

# Ofwat's price review: Delivering more of what matters

Our final methodology for the 2019  
price review – executive summary

December 2017

# Ofwat's price review: delivering more of what matters

Water is vital for life – not just for people but for the environment and ecosystem on which we depend. This means that customers in England and Wales feel differently about water to other services: they need to trust that water and wastewater companies are serving the public benefit.

At the same time, customers expect great service, at least comparable to the service they get elsewhere. They expect water and wastewater services to be resilient to both short-term shocks and long-term challenges such as population growth and climate change.

And they expect those services to be affordable for all, including those struggling to pay.

The only way water companies will achieve all this, is to find new and better ways of delivering those services. Our 2019 price review enables, incentivises and encourages water companies to achieve exactly that, so that customers will get more of what really matters to them.

## What is a price review?

A price review is when, together with their customers, water companies create plans for the future that will deliver customers' wants and needs.

- We **set the framework** for these plans so that they innovate to push forward the performance of the whole sector and stretch the current boundaries for delivery and efficiency.
- We **scrutinise and challenge** the plans to make sure that they are efficient, affordable, provide resilience in the round and great customer service; and meet companies' statutory and licence obligations.
- We **set the five-year price, service and incentive package** that the water companies will deliver between 2020 and 2025.

Companies report each year on how they are delivering that package so that we, and others, can hold them to account for their performance.

## Great customer service

Great customer service starts with an in-depth understanding of customer preferences and priorities and involves them in the development and delivery of services. In our price review:

- we expect companies to make performance commitments that reflect their customers' priorities and we will challenge individual companies to go further where necessary;
- where companies deliver great service that customers want and set new standards for the sector, they will receive payments reflecting the improvements they achieve and the risk they have taken. Where companies do not deliver their promises, customers will get money back through lower bills;
- we will compare water customers' experience with that of other sectors. The satisfaction of all customers, not only those who have contacted their company, will matter;
- we expect companies to identify and support customers in vulnerable circumstances, including temporary circumstances;
- for the first time, we are setting an explicit incentive to improve customer service to developers; and
- Customer Challenge Groups (CCGs) will provide independent assurance to Ofwat on the quality of a company's engagement with its customers to develop their business plan.

## Affordable bills

Water and wastewater services must be affordable to customers. This means affordable overall, in the long term and for those struggling, or at risk of struggling, to pay.

- We expect companies to ensure that customers that are struggling to pay have easy and effective access to assistance.
- We expect companies to make a step change in cost efficiency providing scope for lower bills and help with affordability.
- Our initial view of the cost of capital – based on market evidence – is 3.4% (on a real CPIH basis). In RPI terms it is 2.4%, which is a reduction of 1.3% from the 2014 price review. The effect of this change alone should lower bills of an average water and wastewater customer by about £15 to £25.



## Resilience in the round

Customers expect reliable water and wastewater services supplied by infrastructure that can avoid, cope with and recover from, disruption. The water companies that deliver these services need to make the best long-term decisions about operations, maintenance and investment. This in turn means they need the right information, systems, processes, governance and capabilities; and resilient balance sheets, cash flows and finances. They need to be resilient 'in the round'. In our price review, we expect companies to:

- Improve day-to-day resilience by reducing the number of supply interruptions, sewer flooding incidents and pollution incidents;
- reduce water leakage by at least 15%;
- make performance commitments specifically on improving resilience to drought and flooding;
- assess a wide range of options for securing water supply resilience including investment in new infrastructure, water transfers and measures to significantly improve water efficiency and reduce consumption;
- take a system-wide approach to understanding, planning and managing risks to the delivery of wastewater services;
- take account of our seven principles for resilience planning, including a naturally resilient sector reflecting the importance of ecosystems and biodiversity; and
- demonstrate the financial resilience of their businesses as part of their business plans.

We will take into account the quality of companies' information when we assess their plans and we expect companies' Boards to provide assurance on their plans.

## Innovation

Innovation must be at the core of every company to deliver long-term resilience, great customer service and affordability. We expect companies to look beyond their boundaries in addressing the challenges they face. New markets such as direct procurement for customers for large infrastructure projects, the water resource and bioresource markets and markets for eco-services all offer companies scope for greater innovation and more effective co-operation with third parties to deliver for customers.

We will assess how innovative companies' plans are. Companies with the most innovative and ambitious plans delivering real benefits for customers and raising the bar for others will receive an additional return. This is in recognition of the additional effort and risk they will have taken preparing their plans.

## Next steps

Company submission of business plans	3 September 2018
Ofwat's initial assessment of business plans and categorisation of plans	Late January 2019
Early draft determinations	March/April 2019
Other draft determinations	July 2019
Final determinations	December 2019

## How to find out more

Find out more on our [website](#), on [Twitter](#), [Instagram](#), [LinkedIn](#), or by [email](#).

#pr19 #moreofwhatmatters #imagine2025

**What will you be doing over the next few years?  
We'll be keeping water bills low and improving service.  
Simple.**



Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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