The role of effective regulation in delivering good-value water services – a UK case study

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Overview

Introduction

Before and after – UK since privatisation

Effective independent regulation

Accountability

The future
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

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 £10 billion (1% of GDP) – £94.5 million is invested every week
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

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What has been achieved so far

- Leakage has fallen by 35% since peak in 1994-95
- £98 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 – 119 Blue Flag beaches and fish in the Thames again.
- Customer service is significantly better than 21 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.

Water today, water tomorrow
Effective independent regulation

UK Parliament, Welsh Government and EU make decisions on legal standards

UK and Welsh Government set policy framework

Ofwat makes sure companies are able to finance their functions and deliver what is required within the price limits we set

The Drinking Water Inspectorate implements and enforces water quality regulations

The Environment Agency implements and enforces water abstraction and environmental quality

The Consumer Council for Water (CCWater) represents customers
We must comply with statutory duties as set out in the Water Industry Act 1991, as amended by the Water Act 2003.

We regulate only appointed companies, not their holding companies.

Core water and sewerage activities are ring fenced.

We make sure the companies can finance their functions and we promote economy and efficiency.

We are financed by licence fees recovered from the companies – budget £18 million.

We are accountable to Parliament for the money we spend.
Future challenges

Water today, water tomorrow
Future challenges

Changing climate could bring 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 UK population – predicted to reach 71 million by 2031

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

Water is the new oil – Goldman Sachs

Water today, water tomorrow
Valuing our water – the River Kennet at Marlborough

Water today, water tomorrow

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Valuing our water – the River Itchen

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Thank you and questions