

Water Services Provisions in the UK

- **England**
- **Wales**
- **Scotland**
- **Northern Ireland**
- **Private Companies**
- **Not-for-Profit Company**
- **Public Companies**
- **Public Company**

Water Services in 1989

- **10 Regional Water Authorities**
- **22 Private Water-Only-Companies operating in the areas of the Water Authorities**

Regional Water Authorities -1

- **Public Organisation**
- **River - Catchment Based**
- **Provider of Services and Regulator**
- **Cost recovery**
- **Capital from Borrowings from Central Government**
- **Separate Bills for Water Services**
- **50% of Board Members - Local Authorities**

Regional Water Authorities -2

- **Regional Water Authorities - Limited Success**
- **Regulatory Functions (DSS) Weak Compared to Operations**
- **Approximately 20% of Staff Regulatory and 80% Operation**
- **Lack of Capital Investments as Water Services not a High Priority**

Water Act 1989

- **Privatisation of the Water Services**
Functions of the Regional Water Authorities
- **Creation of - the National Rivers Authority**
which in 1995 became the Environment
Agency - Protection of the Environment
- **Ofwat - Economic Regulations**
- **Drinking Water Inspectorate -Auditing**
Drinking Water Quality
- **Consumer Council for Water (CCWater) -**
Consumer Interests

Reasons For Privatisation - 1989

- **Government Policy at the Time**
- **Large Investment Requirements
(DWD, BWD, proposed UWWTD)**
- **Freedom from Government
Borrowing**
- **Chief Executives from Private Sector**

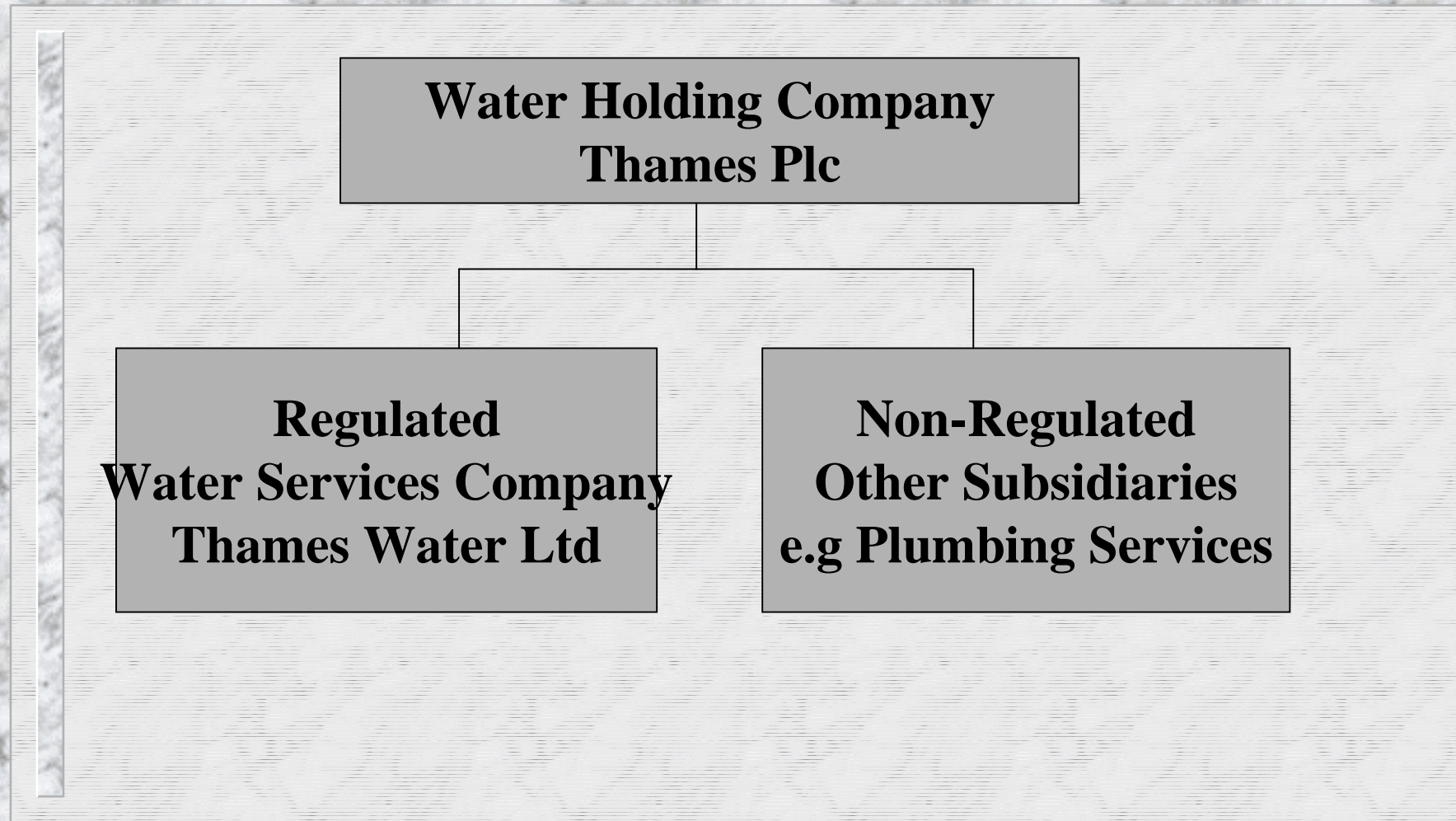
To Make the Companies Attractive for Privatisation

- **£5 Billion Debt Written Off**
- **£1.5 Billion Subsidy for Urgent Improvements**

In turn

- **£5.225 Billion Raised from Investors**
- **£1.673 Billion Withdrawn by Labour Government in 1997 - Windfall Tax**

Structure of Private Water Companies



Ownership of Water Services Companies

- **3 still quoted on Stock Exchange**
- **The Others taken over by Private Company or Funds**
- **Water Services Functions must be ring-fenced and are controlled by OFWAT**

Changes to Welsh Water

- **Bought by US Company Western Power**
- **Bought by Glas Cymru - Not-For Profit Company, Financed by Bond Issue**
- **Operated as if Registered on Stock Exchange but no Dividends/Profits**
- **Customers not Liable for Losses**

Water Companies in 2013

- **10 Water Services Companies - water and sewerage services**
- **11 Water-only-Companies -reduced from 22 at Privatisation in 1989**

As result of Owat's obligation to encourage competition

- **6 Local Companies -water and/or sewerage**
- **7 Water Supply Licensees - water services to large customers > 50 000 m³/y**

Water Company Supply Areas



Water Companies

- **Monopolies in their Area of Supply
(although water and sewerage providers
may be different)**
- **25 Year Renewable Licence**
- **Own all their Assets**
- **Vertically Integrated from Source to Tap
and Sink to Discharge to Environment**
- **Regulated Business - Ring-fenced**

Water Services System - 1

■ Mature System

- 99% Connected to Water Supply**
- 98% Connected to Sewerage System**

■ System is Quite Old

- 50% of Sewers before 1944**
- 25% of Sewers before 1918**

■ In London 1/2 of Water Mains >100 years and 1/3 >150 years

Water Services System - 2

- **High Leakage**

- **Since 1994/95 leakage has been reduced by 35% to less than 20% of water entering the distribution system**

- **Each Water Company has Leakage Target**

- **Companies have to develop Plans to meet Targets**

Water Services System - 3

- **Only 20% of Properties had Water Meters in 2000, increased to 40% in 2011**
- **Veolia South East Granted Water Scarcity Status - Compulsory Metering**
- **Highest Meter Penetration - Veolia SE 82%, South West 70%, Anglian 68%**
- **Lowest Portsmouth 17%, Thames - 31%**
- **Cost of Meters through Price Review**

Setting of Price Limits - 1

Price limits are set every 5 years

In the past it was a top down approach:

- **Regulators (EA and DWI) laid down improvements required**
- **Companies prepared business plans setting out costs how to achieve the plans**
- **Ofwat assessed the plans and laid down the efficiency improvements to be achieved**

Setting of Price Limits - 2

- **Price Limits were set for a Basket of Charges - Metered and Un-metered Water and Sewage and Trade Effluent**
- **Price limit P (%) for each company**

$$P = RPI + K$$

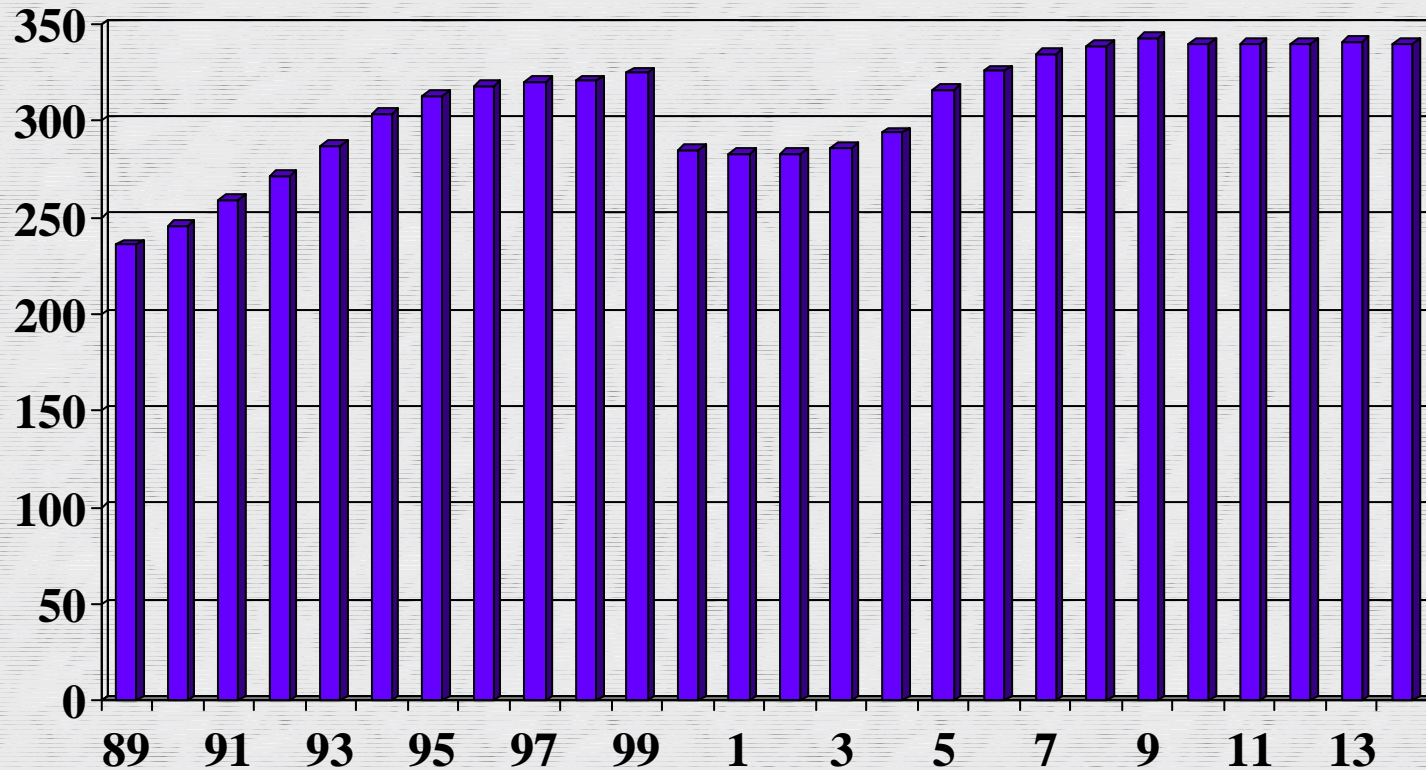
RPI = Retail Price Index

K = Price increase/decrease above RPI

Current Metered and Un-metered Bills (£)

	Metered	Unmetered
Lowest	295	370
	Northumbrian	Thames
Highest	411	811
	South West	South West
Industry Average (weighted)	355	417

Average Bills since Privatisation (£ in today's prices)



Water Company Reports -1

The Water Companies have to prepare Annual Regulatory Reports with Data on:

- **Costs, Revenues, Assets and Liabilities for the different Activities of the Water and Sewerage Sectors**
- **Aim - Separate Data for the Water and Sewerage Wholesale Operations and the Retail Operations**

Water Company Reports -2

- **Risk and Compliance Statement - how they complied with Statutory and Regulatory Requirements**
- **Key Performance Indicator Report on: Customer Experience, Reliability and Availability of Services, Environmental Impact, Financial Health**

Water Use

- **Un-metered 153 ltr/head/day**
- **Metered 129 ltr/head/day**
- **Average 146 ltr/head/day**
- **Water Companies have Legal Requirement to Improve Water Use Efficiency**
- **£ 5.62 Million Spent on Water Use Efficiency Improvements in 2009-10**

Achievements -1

Since Privatisation in 1989

- **£116 billion have been invested since 1989**
- **Leakage level has been reduced by 35%**
- **98.8 compliance with BWD**
- **99 % Compliance with UWWTD**
- **99.96 % compliance with DWD**
- **Large improvements in customer services**

Achievements - 2

To moderate the price increases

- **The debt of the Companies Increased from near Zero to £35 Billion**
- **The Gearing (Debt to Regulatory Asset Value) of the Companies Increased from near Zero in 1989 to near 70% in 2009/10.**

Affordability of Water Services - 1

- **Payment by Rateable Value**
- **12.3% of Households > 3% of Disposal Income and 11% > 5% in 2009/10**
- **Capped Tariffs certain Benefits and >3 children, medical needs**
(4171 in 01/02 to 30 907 in 09/10)
- **No VAT**
- **Government subsidy £50/y for South West**

Affordability of Water Services - 2

- **Water Services Act 1999 Outlawed the Disconnection of Water Services**
- **5 Million Households in Debt vs 1.1 Million Electricity and 0.8 Million Gas**
- **£14/y Impact of Non Payment on other Customer's Bills in 2009-10**
- **£1.4 Billion outstanding > 3 Months**

Challenges for the Future

- **Affordability**
- **Climate Change - Droughts and Floods**
- **Rising Environmental Standards**
- **Rising Customer Expectations**
- **Population Growth (17% by 2030)**
- **Lifestyle Changes**