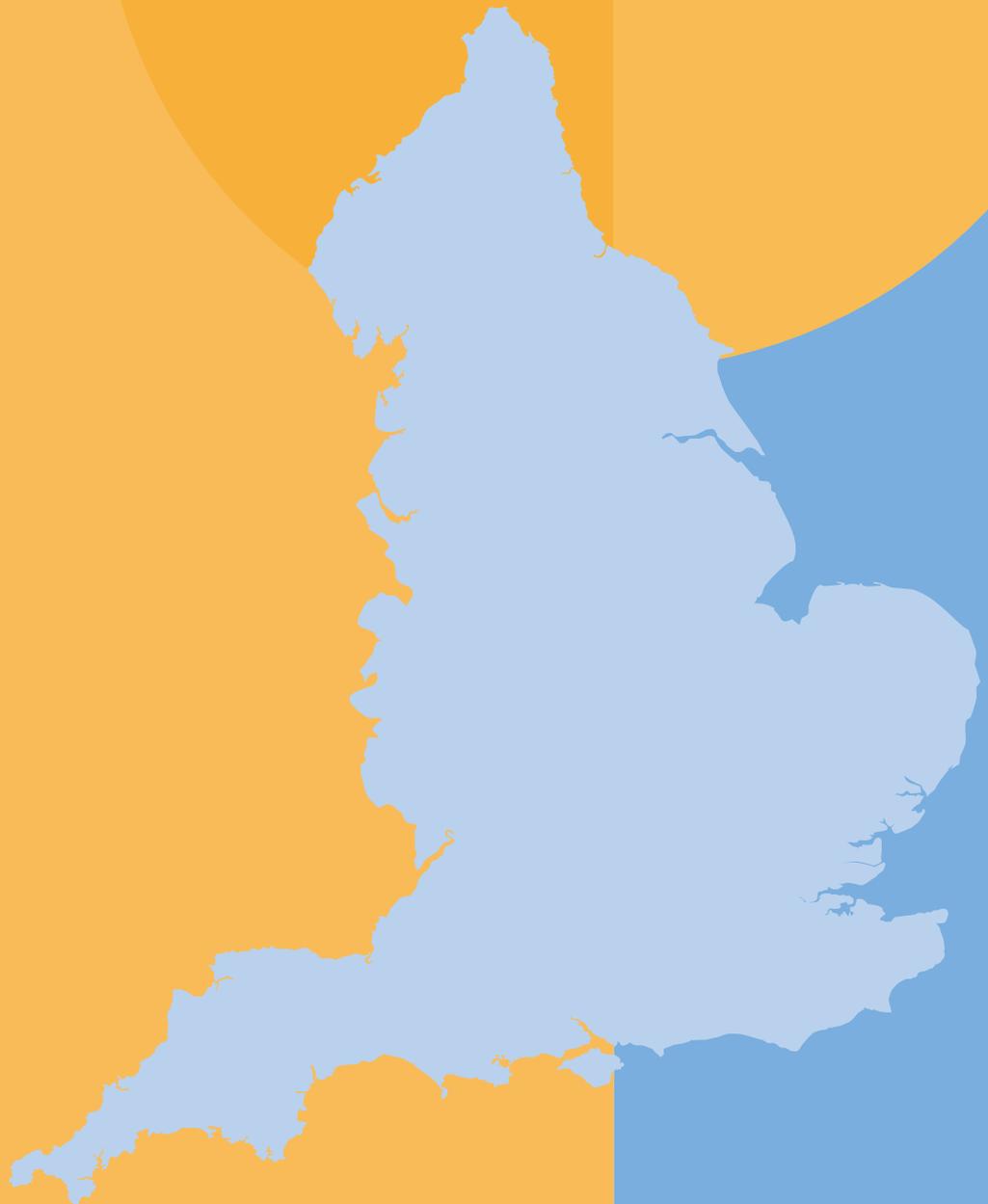


July 2019

Trust in water

# PR19 draft determinations

**UK Government priorities and our  
2019 price review draft determinations**



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# **UK Government priorities and our 2019 price review draft determinations**

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## 1. Introduction

The 2019 price review (PR19) draft determinations play an important role in contributing to the delivery of the UK Government's strategic priorities and objectives.

The UK Government has set out [strategic priorities and objectives](#) for us,<sup>1</sup> which came into effect in November 2017. We are required to act in accordance with these priorities and objectives in carrying out our relevant functions relating wholly or mainly to England. In this document, we discuss how the PR19 draft determinations for 'English companies' (companies whose areas are wholly or mainly in England) support the achievement of those priorities and objectives (which we refer to as the UK Government's 'strategic policy statement').

The UK Government has set priorities and objectives for Ofwat and the water industry in relation to three themes:

- securing long-term resilience;
- protecting customers; and
- making markets work.

These themes, and the priorities and objectives that underpin them, have played an important role in shaping the decisions we have made throughout the price review process. When we published our final PR19 methodology, we [set out how](#) that methodology would contribute to the delivery of the UK Government's strategic priorities and objectives. Our initial assessment of business plans also evaluated company plans against that methodology. Now, we are making our draft determinations. This means we implement our methodology and act in accordance with the government's strategic priorities and objectives.

This document outlines how our PR19 draft determinations support the achievement of the priorities and objectives of the UK Government. We address each of the above themes in turn, setting out the UK Government's priorities and objectives, and how we, and the sector in England, have responded.

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<sup>1</sup> It has done so under section 2A of the Water Industry Act 1991, as amended by section 24 of the Water Act 2014.

## 2. Securing long term resilience

Customers expect reliable water and wastewater services that can avoid, cope with and recover from disruption, as well as protect the natural environment. To make decisions about their operations, maintenance and investment in the short and long term, water companies need the right:

- information;
- systems;
- processes;
- governance;
- capabilities; and
- finances.

They need to have operational, financial and corporate resilience: to be ‘resilient in the round’.

This is a key priority for the UK Government and us, and long-term resilience was one of the key themes for PR19.

**Priority**

**Ofwat should challenge the water sector to plan, invest and operate to meet the needs of current and future customers, in a way which offers best value for money over the long term.**

Resilience is vital to current and future customers. The water sector faces serious resilience challenges including climate change and population growth, which present real threats to the resilience of assets, water resources and services to customers. The combination of these threats and changes in people’s expectations – including about how we treat the environment itself – makes tackling these resilience challenges urgent.

In our initial assessment of business plans, we expected companies to carefully identify risks to their resilience, and to consider a full range of measures to manage those risks over the next five years and the long term. Companies needed to show a good understanding of the condition of their systems, assets and finances, and the key risks they face. We also expected companies to demonstrate that they have robust plans in place to mitigate and manage those risks.

Based on our assessment of company draft water resources management plans (WRMPs), the supply infrastructure requirements highlighted by the National Infrastructure Commission (NIC), and our own focus on resilience, we have assessed company plans in this area with the growing challenges of drought risk in mind. In our draft determination, we have provided funding to enhance resilience and improve the water supply-demand balance over 2020-25 and the long term.

We are incentivising companies to meet a challenging set of performance commitments to improve the resilience of their systems and services. These commitments are also designed to incentivise companies to improve asset health by, for example, maintaining pipes so they don't burst. We have made sure that these performance commitments are backed by financial incentives.

The 'Freeze Thaw' incident in late February and early March 2018 left more than 200,000 customers in England and Wales without water for over four hours; and more than 60,000 customers without supply for over 12 hours. We identified a number of companies who let down their customers by failing to adequately prepare for adverse weather. Customers depend on a reliable water supply and in our draft determinations, we are incentivising companies to do more provide a resilient service.

It's important that company proposals to spend customers' money to improve resilience are grounded in an understanding of the risks to resilience and how these can be best mitigated. In some cases, companies have:

- not provided a clear line of sight between their proposals and improved resilience for customers; or
- attempted to justify additional spending where these are measures they should be implementing anyway as part of their day to day operations.

In these cases, we have intervened in plans and invited companies to:

- provide better evidence of their understanding of risk; and

- justify proposed additional spending in response to draft determinations.

We also required companies to be innovative in how they manage and address risks by, for example:

- exploiting opportunities to collaborate with third parties and other water companies,
- better integrating water and wastewater resources.

We expect companies to identify and act on the risks of flooding, including the additional challenges created by climate change, and ensure these are reflected in their investment and delivery plans. Integrated approaches to wastewater flooding are supported by the development of drainage and wastewater plans.

**In our draft determinations, we are challenging the water sector to plan on a long-term basis that meets the needs of, and provides good value for, both current and future customers, through:**



**New investment to improve resilience and meet the needs of future customers:** Our draft determinations allow English companies and competitively appointed providers to invest £2.2 billion in protecting customers and the environment from the risks of extreme weather conditions (such as drought and floods) and critical asset failures.



**Engaging customers on long term issues:** In developing their plans, we expected companies to engage their customers on longer-term issues, such as resilience, and take into account the needs and requirements of future customers. This included, but was not limited to:

- independent evidence from their customer challenge groups on the quality of engagement; and
- the extent to which customer views were reflected in company plans.



**Delivering excellent experience for current customers:**

Companies will be incentivised to deliver excellent service to their current customers through our new customer and developer experience measures, C-MeX and D-MeX.



**Providing a better service for current customers:** By taking forward a wide range of measures to boost resilience, English companies are set to deliver significant improvements in service quality. On average 19% fewer properties should experience low water pressure, and all companies are being required to meet upper quartile performance for resolving water supply interruptions over 3 hours.



**Ensuring investment delivers value for money:** Our assessment process evaluates schemes in terms of investment need, best option for customers, cost efficiency and customer protection. All of these aspects ensure that, overall, the passed investment represents value for money as it addresses well-evidenced needs in a cost-efficient manner. In particular, to evaluate best option for customers, we look for:

- evidence regarding quantified levels of risk (pre and post mitigation);
- the range of options considered;
- cost-benefit analysis (that allow comparing and selecting options); and
- evidence of customer support for the scheme/risk area.



**Incentivising companies to invest in their assets:** Asset health<sup>2</sup> is an important element of operational resilience and central to the long term delivery of services to customers. We require all companies to adopt our common asset health performance commitments, as well as ensuring they have bespoke asset health performance commitments. We have intervened where these commitments do not improve their asset health during 2020-25 and where they are not equal to other companies' performance commitments. We have also made sure that asset health performance commitments are backed by appropriate financial incentives. This will make sure that companies are incentivised to invest in and maintain their assets so that they will be able to provide services now and into the future, which is what matters to customers.

**Objective**

**Ofwat should further a reduction in the long-term risk to water supply resilience from drought and other factors, including through new supply solutions, demand management and increased water trading.**

Our PR19 draft determinations aim to reduce the long-term risk to water supply resilience from drought and other factors.

In line with the UK Government's objectives, we are pushing companies to take a 'twin track' approach to improving resilience, with investment in new water supplies complementing measures to reduce the demand for water.

In our final methodology, we expected companies to consider a wide range of options to achieve long-term resilience in water supply, including:

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<sup>2</sup> The maintenance of physical items, such as pipes and sewers, that allow companies to provide water and wastewater services

- investing in new supplies;
- managing customer demand;
- reducing leakage;
- water trading; and
- solutions provided by third-parties that extend beyond traditional water company boundaries.

We have worked closely with Defra, the Environment Agency and other regulators during the consultation and assessment of companies' WRMPs. WRMPs set out the range of interventions needed to make sure that there are secure, sustainable and affordable supplies of water in the long term. This collaboration has aimed to make sure that the WRMPs meet the needs of the environment, accounting for climate change, as well as the expectations of customers for best value resilience.

A WRMP is an important tool that informs a water company's business plan. In assessing companies' business plans, we aim to make sure that companies invest efficiently to make sure water is available in both the short term (2020-25) and longer-term (beyond 2025). This includes water trading solutions and those provided by third-parties, such as the Canal & River Trust, which have the potential for additional environmental and social benefits. In some instances, we have allowed funding for water resources solutions that may not deliver benefits straight away but are important for long term drought resilience.

**Our draft determinations reduce the long-term risks to our water supply and help meet the twin challenges of climate change and population growth, through:**



**Investing in drought resilience:** During the 2020-25 period, investment by English companies should support over 500 million litres of additional water per day being made available during droughts, helping to maintain or improve supply resilience. Addressing the longer term challenges, investment in supplies over the next five years is set to deliver an additional 250 million litres per day in England after 2025. In addition we intervene to provide development funding for strategic regional water resource solutions that potentially deliver a further 1,000 million litres per day by the 2030s. In 2018 the NIC highlighted a requirement for an additional 3,000 million litres per day by 2050 to maintain drought resilience, of which 1,300 million litres per day is needed from new supply solutions by the 2030s. The combination of investments allows the efficient delivery of capacity, which in total exceeds the need identified by the NIC.



**Reducing water leakage:** All English companies have agreed to our common performance commitment a 15% reduction in annual average leakage over the 2020-2025 period. This reduction will save 517 million litres of water per day in England during the period.



**Reducing consumption of water:** English companies are also set to take forward a range of measures to reduce overall household consumption of water by 509 million litres per day as a result of helping their customers use water more efficiently. This should further reduce the burden on water supplies. Companies also plan to invest £591 million installing at least 2 million new water meters over the 2020-25 period to help customers reduce consumption. Smart meter installations should provide more insight into consumer demands and help identify leaks.



**Innovative solutions to meet the supply challenges:** We are intervening to provide funding of up to £450 million to facilitate the investigation and development of strategic regional water resource solutions to help solve the drought resilience challenges in the south-east. This includes potential major new water resources, including reservoirs in the south and south-east of England and transfers of water from the north-west to the south-east of England. This will enable companies to jointly evaluate multiple solutions in more depth and to make sure that appropriate regional solutions are taken forward in future investment plans. We are also proposing a separate ten year price control to fund the construction of the Havant Thicket reservoir, which is being developed by Portsmouth Water to meet the water resources needs of Southern Water’s customers through water trading.



**Ensuring that long term water resources meet the needs of customers and the environment:** We have established the Regulatory Alliance for Progressing Infrastructure Development (RAPID), bringing together Ofwat, the Environment Agency and Drinking Water Inspectorate to ensure that we have the frameworks to deliver water resources that meet the long term needs of customers and the environment. RAPID will, amongst other things, help oversee the development of the strategic regional water resources solutions, inform decisions relating the customer protection arrangements and link into parallel processes including regional planning groups and the water national framework that we are already contributing to.



**Reducing the impact of droughts on customers:** In the event of future droughts, companies will do more to make sure that the impact on customers is as low as possible. Our common performance commitments on reducing the risk that customers will be impacted by drought ought to ensure that by 2024-25, only three regions will have customers who are likely to be at risk of experiencing severe restrictions (e.g. standpipes or rota cuts) in a severe drought.



**Challenging companies to set ambitious drought and flood resilience performance commitments:** We are challenging companies to improve their levels of customer protection against extreme weather events, such as drought and flood risks, over the long term, whilst at least maintaining them up to 2024-25. We are making sure that companies reduce customer risk over the long term, as well as improving their understanding of short term challenges.

**Objective**

**Ofwat should challenge water companies to improve planning and investment to meet the wastewater needs of current and future customers.**

Our draft determinations challenge water companies to improve planning and investment to meet the wastewater needs of current and future customers. As set out in our final methodology, we expected companies to assess a wide range of options to mitigate the risks to operational resilience for wastewater, with support from customers.

We are also setting four common performance commitments relating to wastewater services, each of which will motivate companies to identify and mitigate risks to these services.

**Our draft determinations further wastewater resilience now and in the future, through:**



**A new focus on long term wastewater planning:** Our draft determination allows for the full scope of the Environment Agency's Water Industry National Environment Plan (WINEP) that is based on long-term planning principles. As a part of our initial assessment of their plans we require companies to provide a detailed work programme before the end of August 2019 to deliver appropriate and timely drainage and wastewater management plans. We expect this development in the approach to planning to provide a clearer longer-term view of companies' strategy in this area.



**Incentivising companies to plan and invest to prevent sewer flooding and pollution incidents:** English companies are committing to a 34% reduction in pollution incidents by 2024-25, as well as a 42% and 26% reduction in internal and external sewer flooding incidents.



**Promoting more sustainable solutions:** Our draft determination introduces a separate control for bioresources. This control is designed to encourage management focus on bioresources activities and so encourage companies to use and trade this resource in a more efficient and sustainable way, such as by increasing the transformation of waste to energy.

**Objective**

**Ofwat should challenge water companies to make sure that they assess the resilience of their system and infrastructure against the full range of potential hazards and threats and take proportionate steps to improve resilience where required.**

In line with our resilience planning principles, we expected companies to consider resilience in the round, taking an objective and comprehensive view of the risks they face. In our initial assessment of business plans, we considered whether companies have taken a systematic and integrated approach to identifying and assessing all of the diverse risks to the resilience of systems and services across the entire business.

We also expected companies to apply a robust, objective, comprehensive and well evidenced assessment of priority risks to the delivery of the services their customers depend on, over the next five years and over the longer term. As such, their assessment needed to consider risks to:

- infrastructure;
- systems;
- processes; and
- people.

It also needed to consider hazards and threats, such as:

- physical and cyber-attacks;
- extreme flood events; and
- disruptions to energy supplies.

While some of these individual aspects have been considered by companies' plans, they need to do more to make sure that 'resilience in the round' is firmly embedded across the whole of the business. As a result, we are asking companies to develop action plans for implementing a systems-based approach to resilience. By 22 August 2019, we want companies to demonstrate that they are adopting an integrated resilience framework that underpins their operations and future plans. These should address our concerns, particularly in relation to presenting a clear line of sight between risks to resilience, planned mitigations, package of outcomes and corporate governance framework. In this sense, we want companies to ensure that

performance commitments are reflective of their resilience challenges, including asset health challenges.

We are encouraging all companies to improve the health of their assets over the next five years and beyond, pushing the worst performers to close the gap between them and the rest by facing higher penalties for underperformance if they fail to catch up. We are also ensuring that companies work together to develop forward-looking asset health metrics. This will improve their understanding of asset health and the risks affecting it. Companies can then target investment to have the greatest positive impact on services for customers and the environment.

Companies are responsible for making sure that their financial structures will be resilient for 2020-2025 and for the long term. We expected them to assess their financial resilience using their own scenarios and suite of scenarios prescribed in our July 2018 position statement '[Putting the sector in balance](#)', together with alternative scenarios if appropriate. We also expected companies to demonstrate that they approach risk management and mitigation appropriately and, where necessary, we are challenging them to provide additional assurances and greater transparency about their long term financial resilience.

Some companies have already taken steps to improve financial resilience and reduce gearing levels (measured by debt as a proportion of regulatory capital value) by restricting dividend payments or injecting equity into the company. A number of companies with high levels of debt propose steps to improve financial resilience in 2020-25. These measures have been taken within the context of the cost of capital that is expected to apply in 2020-25.

We have asked companies with high levels of gearing to share some of the benefits with customers through the gearing outperformance mechanism we set out in '[Putting the sector in balance](#)'. We are intervening to introduce our default gearing outperformance mechanism where arrangements proposed by companies do not provide equivalent benefits for customers in the round. We will continue to monitor financial resilience assessments through the long term viability statements in companies' annual performance reports and to monitor progress on issues, such as gearing reduction.

We also set out in our '[Putting the sector in balance](#)' position statement that we required companies to set out clearly in their business plans how their dividend policies and performance related executive pay policies for 2020-25 will align the interests of company management and investors with the interests of customers. All

companies have taken steps to demonstrate that they are moving towards meeting our expectations, though some companies have more to do than others. Our draft determinations identify areas of best practice amongst the companies we regulate and we expect companies to continue to take steps to improve legitimacy in these areas.

**Our draft determinations push companies to take a ‘resilience in the round’ approach, through:**



**Strong board oversight and assurance:** We are asking companies to provide action plans to develop and implement a systems based approach to resilience in the round. Among other things, these action plans should demonstrate a clear line of sight between companies’ corporate governance framework and their future plans to mitigate risks to resilience, ensuring that appropriate Board oversight processes are in place. Company Boards have also provided assurance that their governance and assurance processes will deliver resilience in the round over the next price control period and the long-term.



**Security funding:** We are providing funding of £62 million to protect against physical and cyber threats in England. This builds upon the physical security funding provided during the 2015-2020 period to ensure companies comply with the Security and Emergency Measures Direction (SEMD). Our allowance for cyber security aims to make sure that companies comply with the Security of Network and Information Systems (NIS) Directive.



**Forward looking resilience performance commitments:** We require companies to propose new performance commitments to provide forward looking measures of resilience of water and wastewater services. These new metrics will help to identify risks to resilience and encourage companies to develop a deeper understanding and more robust data on the resilience of their systems and services.

**Objective**

**Ofwat should challenge companies to further the resilience of ecosystems that underpin water and wastewater systems, by encouraging the sustainable use of natural capital, and by encouraging water companies to have appropriate regard to the wider costs and benefits to the economy, society and the environment.**

The UK Government's strategic priority statement recognises the importance of sustainably managed natural resources and a resilient ecosystem. This has been further emphasised in the government's [25 Year Environment Plan](#), which aims to leave the environment in a better state than it was found. We recognise we have a role to play in this, working with others, including the Environment Agency and Natural England.

Our draft determinations allow companies the costs required to deliver WINEP efficiently. They also include stretching performance commitments that push companies to go even further on important environmental outcomes, such as reducing pollution.

**Our draft determinations further the resilience of our natural ecosystems, through:**



**Major investment to protect and enhance the natural environment:** In our draft determinations we have allowed £4.4 billion for WINEP relating to water and wastewater systems in England.



**Promoting a sustainable approach:** Companies have committed to increasing the number of catchment management schemes related to WINEP in England by two-thirds, totalling more than 370 schemes. We have seen examples of companies considering natural capital within investment plans, for example South West Water's Upstream thinking project and Yorkshire Water's decision-making framework. There is more work to be done across the industry to embed a broader understanding of environmental resilience and the application of natural capital valuation within companies' plans.



**Reducing water consumption:** Water consumption in England is set to be reduced to on average 130 litres per person, per day, as a result of further investment in customer metering, water efficiency activities and educational campaigns.



**Reducing strain on watercourses:** Companies plan to reduce abstraction from the environment as a result of investment in customer demand activities, metering and leakage reduction, resulting in 4.4% less water, or 589 million litres, put into supply over 2020-25. All English companies have adopted the abstraction incentive mechanism (AIM) to reduce abstractions at environmentally sensitive sites during times of low flow.

### 3. Protecting customers

Throughout the PR19 process, we have pushed companies to do more to protect customers, by better understanding the issues facing them and delivering real improvements to the service they receive. To support this, companies have gone further than ever before to engage their customers: a record one and a half million customers shared their views as water companies in England developed their plans.

In particular, we are expecting companies to do more than ever before to protect customers who are struggling to afford their bills, or who are in other circumstances that make them vulnerable.

Priority

**Ofwat should challenge the water sector to go further to identify and meet the needs of customers who are struggling to afford their charges.**

Affordability is one of the key themes of PR19, and we are going further than any previous price review to ensure that customers, and particularly those who struggle to, or cannot pay their bills, are suitably protected.

In our final methodology for PR19, we set out the five principles against which we would assess companies' plans on affordability:

- customer engagement;
- customer support;
- effectiveness;
- efficiency; and
- accessibility for customers who are struggling to pay.

**Our draft determinations improve outcomes for customers struggling to pay, through:**



**A 12% fall in bills before inflation for customers in England:**

By reducing the average bill, we are making water more affordable for customers, including for those struggling to pay. This is driven by our lower cost of capital and our efficiency challenge. Our efficiency challenge aims to make sure that customers – especially those struggling to pay – do not pay any more than they should. We develop our view of the efficient total expenditure (totex) allowance by benchmarking water companies to the most efficient companies within the sector. We are challenging companies' investment proposals to make sure customers pay only for efficient investment and that they are protected if that investment is not delivered. At PR19, we are setting a high bar of efficiency for companies, by considering wider evidence of efficiency gains and frontier shift, to drive a step change in efficiency across the sector.



**Additional support measures for those who find their bills unaffordable:**

All companies have engaged their customers on the benefits of social tariffs and have obtained sufficient support to increase the amount they levy to give discounted bills to those who cannot afford to pay. By 2025, 1.3 million customers in England should receive help through social tariffs and WaterSure, a statutory scheme that caps bills for certain customers with a water meter.

**Objective**

**Ofwat should challenge companies to improve the availability, quality, promotion and uptake of support to low income and other vulnerable household customers.**

At PR19, we are, for the first time, putting a specific focus on how companies deliver non-financial support for customers in circumstances that make them vulnerable. We have assessed the extent to which companies provide sensitive, well-designed and flexible support and services for customers in circumstances that make them vulnerable. This includes customers who are at risk of entering vulnerable circumstances.

**Our draft determinations will increase support for customers in circumstances which make them vulnerable, financially or otherwise, through:**



**Increased take-up of priority service register support:** We have introduced a common performance commitment on priority service registers (a record of consumers who have expressed a need for specific help or service). This commitment will incentivise companies to:

- make sure that at least 7% of its customers are on the priority service register by 2025; and
- make sure the register is accurate and up to date.

As a result of our actions, the number of customers of English companies registered for priority services ought to increase by 2 million in the 2020-2025 period.



**Additional support measures to help customers in vulnerable circumstances:** In addition to increasing the reach of priority services, a large number of companies have committed to improving customer satisfaction with the services offered. Nearly every company has a performance commitment relating to the satisfaction of vulnerable customers. In addition, eight companies are to adopt the British Standards Institution (BSI) standard on Accessible Services, which should further bolster quality of service.



**New approaches to dealing with problem debt:** In relation to dealing with debt, ten English companies report they will offer 'payment matching', whereby the company forgives debt for customers who make regular payments. A number of companies, including United Utilities and Severn Trent, offer customers payment holidays to help people avoid getting into debt.

**Objective**

**Ofwat should promote an enhanced focus by water companies on the needs of small business customers that may struggle to access the best deals.**

The business, charity and public sector retail market in England opened to competition in April 2017. Water companies can exit the business retail market by transferring their business retail operations to either an associated retailer (a company in the same group), or a third party retailer. If a water company does not exit, then we will apply an average revenue control to them, in order to protect their customers. If a water company does exit, then they are outside of the scope of PR19 for business retail. In this circumstance, the transferred customers are protected by the retail exit code in relation to both prices and non-price terms and conditions. We have separately reviewed the price requirements in the retail exit code, and a revised version will apply from April 2020.

Currently, Yorkshire Water is the only English company that has not yet exited the business retail market and has business customers. Our draft determinations, therefore, include a retail price control for Yorkshire Water's non-household business, to protect their business customers, including small business customers, if they do not exit<sup>3</sup>.

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<sup>3</sup> Yorkshire Water plans to exit the business retail market in October 2019 and in that case, our final determinations will not include a retail price control for Yorkshire Water's non-household business.

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## 4. Making markets work

<b>Priority</b>	<p><b>Priority: Ofwat should promote markets to drive innovation and achieve efficiencies in a way that takes account of the need to further:</b></p> <ul style="list-style-type: none"><li>• <b>the long-term resilience of water and wastewater systems and services; and / or</b></li><li>• <b>the protection of vulnerable customers.</b></li></ul>
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In our approach to PR19, we have promoted markets, where appropriate, to achieve our PR19 themes of:

- great customer service;
- affordable bills;
- long-term resilience; and
- innovation.

Markets can help to support progress across the UK government's other strategic priorities listed above, including building resilience and protecting vulnerable customers.

**Our draft determinations will promote markets in England, to drive innovation and achieve efficiencies through:**



**Developing markets for ecosystems services:** Our total expenditure (totex) approach and outcomes framework incentivises companies to come up with innovative approaches to using markets to improve the natural environment. A good example of this kind of innovation is Wessex Water's scheme for creating an online reverse auction for pesticide reduction from farming (EnTrade). This is an industry-leading innovation and Wessex Water demonstrates cost savings and environmental benefits from using these natural solutions, compared with engineered solutions.



**Markets as drivers for improving water resource management:** Companies are using new markets in water resources to reduce abstraction in sensitive areas and improve the natural environment. For example, South West Water has developed demand-side schemes provided by third-parties. To improve water efficiency, the company collaborates with organisations such as Greenredeem and Advizzo to develop schemes that reduce consumption of water. To reduce leakage, the company is partnering with Western Power Distribution to conduct helicopter leakage detection.



**Creating new markets in bioresources:** By helping companies to procure bioresources services from a range of suppliers, we can unlock efficiencies that can be reinvested in the areas that customers value most. For example, Yorkshire Water has conducted market testing of bioresources services and has identified potential savings of around £100 million over the period of the 2020-2025 period from market-based approaches.



**Implementing our new framework for direct procurement:** We have encouraged water companies to competitively tender for the financing, design, build, and operation of large projects. This can reduce the costs customers pay for the largest or most expensive new assets, by increasing competitive pressure on project and financing costs, and driving innovation through greater choice.

In our draft determinations, we have identified the schemes that offer best value for money for customers under a 'direct procurement for customers' approach. We expect further schemes in the future.



**Our approach to direct procurement over the 2020-25 period:**

We expect companies in England to undertake further work to review detailed costs and commitments to make sure that they deliver by the most efficient route. We have asked companies to re-assess delivery via direct procurement for customers if there are significant changes to schemes or the value for money assessment, to make sure that customers continue to receive the best value. We will continue to work with English water companies to identify where customers in England would benefit from direct procurement for customers.

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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