



How water prices are set

Unlike energy companies, water companies do not set their own prices. In England and Wales, price limits are set for them for five-year periods by the independent economic regulator, Ofwat. Next year, in 2014, Ofwat will set prices for 2015-2020. In Scotland, the Water Industry Commission for Scotland sets prices and in Northern Ireland, where individuals do not receive water bills, prices are set by the Utility Regulator for Northern Ireland and paid through household rates.

Prices go up only as much as the regulator thinks is absolutely necessary and water companies are expected to be highly efficient in the way that they operate – to deliver water services cost-effectively and to a very high standard while reflecting their customers' priorities. Ofwat quantifies this and says that because of this efficiency, bills are £120 lower than they would be otherwise.

Much of our water bill goes to pay for the collection and treatment to a very high standard of water for drinking. In fact, our drinking water in the UK is the best in Europe. Our water and sewerage bills also pay for disposal of sewage, maintenance and improvements to the supply network, reducing leakage, preventing sewer flooding and conserving the natural environment on which our water supply depends. Companies are working hard to make the network more resilient to extreme weather, be it flooding or drought.

The infrastructure on which water and wastewater services rely lasts for many decades and there is a need to renew it constantly in order to avoid sudden hikes in expenditure. Companies are very well aware that there is a balance to be struck between their investment in infrastructure (£4-5 billion every year) – which ensures that customers can continue to rely on water and wastewater services now and in the future – and the bills of their customers. The companies fund this investment in infrastructure by attracting finance from investors, at home and abroad. The stable and predictable regulatory regime has allowed companies to raise finance at reasonable rates, thereby keeping customers' bills down.

Following the biggest ever consultation with their customers, companies are about to submit to Ofwat their business plans for 2015-20, outlining what they plan to do and how much it will cost. It will be for Ofwat then to review each company's plan to make sure it offers good value for money before making a final decision on what a company may charge its customers.

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