

NO ROOM FOR COMPLACENCY

Water companies in England and Wales still have much work ahead of them despite improving [performance](#) during 2006-07.

We have examined the [annual returns](#) from the 22 water companies and have found that, in general, performance has improved compared with last year, with investment up nearly a quarter. However, we still have concerns about poor performance in key areas at Severn Trent Water, Southern Water and South East Water.

Our Chief Executive Regina Finn said: "While the water industry generally continues to meet its customers' needs, there is certainly no cause for complacency. And there are some companies where we have several key concerns."

One key area where the industry has continued to make good progress is on [leakage](#). Water companies in England and Wales reduced the amount of water lost to leakage by nearly 160 million litres of water a day (Ml/d) –

around 65 million litres a day more than the industry target.

In fact, only one water company, Severn Trent Water, did not meet or exceed its target. But we have secured a legal undertaking from the company that binds it to achieving its leakage reduction targets for the

next three years and improving its ability to deliver its planned level of water service to consumers. The company has underpinned this with a commitment to spend an extra £45 million at the expense of its shareholders. It has also agreed to reduce charges to its customers in 2008-09 by around £12 million.

By numbers

£4.3 billion

Investment in new facilities and maintaining existing assets by water companies last year.

65 million

Litres of water by which the industry has exceeded its leakage targets.

21

Number of companies that

met or exceeded their leakage targets in 2006-07.

£45 million

Extra investment in leakage reduction Severn Trent must do at expense of shareholders – after failing its leakage target.

£12 million

Money being returned to Severn Trent customers after the company failed its leakage target.

Pressing ahead



Tony Moran, our new Head of Media and Sustainable Development.

Whether dealing with journalists at Channel 4 News and BBC Radio 4 or reporters on the 'Financial Times' and the 'Birmingham Post', our press office handles the headlines and deadlines associated with the media.

The team deals with media enquiries, produces press notices and provides advice on our policies, as well as helping widen understanding of our work by writing and placing articles in a range of professional publications.

It is led by Head of Media and Sustainable Development Tony Moran, who recently joined us from Walsall Council, where he headed up the authority's communications team.

Before moving into local government PR eight years ago, Tony was a senior

journalist on daily and weekly newspapers across the West Midlands.

His role is a new one for us and poses some key challenges.

Tony said: "Communications are very important for Ofwat, particularly in the run-up to our next price review in 2009, when we will set the limits on what water companies can charge customers over the following five years.

"We are committed to protecting consumers, promoting value and safeguarding the future, and have a vital role to play in promoting sustainable development across the water industry.

"We aim to help the industry meet consumers' future needs without placing extra burdens on the planet.

"We have already asked water companies to submit 25-year plans on how they propose to tackle issues such as climate change and increased housing development," he said.

"Sustainable development is integral to Ofwat's approach to the 2009 price review and all our work. The press team's job is to communicate that to customers, industry and the wider world."

FORWARD LOOKING

It might only seem like yesterday that we published our final 'Forward programme for 2007-08 to 2009-10', but we're already looking ahead to our next forward programme (for 2008-09 to 2010-11).

Each year we publish our programme of work for the coming year, along with our strategic priorities for the two years beyond that. We plan to publish the draft for consultation this autumn. We will then publish the final version in spring 2008, taking comments from our stakeholders into account.

As part of Project Explain (see page 5), we are considering making both our draft and final forward programmes primarily web-based publications to fit with our sustainability duty.

We'll be releasing further details later in the year; including how we'll be making sure our stakeholders have plenty of opportunity to give us their views on our work. So watch this space!



Storm warning

Companies will need to learn the lessons from recent storms.

The storms created exceptional circumstances, where flood defences, storm drains and sewers were overcome by the sheer volume of water. Hundreds of thousands of people across Gloucestershire were left without water after severe flooding knocked out a key treatment plant.

We were already ahead of the game before the floods, having asked water

companies to publish 25-year strategic direction statements setting out how they intend to meet their consumers' needs in the longer term. This allows companies to set out their plans for meeting challenges such as climate change and increased housing development.

Our Chief Executive Regina Finn said: "We had already asked companies to prepare strategic direction statements both to contribute to our next price review in 2009 and help the water industry plan for future challenges.

"Recent floods highlight the importance of long-term planning. If weather patterns like these are to become more frequent, everyone will need to reassess their impact on all critical infrastructure, not just water and wastewater.

"Ofwat will focus on planning and investment in water and wastewater. We will work closely with other stakeholders, including Defra, the Environment Agency and local authorities who have responsibility for storm drainage."

"Though this be madness, yet there is method in it"

So said Polonius in 'Hamlet'. In another part of the play Hamlet called Polonius a "tedious old fool". But Polonius eventually contributes to a general improvement in the level of understanding of the underlying problems. Even so, Polonius never gets the recognition he deserves...

So where are we on the methodology paper (our how-to guide for carrying out the price review) due for publication in October this year? As I write this (August) we are pretty much still in the madness phase – plenty of healthy 'debate', still 'everything to play for'.

Admittedly, much of our proposed methodology is well founded in the regulatory approach to previous price reviews and takes account of the lessons learned in 2004 or developments since then.

That does not mean there is nothing exciting, challenging or new in the document. Highlights will include consideration of menu regulation (method or madness depending where you stand), and our approach to financing assumptions. All set in the context of meeting the twin challenges of introducing competition and tackling climate change.

We hope that a clear theme is 'think long term'. We encourage the companies to take even more ownership of the process – we have already asked for their views on their strategic direction. And we want companies to respond to this consultation in the same longer-term frame of mind, putting forward proposals for a future that is sustainable in all senses of the word.

**Mark "Polonius" Hann
PR09 Policy Co-ordinator
and Project Manager**

The future of competition...



In July we [launched](#) a consultation that could help us decide the future for competition in the water and sewerage industries.

Earlier this year we published the outcomes of our internal review of competition in the water sector which looked at various aspects of the current competition regime, including water supply licensing (WSL), inset appointments and self-lay.

We followed this up in July with our '[Consultation on competition in the water and sewerage industries in England and Wales](#)'. This sets out for debate a range of change options for the current WSL regime and wider long-term changes that could be made to promote competition in the water and sewerage industries.

For example, options to improve the existing WSL regime include:

- adopting a new access pricing system that better reflects the costs of access for new companies entering the market; and

- recommending a significant one-off reduction in the current eligibility threshold of 50 million litres of water a year.

Some of the wider long-term changes include:

- separating the different parts of the water supply and wastewater collection services to open them up to competition, for example separating water treatment and distribution;
- extending competition to household customers; and
- extending competition in the production and abstraction of water.

We will also be holding a workshop on the review of competition on Monday 10 September at Austin Court, Birmingham. This is a follow-up to the workshop we held on Friday 20 July and will allow our stakeholders a further opportunity to debate issues raised in the consultation. It will also allow those who did not attend the previous workshop to give us their views.

We will use the results of the consultation (closing date: 28 September) and workshops to develop our next steps on competition.

Further information on competition, including other documents we have published recently, can be found in the [competition area](#) of our website.

Water savings targeted

Water companies in England and Wales will soon be reporting against voluntary water efficiency targets in a move designed to target further water savings.

We recently [wrote](#) to each water company setting out the method we want companies to use to calculate their water efficiency target, against which we will use to monitor their progress over the next few years.

The water efficiency target builds on water companies' existing duty to promote the efficient use of water to their customers and we will expect companies to develop their plans for meeting the target with reference to our '[Water efficiency initiatives – good practice register](#)'. Companies' individual targets will not be mandatory, but they will provide a valuable opportunity to gather further evidence before developing more refined targets at the 2009 price review.

Developing incentives for companies to improve their promotion of water efficiency is just one part of our work as a member of the government-led Water Saving Group (WSG). WSG is made up of key stakeholders, such as the Environment Agency and the Consumer Council for Water, working together in practical ways to promote the efficient use of water in households.

CONSUMER FOCUS

Consumers now have a new web page to help answer their commonly asked questions about the services they receive from water and sewerage companies.

Over the last couple of months, we have refreshed the [Consumer Issues](#) section of our website to make it more useful to consumers. It now contains information reflecting the range of issues consumers ask us about.

We hope that by refreshing the section and making it accessible from all parts of the website it will provide consumers with a useful resource that answers the questions they want to ask.

We want to continue to develop and improve the information we publish. We would therefore welcome any [feedback](#) on this, or any other part, of the website.

Jackie Cranmer
Head of Library and Information Services



The new 'Consumer Issues' section on our website, which was launched in August.

We've got some Explain-ing to do



Project Explain, which was launched in June, is reviewing the information we communicate to stakeholders and how we do it. We want to make sure that the information is clear, easy to understand and presented in the most relevant format for our different audiences – whether they are consumers, the water industry, the City, other regulators or Government.

Our first step has been to look at the information we publish in our 'Big five' industry reports. We are thinking about different ways of reporting how the water industry is performing, by focusing on the key messages coming out of this year's June returns. But Project Explain doesn't finish with the 'Big five'; we aim to take a fresh approach to all our publications.

So, what will this mean for stakeholders? Well, while the next four industry reports will follow more or less the same timetable as previous years, stakeholders will notice a change in the way the

information is presented. We are looking to publish shorter reports, covering key messages and industry data, with detailed explanations and supporting information provided on our website.

Each report will have its own web page so that stakeholders can access the information they need quickly and easily. Hard copies of the reports will also be made available to those stakeholders who need them.

This year's 'Financial performance and expenditure' report will be the first to be published in this new format at the end of September. We welcome your thoughts on this new approach when the reports are published – please e-mail your comments to us at louise.bickley@ofwat.gsi.gov.uk.

Louise Bickley
Project Manager,
Project Explain



Project Explain – a fresh look at the information we communicate to stakeholders and how we do it.

All change please!

During the summer we have made a number of staff changes to make sure we continue to develop and deliver across all parts of our work. These are as follows.

- **Ingrid Olsen** (formerly Head of Parliamentary and Public Affairs) has moved to the new role of Head of Enforcement Policy with responsibility for developing our policy on enforcement, investigations and fining.
- **George Day** now leads the Asset Strategy Team (formerly Capital Maintenance), which brings together work on capital maintenance, climate change policy and innovation. He is

also interim Deputy Director of Network Regulation Division.

- **Tony Moran** (see page 2) has joined us to become Head of Media and Sustainable Development.
- **Ian Hulme** is acting Head of Parliamentary and Public Affairs.
- **Paul Hope** (formerly Head of Tariffs) heads up the new Water Resources Economics team, which brings together supply/demand, water efficiency, leakage, metering and links to future tariffs policy.
- **Helen Twelves** (formerly Head of Supply Demand Balance) leads the Comparative Efficiency team.

- **Lynne Currie** heads up the new Customer Charges team (formerly Tariffs), which will look at water and sewerage charges with a new focus on large users.
- **Mark Hann** (formerly Head of Comparative Efficiency) has taken on the new role of PR09 Policy Co-ordinator and Project Manager.

All of the staff changes have now taken effect.

If you are in doubt about who to contact on a particular issue, please use your existing contacts and you will be directed to the appropriate person.

News in brief...

We published a discussion paper (closed 6 July) and held a workshop on our approach to [expenditure and incentives](#).

We wrote to companies setting out the results of our [review of the price control mechanism](#), which will be part of our proposals for carrying out the next price review in 2009.

Our Memoranda of Understanding with the [Environment Agency](#) and the [Consumer Council for Water](#) have been laid before Parliament.

As part of Project Reservoir, updating our IT infrastructure, we held a [workshop](#) for our stakeholders in July to discuss progress and particular issues.

We also published our [annual report](#) for 2006-07 and our [resource accounts](#) for the year ended 31 March 2007.

Key dates

- Workshop on the review of competition at Austin Court, Birmingham – **10 September**.
- Publication of 'Financial performance and expenditure of the water companies in England and Wales 2006-07 report' – **late September**.
- Publication of 'Security of supply, leakage and water efficiency 2006-07 report' – **mid-October**.

Next issue – November 2007

For more information about Ofwat and the work we do, visit our website at www.ofwat.gov.uk. If you have any comments about this issue, or suggestions for future issues, e-mail the editor at dylan.spedding@ofwat.gsi.gov.uk.