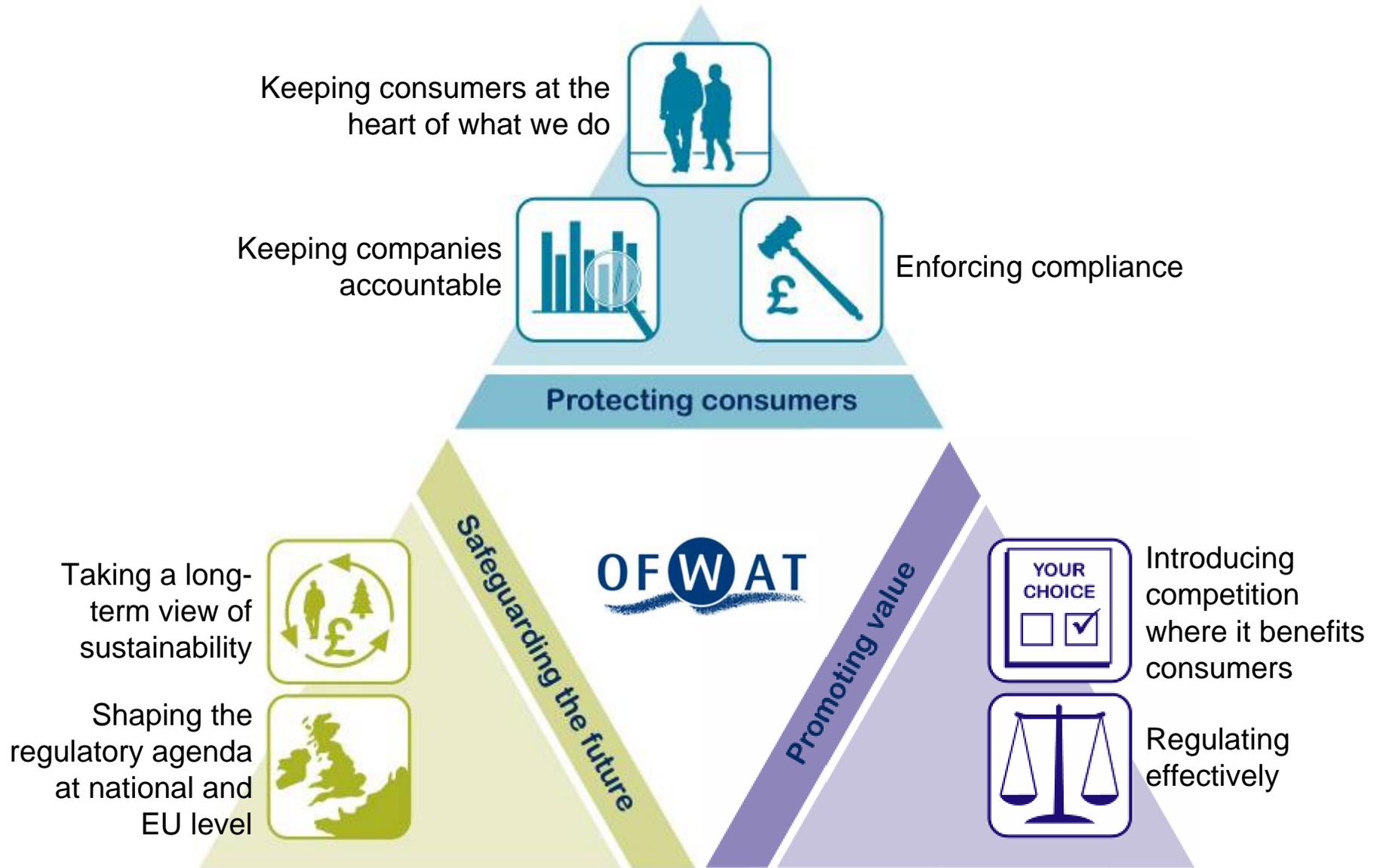
Regulation has delivered a lot

BUT... future challenges

Need improved regulation and effective market mechanisms

Cave review and Floods and Water Bill

Our strategy



Ofwat – Protecting consumers, promoting value and safeguarding the future

Further information



Any questions?



Further information:

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