

Meeting Future Challenges Blueprint for policy action



Summary

Introduction and Context

There is broad consensus about the challenges facing the water sector: pollution of water courses; managing surface water, flooding and coastal erosion; managing water resources to provide an affordable public supply; reducing greenhouse gas emissions; and adapting the service to climate change.

These challenges are relatively well defined and understood, as is the context in which they must be addressed. Company 25-year Strategic Direction Statements were well received¹. Customers are clear and consistent about what they want and what they are willing to pay. The companies have the experience and expertise to meet these expectations, but businesses are more likely to identify effective solutions in response to incentives than direction. It will be vital that they retain the support of customers and investors.

The paper looks at the complementary roles of regulation and competition and proposes an ambitious but realistic way forward. The existing regulatory system is a robust platform from which to work, but must evolve to allow delivery of the broader sustainability agenda that we now face – particularly in relation to carbon.

The way forward

Putting customers first

- A measured pace to improvements which ensures, overall, that prices are acceptable
- Customers and companies should take greater responsibility for customer service, negotiating through a strong and representative consumer body within parameters agreed by Ofwat
- Establishing a charging strategy which encourages customers to use water wisely and ensures that water and sewerage services are affordable

Renewing incentives for efficient and sustainable delivery

- Removing the bias between capital and operating solutions
- Improving incentives for operating savings
- Incentivising exemplary environmental and sustainability performance
- Facilitating capital market competition

Developing flexible regulation that encourages sustainable and innovative behaviour

- Decisions which have clear linkages to government policies and strategies
- Risk based regulation which focuses upon issues that are material to customers and other stakeholders
- Greater flexibility over compliance and the use of price signals to encourage sustainable outcomes

Ensuring sustainable access to the capital markets

- Re-emphasising with policy makers the ongoing need to raise large amounts of equity and debt capital, and Ofwat's joint primary duty to allow companies to finance their functions
- Ringfencing or allocating the Regulatory Capital Value (RCV) in a way which ensures the competition agenda does not strand existing investment

Working together to implement the way forward

There is much the industry can, and must, do, to take this way forward, but it cannot achieve society's goals on its own. Fortunately, the industry has a strong record of working successfully in partnership and looks forward to cooperating with many different groups to bring about the necessary reforms. In setting public policy, the government will find the water industry a willing, constructive and able partner.

¹ Published December 2007