



Price review update

Issue 2, March 2008

The newsletter of the 2009 price review (PR09)

PR09 – YOUR VIEWS ON HOW TO DO IT

We have been busy asking people what they think about how we intend to carry out the next price review – PR09.

Our consultation started on 18 October 2007, lasted for three months and we received 51 [responses](#) about our proposed methodology.

We have considered these comments in reviewing our approach and we are today publishing our final strategy paper, 'Setting price limits for 2010-15: Framework and approach'. This outlines how we will conduct the price review. We are setting out our approach to issues raised in a high-level consultation response review document and placing the consultation responses on our website.

Many people have backed our general approach to setting price limits; in particular, how we plan to tackle sustainability and a adopt a longer-term framework.

This is only the start of the



review process, which will end in November 2009 when we publish companies' final price limits.

Our work to keep prices down, including setting price limits, giving companies tough efficiency challenges and incentives, and maintaining the delivery of outputs, has kept customers' bills about £100 lower than they would otherwise have been. Since

privatisation companies have invested about £70 billion in improving water quality and the environment, and in maintaining company systems.

If companies outperform our assumptions, this allows them to make profits, satisfying their shareholders and investors. This is good news for customers too, as all such savings are passed on at the next price review through lower bills.

We believe that the total package which makes up the methodology is the best fit to meet our objectives. We want to make sure that the prices that customers pay in the period 2010-15 are at a level that allows efficient companies to deliver sustainable, value-for-money water and wastewater services now and in the future.



Protecting consumers, promoting value and safeguarding the future

COMPANIES' BLUEPRINTS FOR GREEN FUTURE

The water industry faces new challenges; increasing customer expectations, the impact of climate change, volatile weather and the demands of a growing population.

We wanted companies to take ownership of their long-term plans and so we asked each one to develop a 25-year strategic direction statement, setting out how it intends to meet its consumers' long-term needs.

We received all the [strategic direction statements](#) by the middle of December 2007. Earlier this year we met with each company to discuss its strategy and understand how this will affect its approach to PR09.

The documents cover issues such as the companies' approach to climate change and sustainability, charging strategies and the impact on customers' bills, risk management and their financial strategies.

PR09 – the next steps

Phase 2 – Setting the scene

August 2008: Each company will publish a summary of its draft business plan.

September 2008 to January 2009: Joint stakeholder research into consumers' views on issues arising from draft business plans.

Phase 3 – Decisions and determinations

April 2009: Each company will publish a summary of its final business plan.

July 2009: We will publish draft determinations for comment.

September/October 2009: We will meet companies and CCWater to consider representations on draft determinations.

November 2009: We will publish our final determinations.

Phase 4 – Implementation and evaluation

January 2010: Companies decide whether to accept price limits or to seek a referral to the Competition Commission.

January/February 2010: Approval of charges schemes, setting out how new price limits affect consumers' bills.

April 2010: New price limits take effect.

April to September 2010: Evaluation of price review process.

Discovering what you want

We have a statutory duty to protect the interests of consumers, but how do we know what these interests are – especially when we make key decisions on price limits for PR09?

Well, we ask consumers directly and have a three-stage approach for involving them in the price review.

Stage 1: Each company has already asked consumers for their views as it developed its strategic direction statement (SDS).

Stage 2: In a structured, deliberative forum consumers have discussed what matters to them, what they think of the current service they receive and what their priorities are for the future. We expect a final report in April. This will help regulators develop policies and feed directly into companies' draft business plans.

Stage 3: Working with other stakeholders, we will survey 6,000 consumers for their first chance to say what they think about the services and bill impacts companies are proposing. This will help us understand what customers want and can afford. It will, in turn help us set draft and final price limits.

This is the second in a series of newsletters we will publish to keep you informed about the key stages of the 2009 price review. You will also find information on the PR09 section of our website at www.ofwat.gov.uk. If you have any comments about this newsletter, e-mail the editor at carolyn.baker@ofwat.gsi.gov.uk.