



## **PR09 - emerging themes**

**CIWEM conference on PR09**

**16 November 2006**

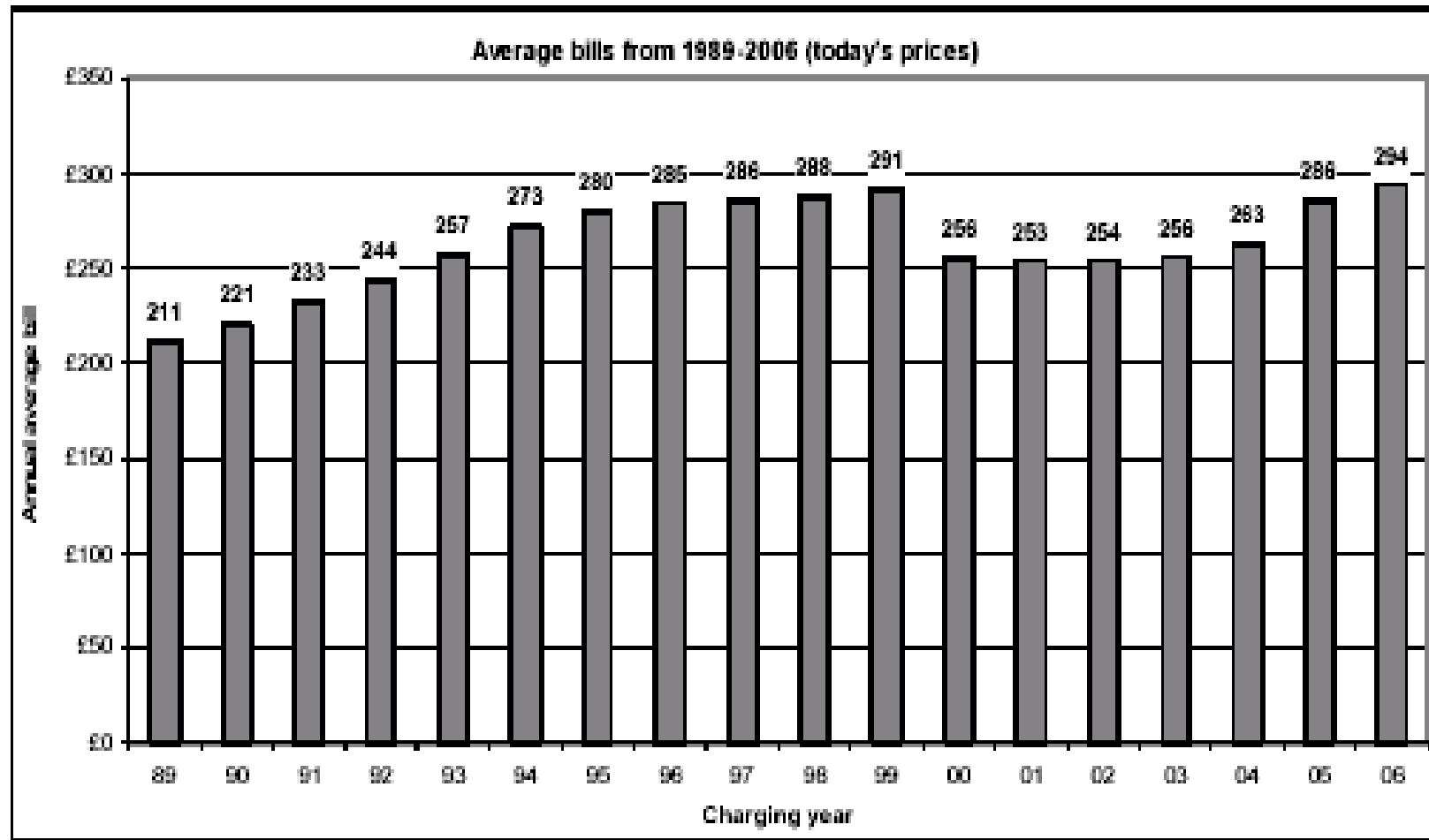
**George Day**



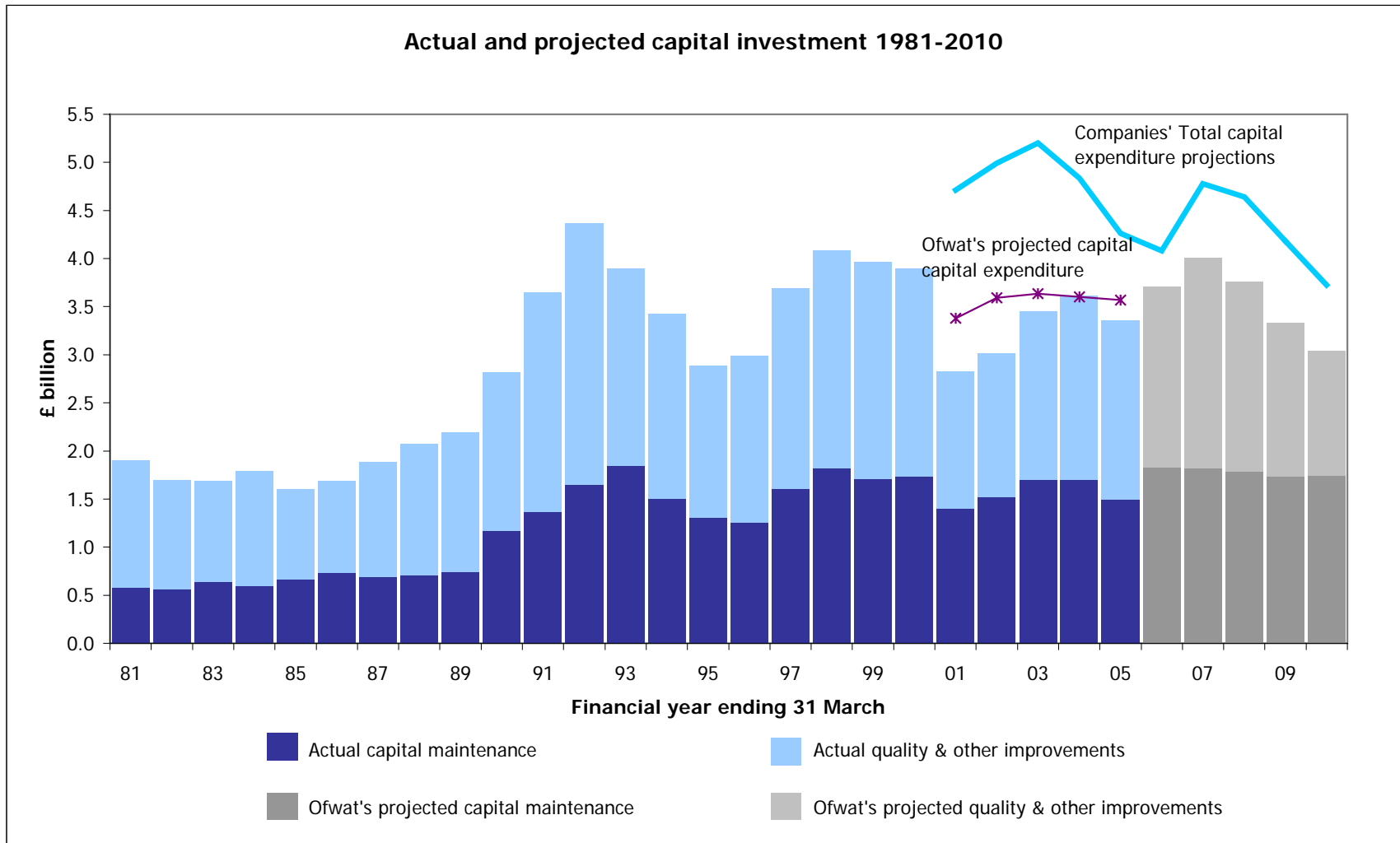
# Overview

- **Quick look back**
  - PR04 in context
- **Recent rumblings**
- **The challenges ahead**

# Bills... on the rise



# Capital expenditure trends



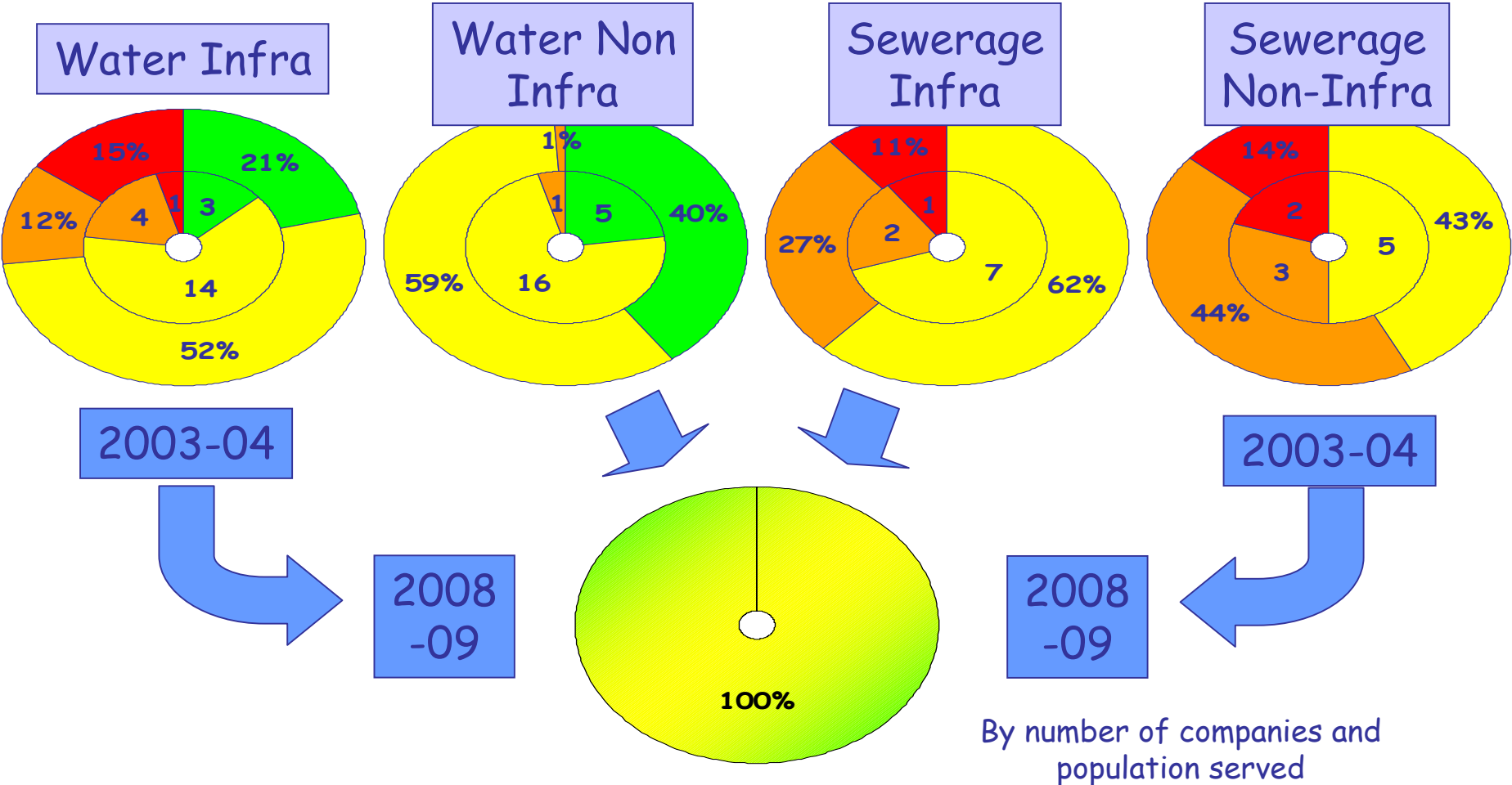
# Capital expenditure assumptions

Final Determinations	Water	Sewerage	Total
	£bn	£bn	£bn
<b>Capital expenditure (AMP4 - five year total)</b>			
Capital maintenance	4.2	4.2	8.4
Supply/demand balance	1.7	0.6	2.3
Quality enhancements	2.1	3.4	5.5
Enhanced service levels	0.0	0.6	0.6
<b>Total</b>	<b>8.0</b>	<b>8.8</b>	<b>16.8</b>
£ per property	341	391	732

# The PR04 package

- **Bills up - but companies expected to deliver more....**
- **Significant new focus on capital maintenance**
  - expect stable serviceability by 2009
  - step up in financing for base service (22% higher than PR99)
  - application of common framework
- **Continued investment in Quality improvements both for drinking water and the environment**
- **Security of supply improvements expected**
  - reductions in leakage, especially for Thames Water
- **Improved levels of service**
  - big (£1bn) programme to reduce risks of sewer flooding
- **All within framework of incentives for efficiency and service**

# PR04 - serviceability outputs

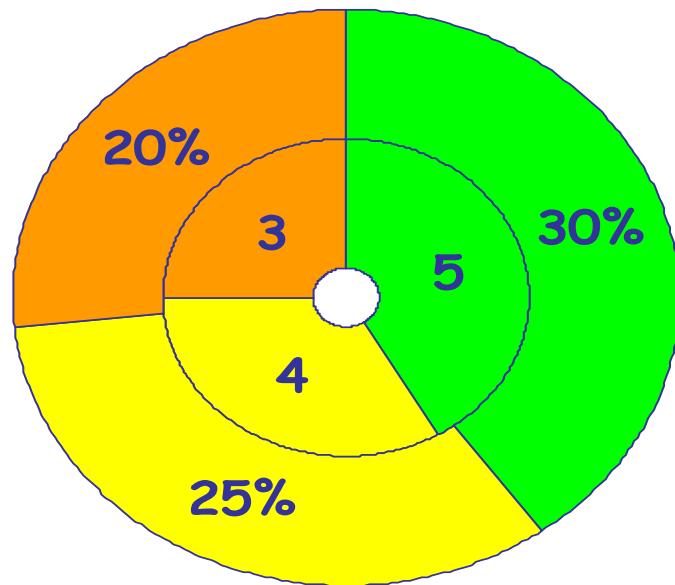


By number of companies and population served

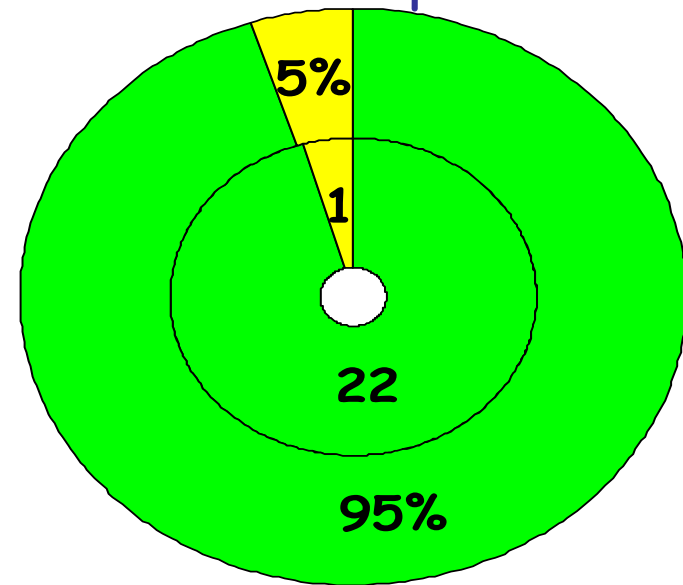
Improving Stable Marginal Deteriorating

# PR04 - security of supply outputs

## 2003-04 Assessment



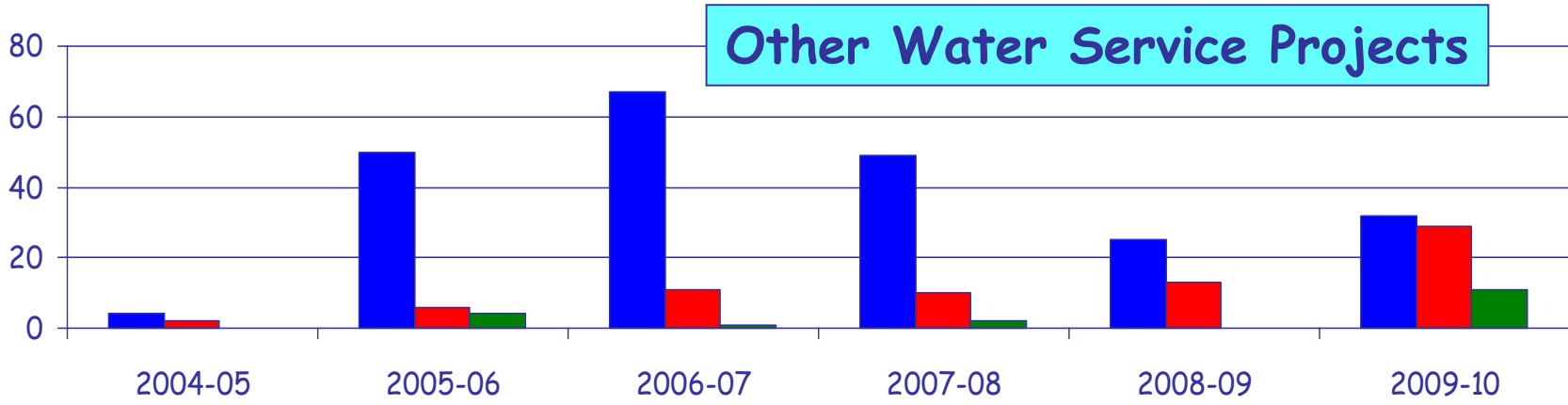
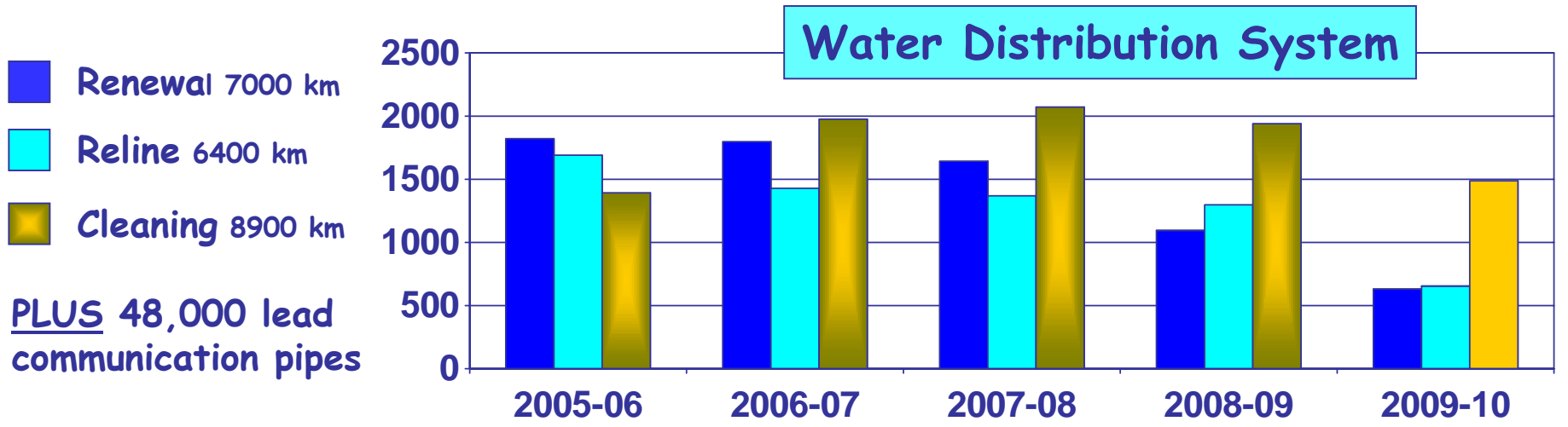
## 2008-09 Expectation



By number of companies and % of total population served

+ Metering (optional and selective) up from 24% to 36% of households by 2009-10

# PR04 - water quality outputs



■ 227 Quality improvements 
 ■ 71 Other improvements 
 ■ 18 Environmental projects

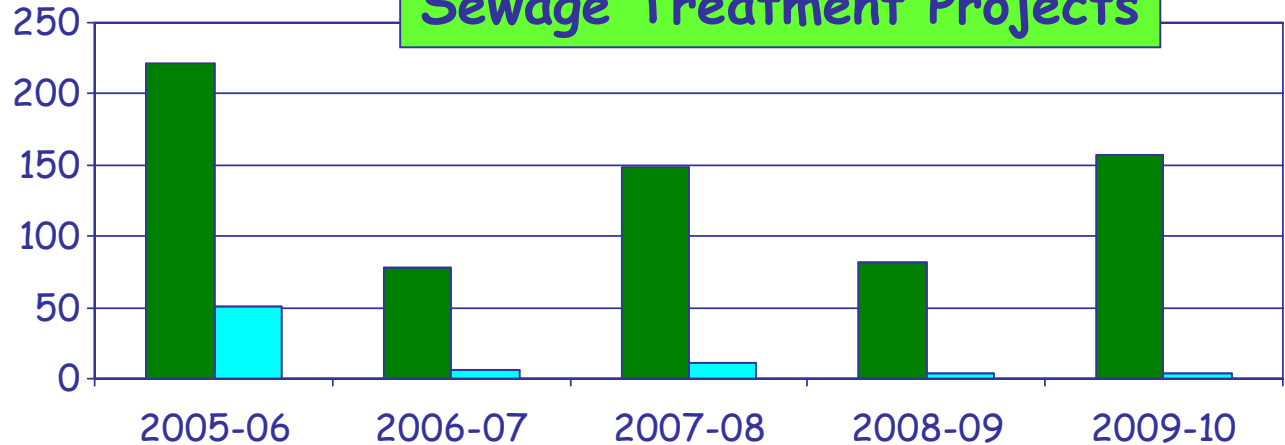
**PLUS 167 Environmental investigations (extra work in AMP4?)**



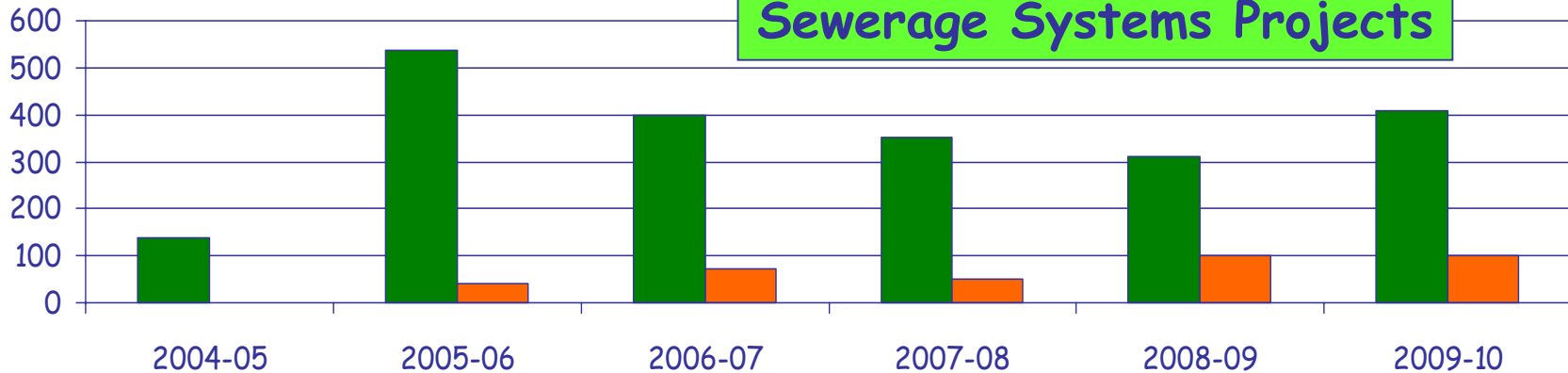
# PR04 - environmental quality outputs

## Sewage Treatment Projects

■ 687 Inland projects  
■ 77 Coastal projects  
PLUS 220+ first time rural sewerage projects completed in AMP4



## Sewerage Systems Projects



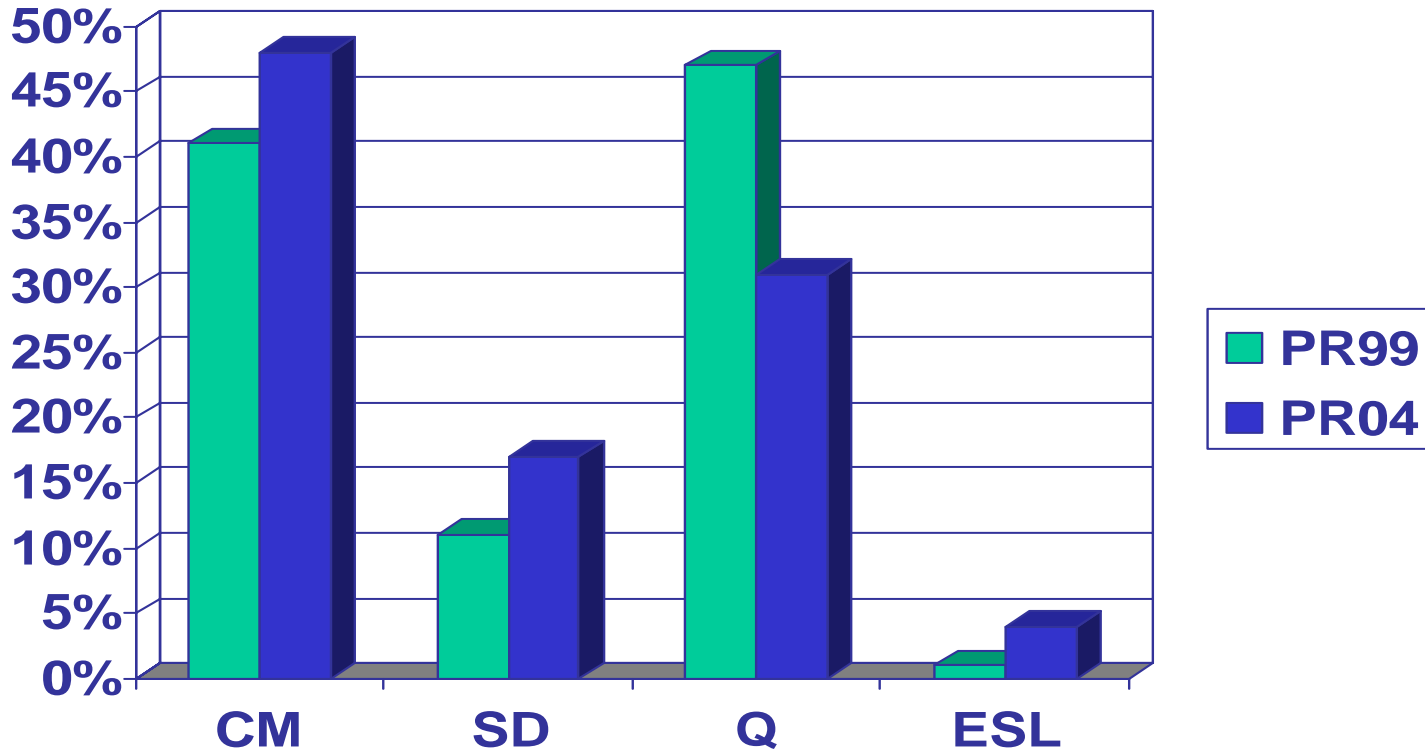
■ 2000+ Intermittent discharges (CSOs)    ■ 360+ km of new sewer for Q reasons

PLUS 380 Environmental investigations completed in AMP4 (extra work?)

# PR04: asset management developments

- **Developments of the regulatory environment for asset management at PR04**
  - Long term plans (water resources, capital maintenance)
  - Early start programme
  - Common framework assessment
  - Cost benefit objective
  - Change protocol
  - Clearer output definitions
  - Shift to capital maintenance and supply demand

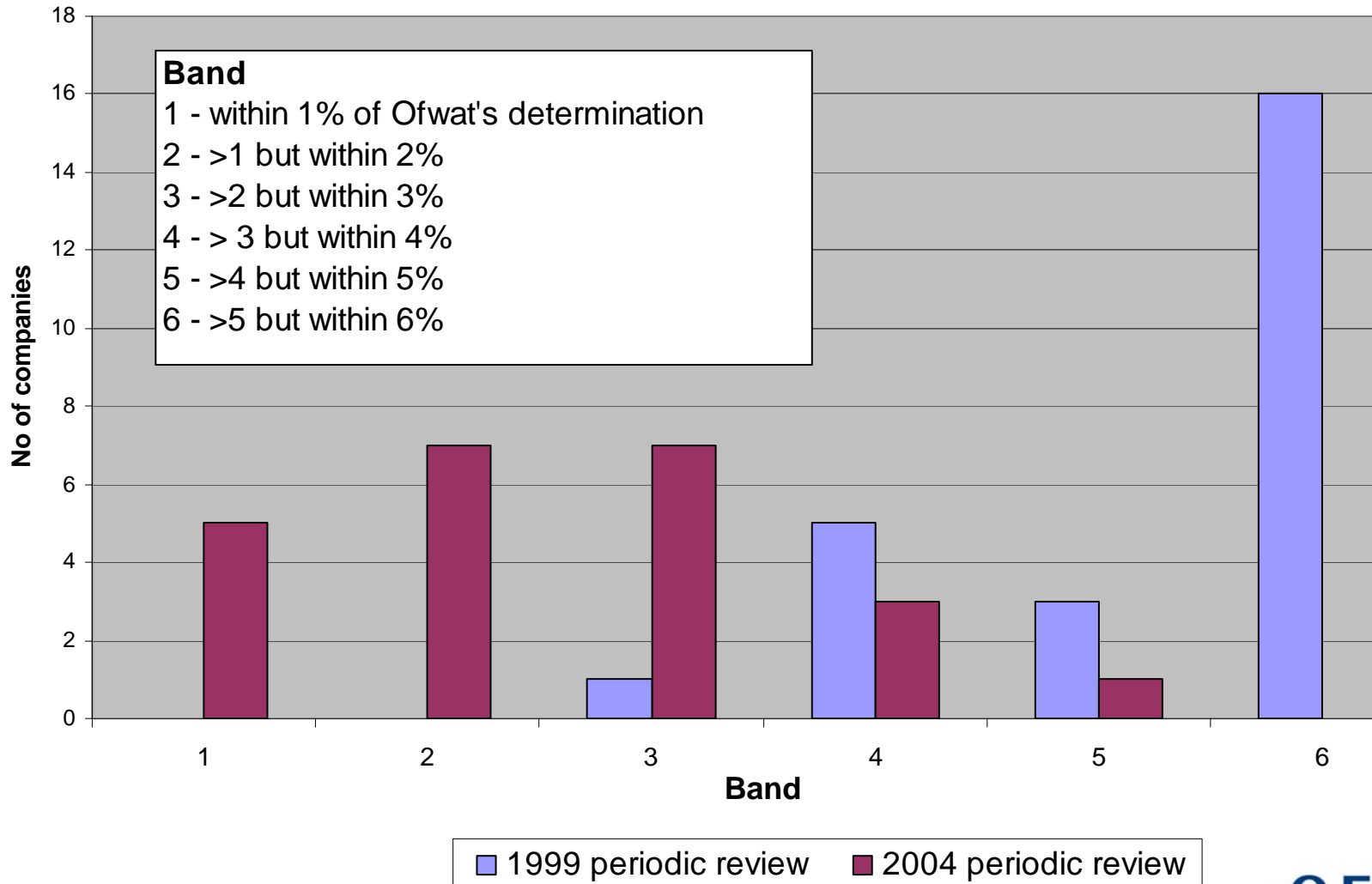
# Changing shape of the programme..



% of determination (gross capex)

# Mind the gap... (its getting smaller).

## Company Plans v Final Determinations



# Since PR04 ...

- **Reviews**
  - Baker (Independent Steering Group)
  - Capital maintenance: common framework, Mott Macdonald
  - Other R&D effort e.g. serviceability
- **MD212 on asset management planning**
- **Consultations**
  - length of PR09
  - sustainable development
  - capital maintenance

# MD 212

- **Published in Feb 2006, following UKWIR review of common framework**
- **Further development of the common framework and asset data**
- **Business as usual**
- **Emphasises delivery of serviceability outputs**
- **Points towards ‘more searching challenge’ of historic levels of spend**

# A sustainable water industry - to PR09 and beyond (MD219)

## Consultations

- sustainable development
- length of 2009 review period
- assessing capital maintenance

## We want to achieve

- price limits that deliver the best value for water consumers and allow efficient water companies to provide a sustainable service into the future

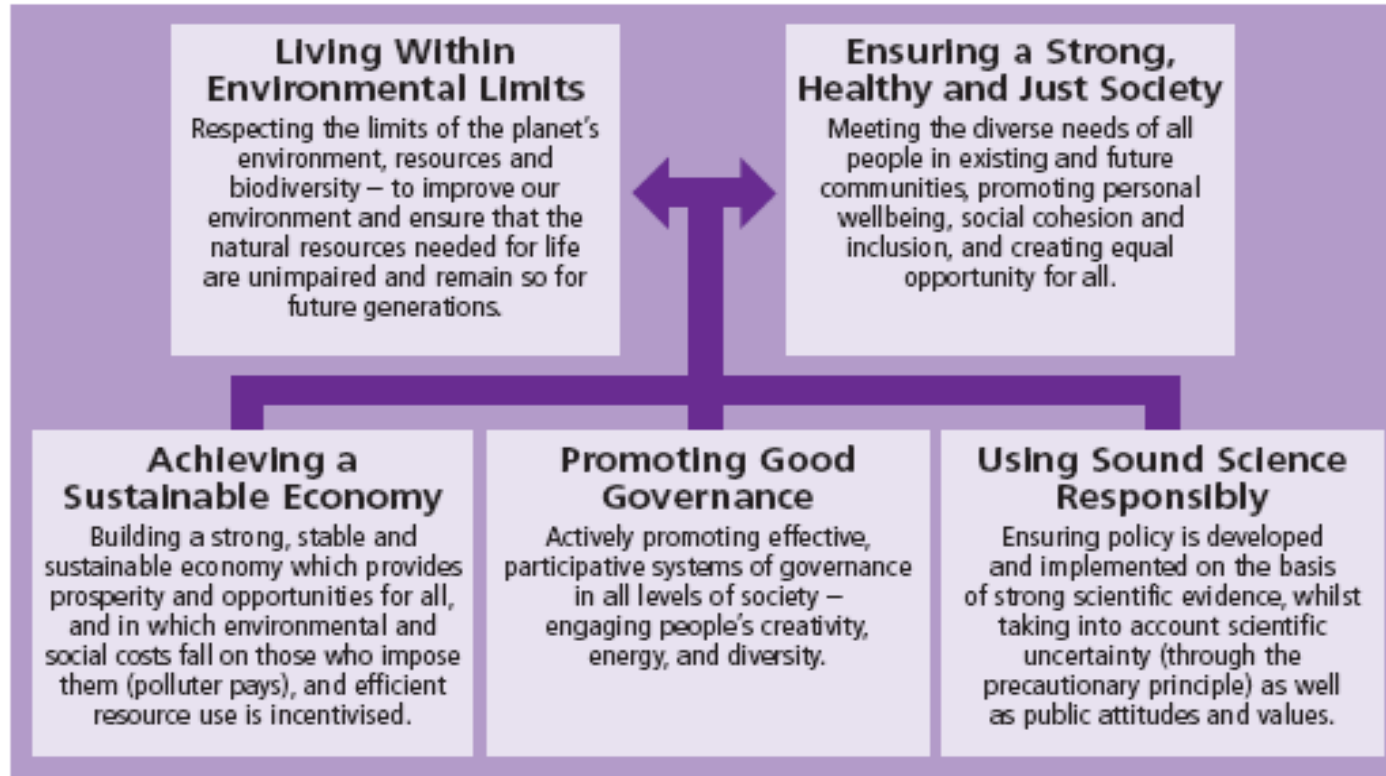


OFWAT

A sustainable  
water industry – To PR09  
and beyond

October 2006

# Sustainable development



Delivery of our primary duties is essential for sustainable development

# Investment planning

RD04/06 (March 06)

*We want to see companies providing consistent **best value** in the **service** they deliver to **consumers and the environment**. This means that companies need to take account of both costs and benefits and to consider both capital and operating expenditure, across base service and enhancements, in an integrated and coherent manner.*

*Our periodic review process should offer **incentives** for this, **promote sound asset management planning** and **challenge poor value investment**.*



# Long term planning

- Companies should prepare robust long term plans
  - **company ownership & stakeholder buy-in**
  - **no more 'bids'**
  - **smooth transition from plan to delivery**
- 25 year plans
  - **long term strategic direction**
  - **5 year periods in context of longer term**
  - **include procurement strategy?**
- Cost-Benefit Analysis
  - **companies and regulators should clearly demonstrate value**
  - **we expect a significant step forward**



# Looking ahead - PR09 build up

- **PR09 planning at an early stage**
  - MD 219 provides early indications

- **Cost benefit analysis**

*We will carry out an early review of our business planning guidance, and consult the industry and other stakeholders on the practicalities of delivering soundly-based cost-benefit analysis at both strategic and programme level.*

- **Asset management assessment**

*We will develop a tool to guide our assessment of companies' strategic investment planning at PR09 (building on the outcome of UKWIR work in this area).*

# Looking ahead - PR09 build up

- **Incentives**

*We will consider developing companies' capital programmes beyond 2015 alongside our thinking for 25-year business plans as we develop our methodology for PR09.*

*We will consult on long-term incentives as part of the preparation for our PR09 methodology.*

- **Procurement/early start?**

*We will consider the outcome of UKWIR research on the regulatory cycle and patterns of capital investment in developing our PR09 framework.*



*So much for Ofwat ... but  
what challenge does the  
industry have to meet?*

# To sum up

- **Deliver outputs**
  - poor performance will not be rewarded
- **Long term plans**
  - evidence-based on sound asset data
  - best value
  - credible - not bids
- **Strategic vision**
  - not passive regulatory contractor
  - full participation in strategic agenda WFD etc.
  - demonstrate long term horizon

