

Protecting consumers, promoting value and safeguarding the future



PR09 – the methodology consultation

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29 November 2007



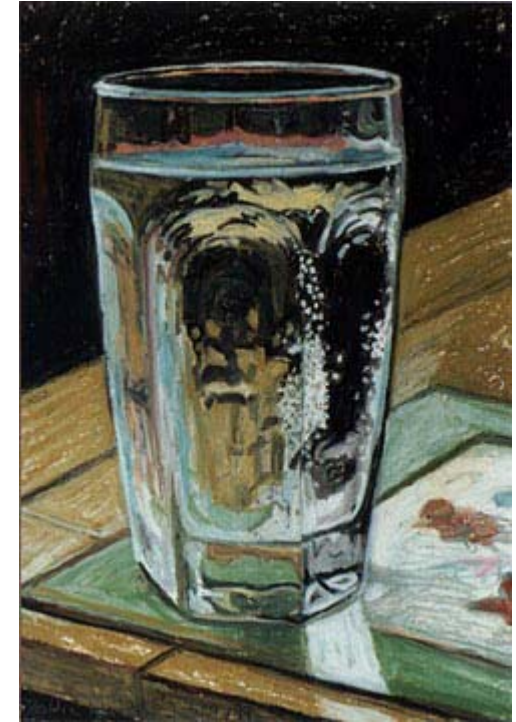
Introduction

- Setting price limits
- The PR09 methodology consultation
- Next steps

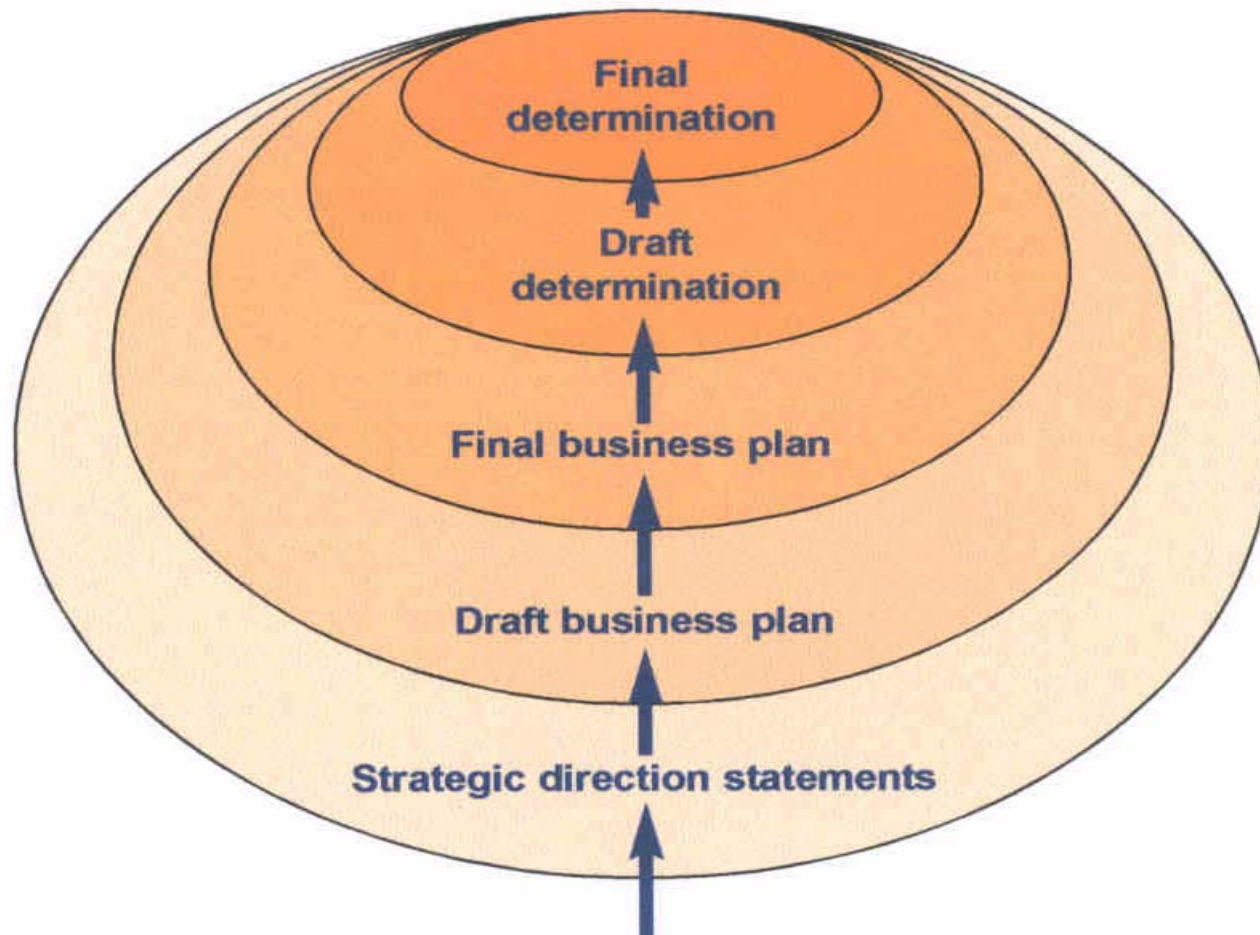


PR09 Overall Objectives

- Our role is to protect consumers, promote value and safeguard the future.
- We will set price limits that support and encourage a sustainable water and sewerage sector.
- We expect each company to take ownership of its business plans to deliver best value for its consumers.



The process



The wider context

- Expect guidance from Defra and Welsh Assembly Government
 - Statement of obligations
 - Water Strategy Document
 - Social and Environmental Guidance
- Climate change
- Pitt inquiry
- Customer research



The price review

Four phases:

- Phase 1 – Preparation (Mar 07 to Mar 08)
- Phase 2 – Setting the scene (April 08 to Jan 09)
- Phase 3 – Decisions and determinations (Feb 09 to Nov 09)
- Phase 4 – Implementation of price limits, evaluation of price review and dealing with appeals (Dec 09 to Sept 10)



The PR09 methodology consultation

Consultation paper sets out our proposed approach to setting price limits:

- aimed at the regulated water and sewerage companies, and
- of interest to other key stakeholders:
 - government
 - environmental and quality regulators
 - developers, suppliers etc
- but customers remain at the heart of the price review, and
- we confirm that work to develop competition continues as another priority



What's new for PR09?

- SDS phase (signalling long term approach)
- Single draft business plan with company option for alternative plan
- Carbon accounting and use of CBA
- Planned overlap
- Menu regulation (consulting separately)
- Capital estimating scorecard
- Cost of capital indexation and financeability policy
- Revenue correction mechanism

Cost-Benefit Analysis



The PR09 methodology consultation

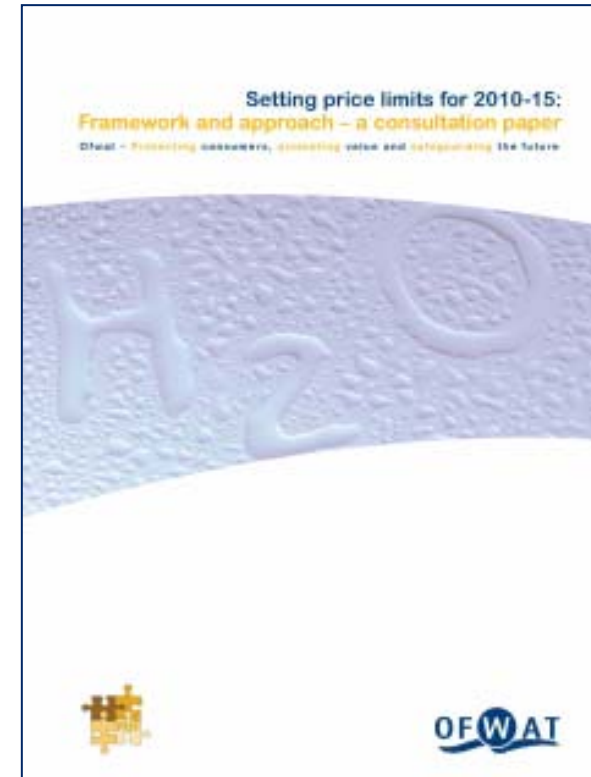
We asked three general questions:

- Does the approach set out in the paper deliver our objectives for the price review
- Can we simplify any issues or collect less information
- Are there any additional issues that we need to cover?



The PR09 methodology consultation

- Electronically published
- Focuses on things that are new or need emphasising
- Supported by separate policy letters
- Ofwat website draws issues together in a special PR09 area
- Impact appraisal under development



Information for setting price limits

- Ofwat will shortly issue our consultation on the detailed business plan information requirements
- Challenged ourselves to only collect the minimum amount of information needed to set price limits
- Reduction in detailed information on the period after 2015



Conclusion

- Now well into the consultation phase of the price review
- The PR09 methodology consultation seeks stakeholders' views on a number of innovative approaches to setting price limits
- Customer consultation continues throughout the PR09



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