

H₂O ofwat

Quarterly newsletter

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The 'climes' they are a-changing...

As the world's focus on climate change increases, it sometimes feels that its potential impacts become more blurred. We learn that climate change may be reducing Greenland's ice shelf, yet also that increased precipitation could see ice levels rise in Antarctica.

The wealth of information can be dizzying. This year has already seen more than 20,000 news items related to climate change: from [whales losing blubber](#) to [cow dung](#) being employed as a fuel to reduce methane emissions.

The exact impact of climate change is an issue for debate, but that it will have an impact over the coming decades is beyond reasonable doubt. We are therefore taking a responsible and measured approach to climate change



and its implications for the water and sewerage sectors in England and Wales.

'Preparing for the future: Ofwat's climate change policy' gathers together our policies in relation to climate change in one document. Published on 31 July 2008, this is the first time we have issued such a policy.

In it we recognise that there are two serious challenges facing the sectors: one of mitigation and the other of adaptation.

Our Chief Executive Regina Finn explains: "This policy statement pulls together, in one single place, the comprehensive and wide-ranging policy actions Ofwat is taking to ensure the sectors are responding to the challenges of climate change."

Regina continues: "Responsibility for mitigating the impact of future climate change by reducing greenhouse gas emissions is something that all sectors of the economy, and we as individuals, share. The water and sewerage sectors must play their part in this agenda."

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OFWAT

Protecting consumers, promoting value and safeguarding the future

c-Ross-ing the competition divide



Cathryn Ross, our new Director of Markets

Cathryn Ross has recently joined Ofwat as Director of Markets. She will play a key role in working to achieve our aim of introducing competition progressively (see page 4) where it will benefit consumers.

Her other responsibilities include enforcement (see below), licensing and tackling

anti-competitive behaviour under the Competition Act 1998.

Speaking about her new role, Cathryn said: "I am delighted to be joining the Ofwat team at this exciting time. I look forward to leading the development and delivery of strategic goals on competition, market development and enforcement."

She continued: "Customers want competition and the ability to choose different suppliers and services that best meet their needs. We aim to bring effective competition to sectors which touch the lives of every person in England and Wales – driving excellence and innovation in services for water consumers now and in the long term."

Cathryn joins Ofwat from the Competition Commission, where she worked on a number of high-profile merger and market investigations over the past five years, including the merger of South East Water and Mid Kent Water. Before that, Cathryn was Head of Competition Economics at the Office of the Rail Regulator, where she worked on cases surrounding the Competition Act 1998.

Before beginning her career, Cathryn studied economics as an undergraduate at University College London, and then did a masters degree at the London School of Economics. She started her career as a research associate at the Regulatory Policy Institute in Oxford.

In her spare time, Cathryn enjoys playing golf, gardening and listening to classical music.

Further information about [competition](#) is available from our website.

Tendring Hundred fined

In August we published our [proposal](#) to fine Tendring Hundred Water 0.3% of its turnover – a total of £42,000 – for failing to provide us with reliable, accurate and complete information.

In September 2006, we published [details](#) of the accounting error that led to Tendring Hundred misreporting its revenue projections in its annual return in 2006. While there was no evidence of deliberate misreporting, the error led to incorrect price limits, and to its customers being overcharged. In April 2007, Tendring Hundred reduced bills by 7%, meaning customers had

their overpayment refunded, plus interest.

In other enforcement news, in July we [confirmed](#) that we were fining Severn Trent Water £35.8 million for deliberately providing false information to us and for delivering poor service to its customers. The size of the fine reflects how seriously we take the deliberate misreporting of information.

Severn Trent's shareholders will bear the entire cost of the fine. It will not be passed to customers.

What's the plan?

There was a great deal of news coverage following the publication of each company's draft business plan as part of our process for setting price limits for all companies in England and Wales for the 2010-15 period.

The plans set out in detail each company's proposals for investment to maintain long-term, high-quality water and sewerage services to consumers that represent value for money. Each of these draft business plans includes proposed price limits for the next five years. We have published one-page summaries of each company's plan on our website.

The purpose of the draft plan is to provide a basis for discussion with Ofwat and other stakeholders so that each company can produce a better

final business plan next April.

This is part of phase 2 of our process for setting price limits. We will use the draft business plans to get consumers' views as part of the customer research we are doing jointly with other key stakeholders.

In other PR09 news, we have published a number of letters to companies setting out in more detail our approach to setting price limits and providing further guidance to companies on preparing their final business plans. For example, in PR09/14 we set out how we will treat renewable energy schemes that the companies propose and PR09/13 provides further guidance to companies on sewerage system design and climate change.



Farewell Fiona

At the end of September Fiona Pethick, our Director of Corporate Affairs, will be leaving Ofwat after 18 years.

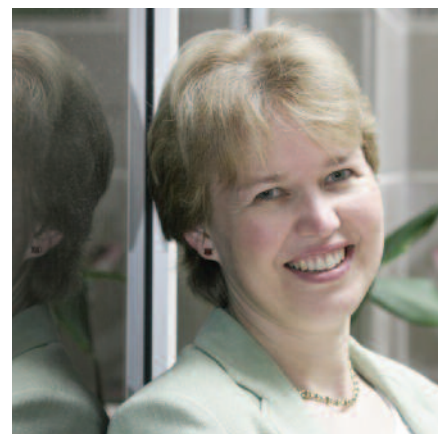
Fiona is leaving us to become the Director of Regulation for Ofqual, the new regulator of qualifications, exams and tests in England.

Fiona joined us in October 1989 when the water and sewerage sectors in England and Wales were privatised. Since then, she has led teams in a number of areas, including efficiency, competition and the 2004 price review.

Reflecting on her time at

Ofwat, Fiona said: "I've enjoyed the wide range of challenges and variety in all my many roles at Ofwat over the years. I can honestly say there has rarely been a dull moment. What I will miss most is all the people both at Ofwat and all the people I have met as a result of my various roles here."

She continued: "I feel I am leaving at what is a really exciting time for the sector and for Ofwat. Regulation has been hugely successful in delivering for consumers and I am pleased to have contributed to this. Now the focus is longer term and the potential for



Fiona Pethick, Director of Corporate Affairs

competitive markets will bring more benefits for consumers than regulation ever could."

Interim arrangements for Fiona's role will be announced in due course.

Continuing with competition

In April this year we set out in our [strategy](#) that we would introduce competition progressively where it benefits consumers. In May we published the [second part of our review into competition](#) in the water and sewerage sectors in England and Wales.

During the summer we have been feeding the results of our review into the Government's independent review on competition – but what else have we been up to?

June

We began a [consultation](#) into plans by Independent Water Networks Limited (IWN) to provide water services to a third new development in Northamptonshire. We also [announced](#) that, following Aquavitae (UK) Limited going into administration, we were revoking its water supply licence. And we [published](#) a summary of competition law cases during 2007-08.

July

We published final [guidance](#) to companies on preparing their compliance codes. Companies are required to prepare these codes as part of arrangements for Water Supply Licensing.

August

We launched a number of consultations, including:

- allowing a [third new](#)

[household water supplier](#) to enter the water and sewerage sectors in England and Wales – to supply a site at Tidworth, near Andover;

- [revised guidance](#) to companies on competition in providing water and service pipes and [guidance](#) for companies on financial

arrangements for self-lay and requisitioning agreements; and

- [revising our access code guidance](#).

September

We will publish our consultation on accounting separation for all companies in England and Wales in the next few days.

Consumer zone

Services for the vulnerable

During May we published [revised guidance](#) for water and sewerage companies on services for disabled, chronically sick or elderly consumers. Our guidance sets out the essential elements of the policy and procedures we believe each company needs to have in place to meet the needs of these consumers. This is to make sure that they are not disadvantaged when compared with other consumers.

Charges strategy

In August we published, following a consultation, our future [strategy](#) for customer charges for water and sewerage services. This set out the strategic charging issues the water and sewerage sectors face, our approach to future charges and our charging principles to ensure they provide a robust framework for protecting

consumers, promoting value and safeguarding the long-term future of the sectors.

International relations

We have published our [international comparisons report](#) – the only one of its kind in the world – in a new online format this year. The new web-based version allows easy and swift comparison of our water and sewerage sectors' performance with their counterparts in seven countries, from Portugal to Canada, Scotland to Australia.

We compare performance in a number of areas, including customers' bills and environmental performance.

We actively seek new partners with which to work. If you are interested, please e-mail us at internationalcomparators@ofwat.gsi.gov.uk.

June: The return

In July we announced that during 2007-08, water companies delivered improvements to customer services and the environment.

Some of the key highlights of the companies' performance in 2007-08 include:

- every water company in England and Wales either hit or beat its leakage target – saving enough water to meet the daily needs of nearly one million domestic consumers;
- the number of sewage treatment works seriously breaching permit limits set to protect the environment fell to the lowest level in the past 10 years; and
- where we had concerns about some specific companies' customer service and asset management last year, this has also improved.

The results emerged after we examined the 2007-08 regulatory information for all

water and sewerage companies in England and Wales.

Each company is required to send to us their information in June each year – we call this the 'June return'. This information is checked for accuracy and verified by independent consultants and auditors. We then analyse it to check each company's performance and the delivery of the outputs it agreed to within its price limits for the 2005-10 period. Where we have concerns about a company's performance we take action, which can include taking formal enforcement action.

We will be publishing each company's 2007-08 June return information on our website later this year. We will also publish our analysis and any action we are taking in our annual performance reports in the autumn (see 'Explain update').



Companies have delivered improvements to services

Explain update

It's been a busy summer for the Project Explain team.

Work has been progressing on the two new industry performance reports, with the first of these, the 'Financial performance and expenditure' report for 2007-08 due out on 26 September.

The second document, our new 'Service and delivery – performance of the water companies in England and Wales 2007-08' report, will be published in October. This report will show how companies have performed in delivering services to consumers and are managing their supplies and assets.

As well as working with teams on these reports, we have been preparing a number of consumer-focused leaflets to explain important issues such as why companies need to make profits and how companies are working to reduce levels of leakage.

This work is one of the key outcomes of the informal open morning that the Project Explain team hosted for Ofwat colleagues in the spring as it will fill the gaps in the information we currently provide to customers.

The first of the new leaflets will be published in the next month or so.

...and a-changing

(Continued from front page)

“Because the sectors are energy intensive, this raises particular challenges. The operational activities of the sectors contribute about 1% of the UK’s greenhouse gas emissions, which shows the scale of the challenge.”

The issue is one of many for consideration for PR09. Each company has been requested to include the shadow price of carbon in carrying out cost-benefit analysis across its business plan.

Regina explains: “This will enable the sectors to select the best mix of interventions to mitigate the impact of

greenhouse gases.”

Even if carbon emissions are kept in check, the issue of adapting to the impacts of climate change is equally, if not more, challenging.

Regina says: “Effective responses to climate change will demand leadership and innovative thinking.”

For PR09, companies have been directed to consider their long-term asset management plans in the context of emerging guidance and evidence on the impacts of climate change.

Regina continues: “Three key adaptation issues are asset

resilience, drainage and water resources; changing rainfall patterns will affect all these areas quite significantly.”

At the core of our approach to the issue of climate change is a cost-benefit analysis framework.

Regina continues: “The bill customers pay must provide value for money, particularly in these difficult economic times, and lead to sound investments which meet future challenges, including climate change.”

Cost-benefit analysis may seem somewhat removed from the dwindling blubber of whales and combustive cow dung, but the challenges of climate change affect us all. Our first climate change policy is a key step forward in helping the sectors meet these challenges.

News in brief

In June we appointed [George Day](#) as Director of Network Regulation.

We held a [City briefing](#) in July at which Philip Fletcher and Regina Finn spoke.

We published our [annual report](#) in which we set out how we met our aim of protecting consumers, promoting value and safeguarding the future during 2007-08.

We launched a [consultation](#) on future water efficiency targets for water companies. We wrote

to all companies setting out a [checklist](#) for tariff trial planning, as well as the [process and timetable](#) for approving customers’ charges – which we do annually – for 2009-10.

We launched a new [recruitment website](#) for job vacancies at Ofwat.

Benedict Fisher is the new editor of *H₂Owat*. If you have any comments about *H₂Owat*, or suggestions for future issues, please e-mail him at: benedict.fisher@ofwat.gsi.gov.uk.

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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 benedict.fisher@ofwat.gsi.gov.uk.