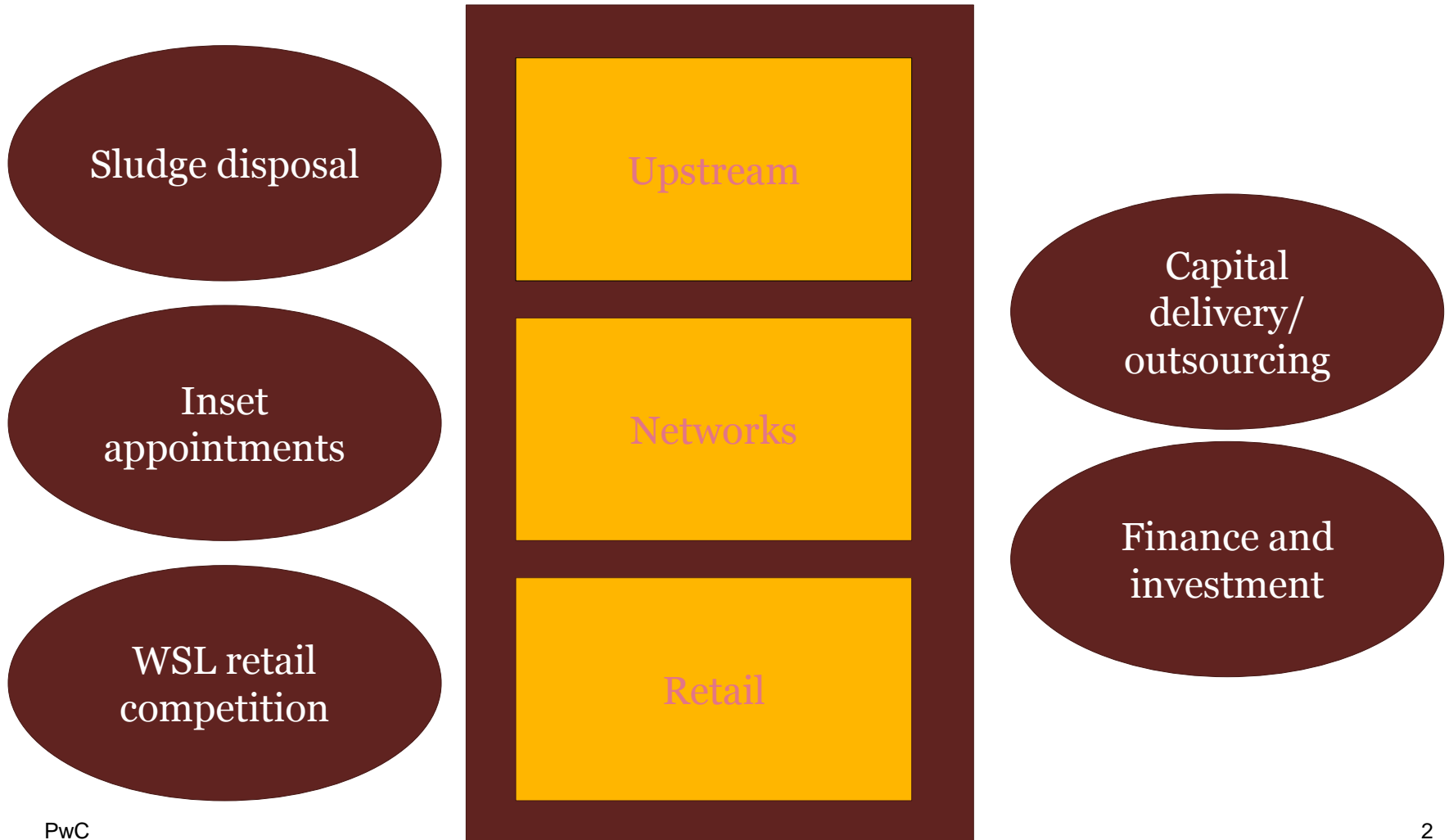


Regulation for a Sustainable Water Industry

Why the water sector in E&W
needs more competition and
how should it be introduced?

Richard Laikin
9th December 2010

The water sector is largely monopolistic but there is competition in some areas...

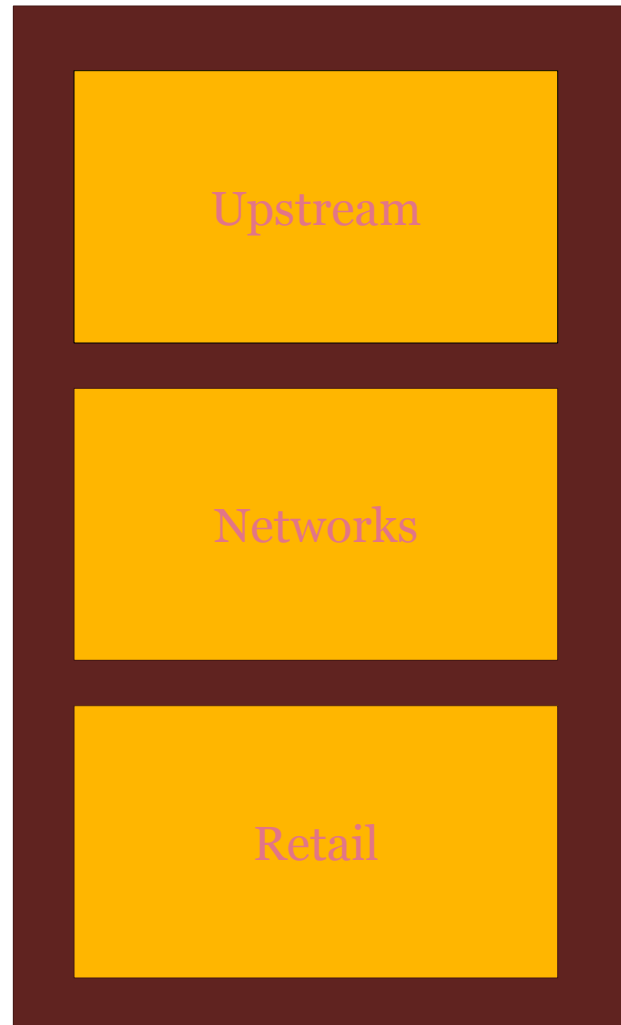


...and Cave, OFWAT, some companies and many commentators are proposing extending markets more widely...

Bulk water trading

Competitive tendering for new infrastructure

I&C retail competition



Third party access

Domestic retail competition

Theory and practical experience from other sectors and jurisdictions suggest several benefits from extending markets in water...

- Improved focus on customer requirements - large users in particular want a choice of supplier;
- Improved efficiency - in terms of cost and of resource allocation, for example trading off alternative options for meeting water resource requirements;
- Spur to innovation – for example around water efficiency, interconnection, water quality, metering and customer product requirements, etc

Introducing markets will not be easy - costs and benefits need to be carefully weighed...

Common questions:

- Will we just be replacing the old problems of regulation with the new problems of competition?
- Surely smart regulation can mimic the effects of competition?
- Isn't the energy sector being re-regulated just as we are thinking of introducing competition in water?
- Why try this when it hasn't been done elsewhere?

Big issues:

- Transitional and implementation costs
- Stranded assets and activities
- Unwinding cross-subsidies and implications for final consumer prices
- Risk implications for companies

Some concluding thoughts - The industry can move forward on multiple fronts simultaneously...

Upstream:

- Reform abstraction licensing to facilitate trading
- Develop trading and use of network arrangements
- Voluntary or mandatory experimental regional pilots?

Extend retail competition:

- Lower threshold to widen competitive market space
- Retail licensing and business separation
- Market logistics (eg customer switching mechanisms)

Reform regulation to facilitate these developments, eg:

- Disaggregated price controls
- Accounting and business separation
- Develop tools and ideas to deal with the “Big Issues”

However, the water sector will continue to be largely monopolistic and subject to network and domestic retail price regulation for some time to come

Thank you

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