

PR09 Draft Business Plan review

Background

Water companies published their draft business plans in August 2008. We have reviewed these and provided feedback to Ofwat, the economic regulator for water companies, and set out below our national overview. We will be discussing the draft business plans with water companies and other stakeholders over the coming months, with a view to our comments being taken into account within final business plans in April 2009.

The water companies submitted business plans to Ofwat in a five-yearly process known as the Periodic Review, where Ofwat reviews water company pricing. This means they regulate the price customers pay for the supply of water and the treatment of wastewater. The next Periodic Review, PR09, is due to be completed in November 2009. This will set price limits for the period 2010 to 2015. Water companies will now prepare their final business plans using the comments from Ofwat, ourselves, other organisations and the public.

During our discussions with water companies, prior to the publication of their draft plans, we identified four key priority areas for action:

- ensuring there is sufficient water for everyone's needs whilst still protecting the environment;
- a programme of environmental improvements within the National Environment Programme;
- ensuring water company infrastructure is maintained, improved and protected; and
- tackling climate change.

These are described in our PR09 'vision' document: 'Water futures'.

Overview of our response

In broad terms, we welcome the proposals that water companies have put forward within their draft business plans and most companies have set their plans within the context of their 25-year Strategic Direction Statements, which were published in December 2007.

We would like to see a clearer presentation of all information which supports the water company proposals, within the final business plans. This will help us all ensure protection of the environment and delivery of value for money for the customers, whilst at the same time improving confidence in the robustness of the water company planning processes.

Key issues

The National Environment Programme

The National Environment Programme (NEP) is a programme of actions and investigations which water companies need to complete to meet their statutory environmental obligations.

This will include: actions to improve the quality of water that is discharged from sewage treatment to either rivers or the sea; preventing chemicals from entering groundwater; and ensuring that abstraction of water does not adversely impact on habitats which are protected by law.

We are pleased to see that more than 95% of the actions identified within the initial NEP have been included in the draft business plans. We will be publishing our final NEP in December. This will include the actions from the initial NEP and some additional ones. The additional actions cover those areas where there are new regulatory requirements, or where we have new evidence from monitoring or investigations showing that action is required. We want water companies to include 100% of the NEP in their final business plans.

The inclusion of the Habitats Directive water resources sustainability reductions within business plans is essential to prevent unacceptable risks of damage to the environment in the future. Most of the reductions which we identified in the initial NEP have been included within draft plans. We expect water companies to assess and take account of the impact of sustainability reductions within their supply/demand options appraisal and to include them within their final business plans.

We will be working closely with those companies that have omissions from their NEP proposals, to ensure that all actions are included in their final business plans.

Water supply and demand

We expect water companies to ensure secure supplies for people and industry, and to play their part in helping to protect the environment. We want the companies' plans to be robust in the longer term to the challenges of climate change and growth. This means companies should manage demands for water better, in order to: reduce the pressures of abstraction on the water environment; be more resilient to the future uncertainties of climate change; reduce the carbon footprint of their own operations and help their customers reduce energy use.

The PR09 process has been running alongside the statutory water resources management planning (WRMP) process. Whilst we are pleased that the majority of draft business plans have been driven by WRMPs, with only minor discrepancies between the two plans, a number of the draft WRMPs require part or substantial revisions. We expect the recommendations we have made on the draft WRMPs to be carried through to the final business plans.

Growth

Population growth will affect both demand for water and the need for wastewater treatment.

All companies make reference to factoring in growth within their draft business plans where this has been included in the Regional Spatial Strategy or Local Authority Plans. In the current economic circumstances it is difficult to predict build rates in the housing industry with certainty, but we believe the water companies' plans should use the growth targets set out by Government and existing planning documents, and explore the implications of growth falling below that level.

For some water companies there is a discrepancy between the supply/demand forecast for water and sewerage; the sewerage forecast does not reflect increased water efficiency. We expect water companies to join up their water and sewerage planning to ensure adequate account is taken of demand management measures and growth within final business plans.

Water and sewerage infrastructure

Flooding of treatment works and pumping stations can disrupt crucial services to homes and businesses. Poorly maintained, overloaded and inappropriately designed sewerage infrastructure leads to leaks and serious pollution incidents.

We are pleased that all companies have identified capital maintenance as important for action within PR09. We support an increase in maintenance but need to be reassured that it is delivering value for money and is in the right areas to protect the environment. We expect companies to set out more clearly their priorities for capital maintenance which take into account the potential impact on the environment in final business plans.

We welcome the action proposed by water companies to enhance the resilience to flooding of water company assets, security of supply and generic asset resilience (for example via better networking), and specific flood resilience measures. However, we require a better understanding of the proposals from individual companies in order to be reassured that action is being targeted on the basis of a robust risk-based approach to managing the risk of flooding from all sources.

Every water and sewerage company is proposing action to tackle sewer flooding. However, we would like to ensure that there is a real decrease in the number of properties at risk of sewer flooding, and need to understand water company proposals better to do so.

Most water and sewerage companies mention the need to work with stakeholders to address surface water flooding, as highlighted by the Pitt review. However, few water companies are proposing action on surface water flooding, and those who are, are largely looking at modelling or planning rather than delivery. We will be seeking greater commitment to helping with production and delivery of Surface Water Management Plans in final business plans.

Climate change

We would like water company business plans to show that: climate change impacts have been factored into supply/demand balance appropriately; proposals for critical infrastructure allow for climate change; new sewerage infrastructure has been designed to cope with future climate; and that broader climate change risks to the business have been identified with commentary provided to show how these will be dealt with.

The progress made in addressing climate change by water companies since the last review in 2004 has been encouraging. Most have made attempts to address climate change in their draft business plans, with around a quarter of companies leading the way in responding to the challenge. However, all companies have areas that we would wish to see developed or made more transparent in final business plans.

We are pleased that most companies have attempted to calculate the carbon dioxide and broader greenhouse gas emissions resulting from the actions in their plans and that the Shadow Price of Carbon has generally been applied appropriately. Several water companies have set themselves voluntary carbon reduction targets in line with, or exceeding, existing current Government aspirations, which we welcome. We look to those companies who have not included such targets in their draft business plan to do so in their final business plans.

Catchment management solutions

We welcome the inclusion of a significant number of catchment management approaches within draft business plans. Water companies are well placed to contribute to and develop innovative, integrated solutions to achieve multiple benefits, including environmental outcomes at river basin and catchment scale. For example, through the development of partnership approaches to address diffuse water pollution, benefits will be delivered to water customers from reduced costs of raw water treatment. Such measures can also contribute to several outcomes, including climate change adaptation and mitigation, water resource management, enhancing biodiversity and environmental water quality improvements.

The number of catchment management solutions proposed in the draft business plans is a substantial increase on proposals from previous price reviews, with around two thirds of companies proposing action. We will work with companies and other stakeholders to further develop and refine them for inclusion within final business plans. We will also seek to promote these approaches more widely with water companies where we believe they have issues which lend themselves to being addressed in this way.

What happens next

We will now work closely with Ofwat, water companies and other stakeholders to ensure that our views and those of others are included within the final business plans. As part of this we will publish our final National Environment Programme in early December.

Water companies will submit and publish final business plans in April 2009, and Ofwat will make its final determination later in 2009.