



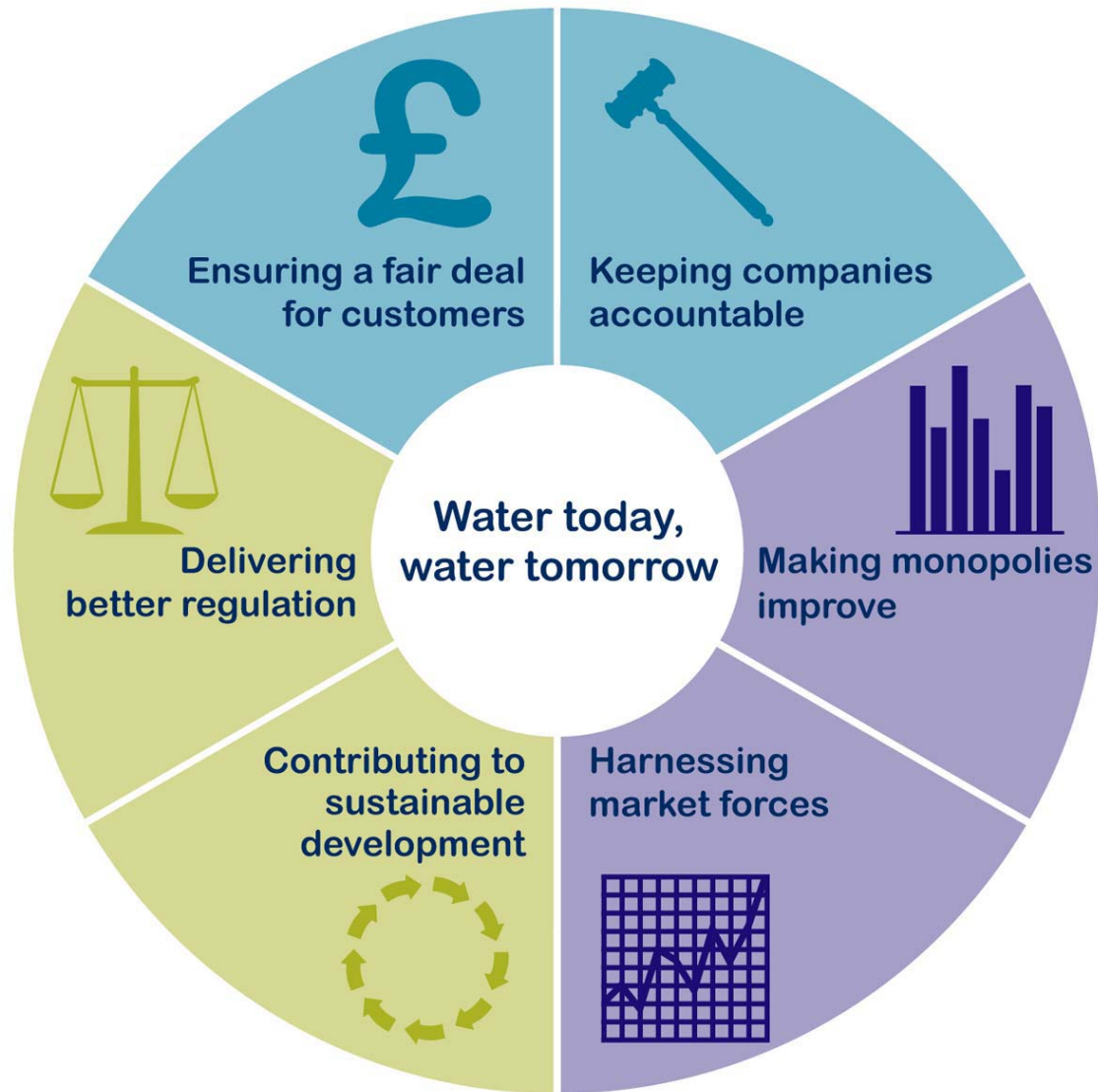
Setting Price limits for 2010-15 PR09

Mark Worsfold
25 November 2010

<http://www.ofwat.gov.uk/pricereview/>

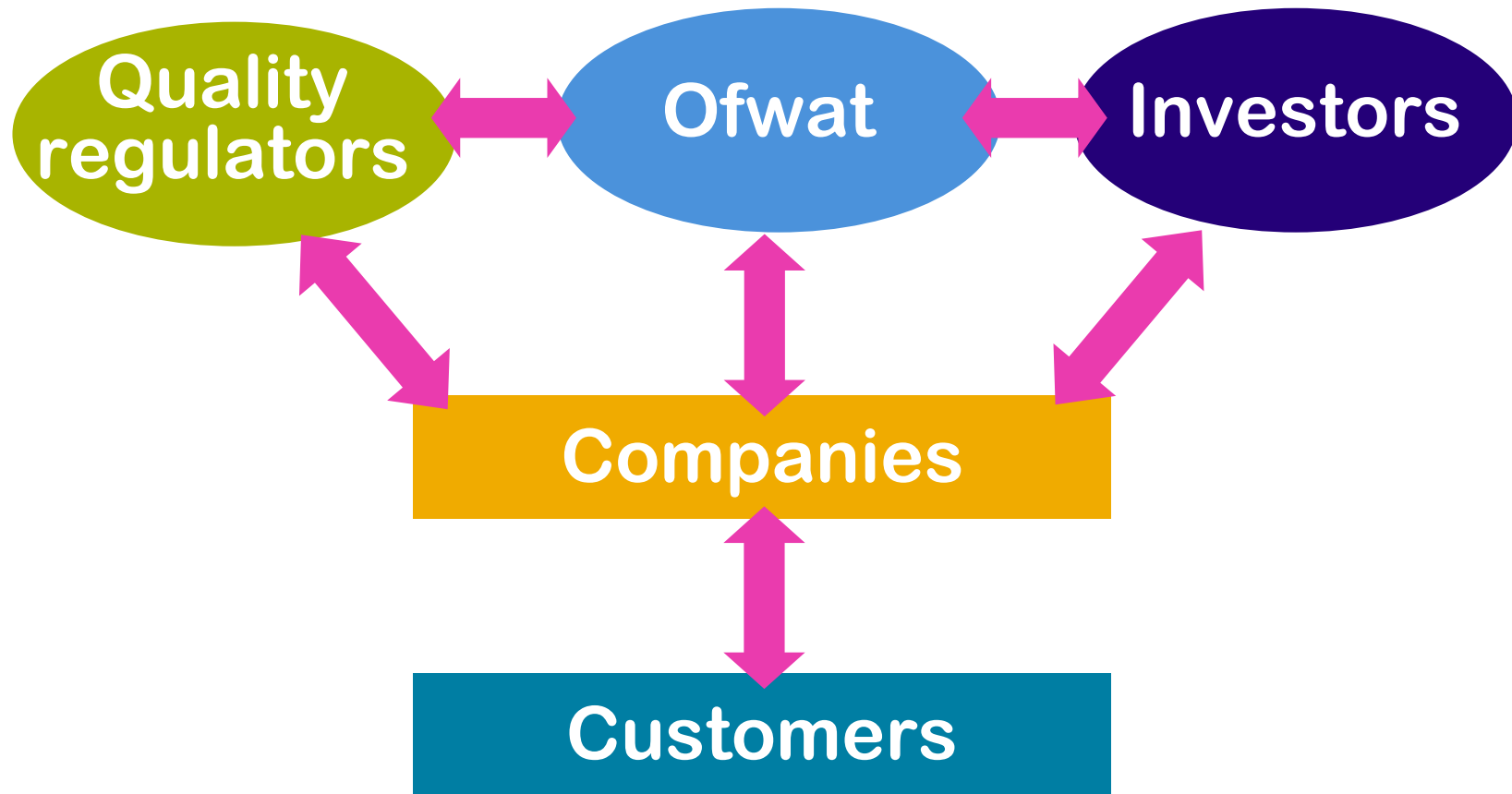
Water today, water tomorrow

Ofwat's strategy



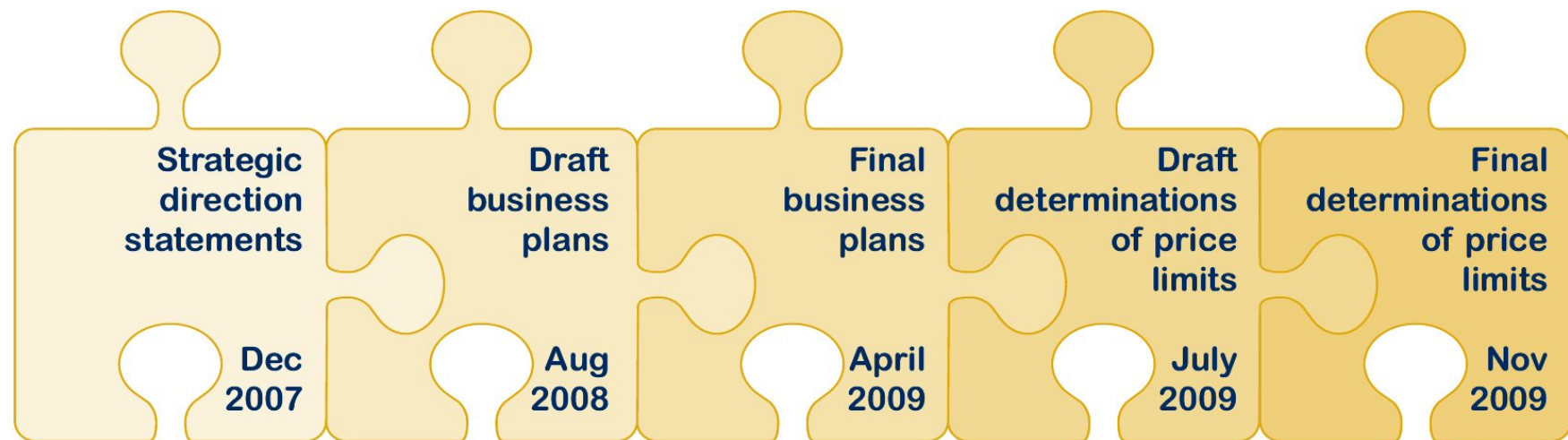
Water today, water tomorrow

Regulatory framework



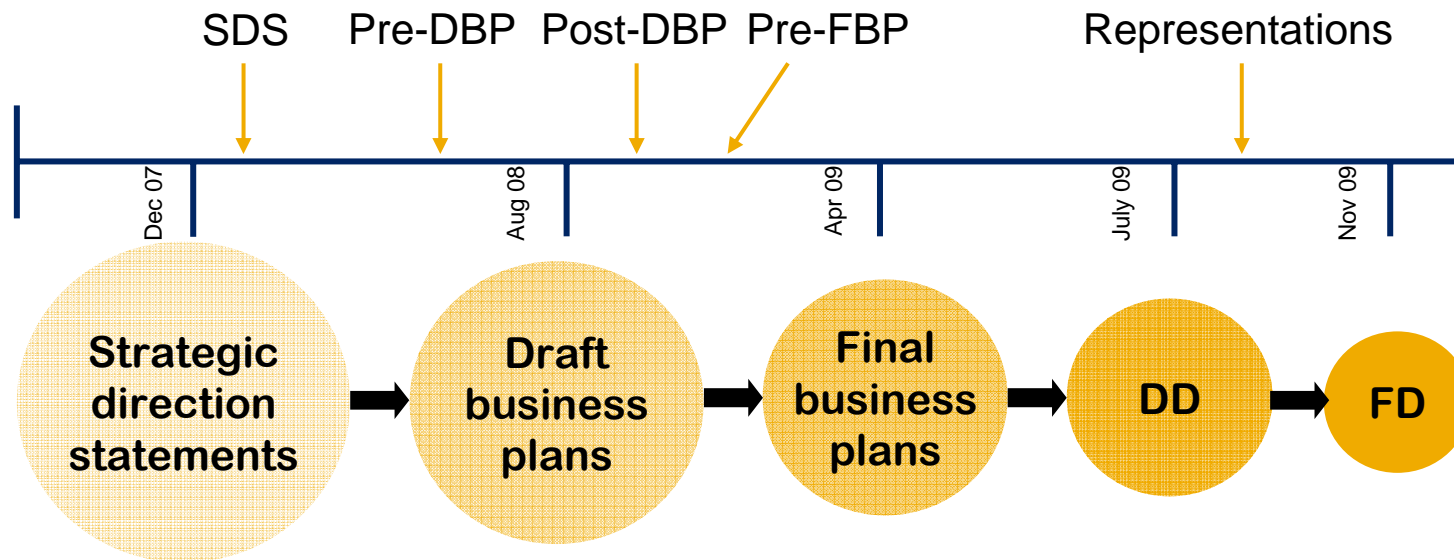
Water today, water tomorrow

Setting price limits for 2010-15



Communicating with stakeholders

Company meetings

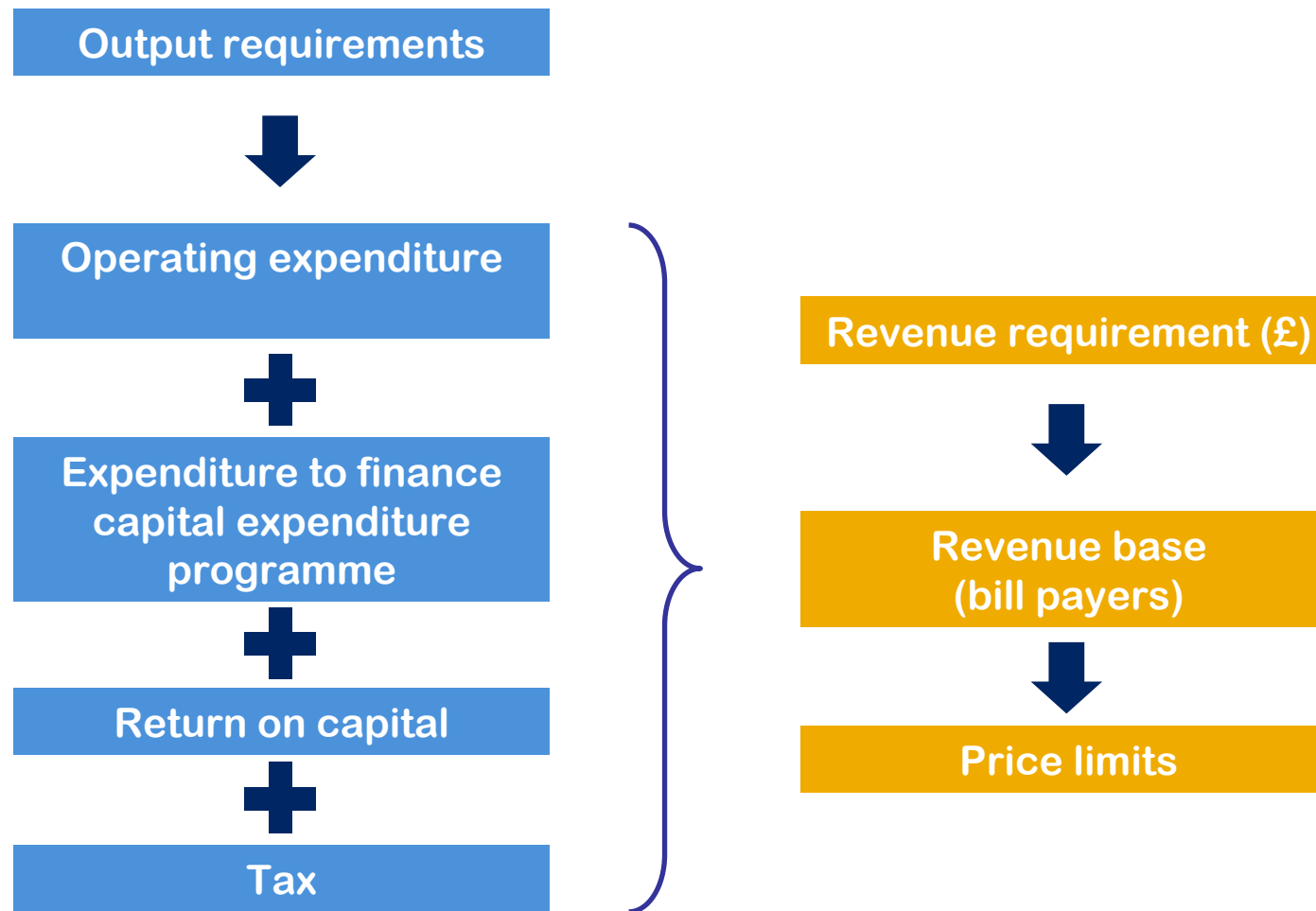


Stakeholder senior co-ordinator meetings – monthly

Stakeholder Chief Executive meetings – every two to three months

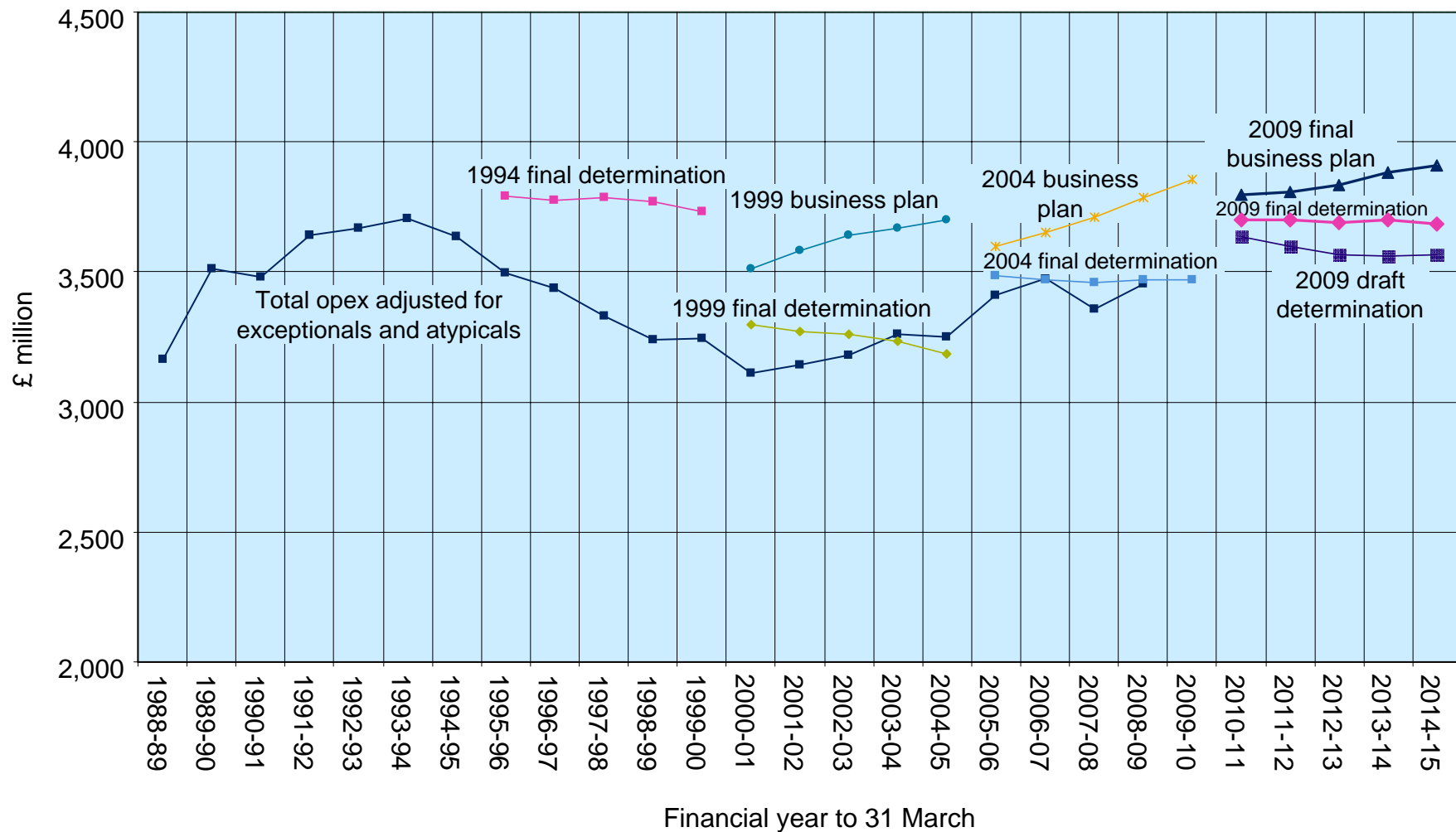
Ministerial briefing at key stages

Approach to setting price limits



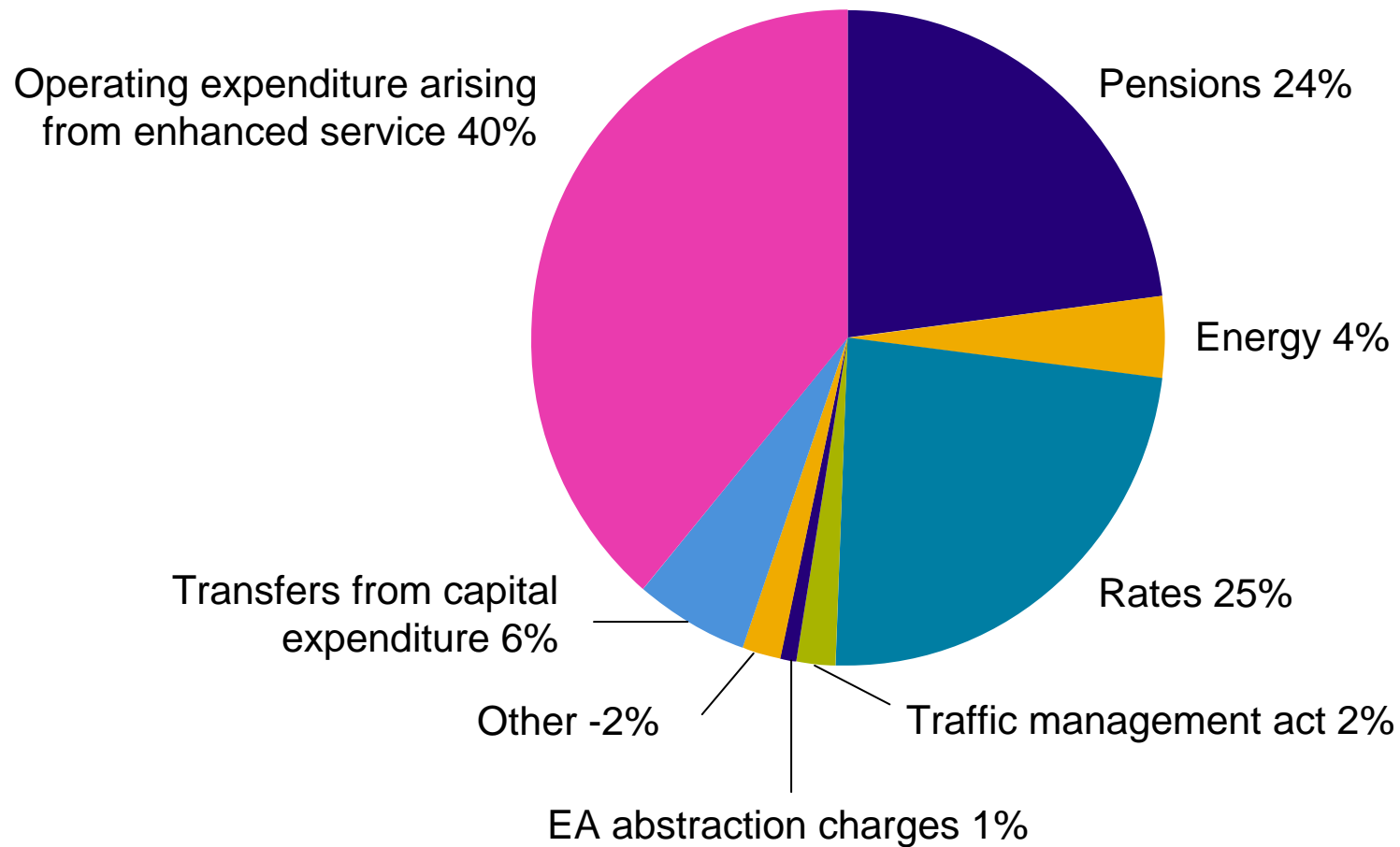
Protecting consumers, promoting value, safeguarding the future

Industry – water and sewerage past and future opex (2007-08 prices)



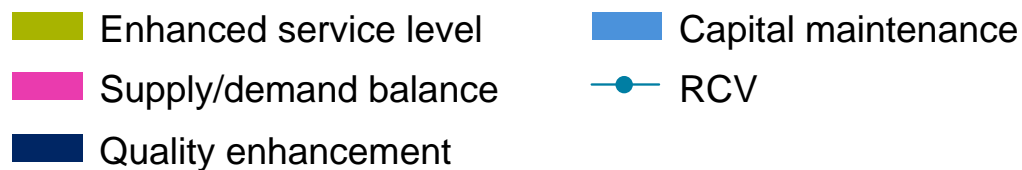
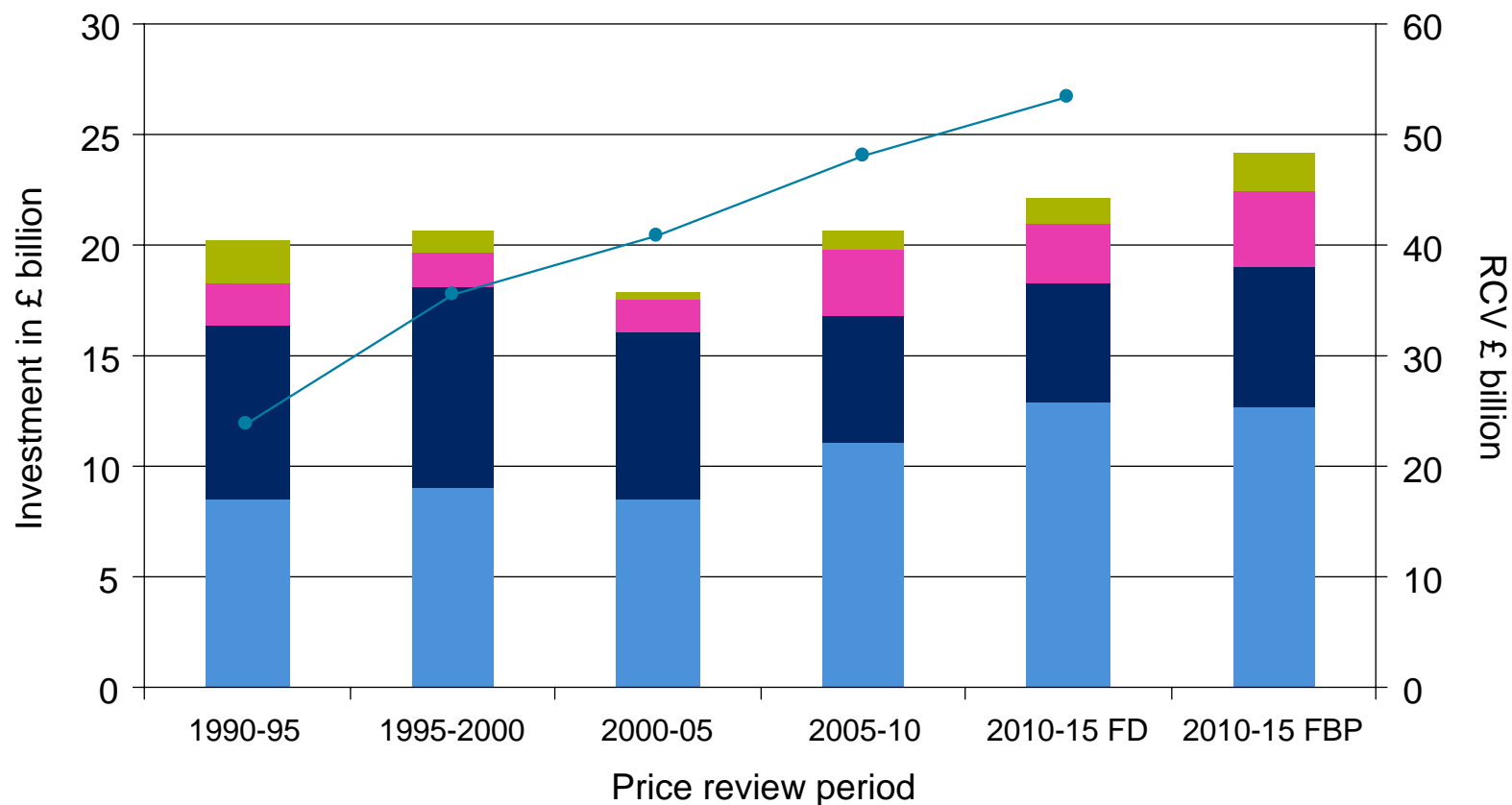
Protecting consumers, promoting value, safeguarding the future

Additional operating expenditure £0.4 billion 2014-15



The 'other' category is negative because it includes spend to save outputs

Actual and projected net capital investment by purpose category



Protecting consumers, promoting value, safeguarding the future

Cost of capital

	FD WaSCs	FD WoCs
Cost of equity (post-tax)	7.1%	7.1%
Cost of debt (gross of tax shield)	3.6%	4.0%
Gearing (debt:RCV)	57.5%	52.5%
WACC – gross of tax shield (vanilla)	5.1%	5.5%
WACC – post-tax	4.5%	4.9%

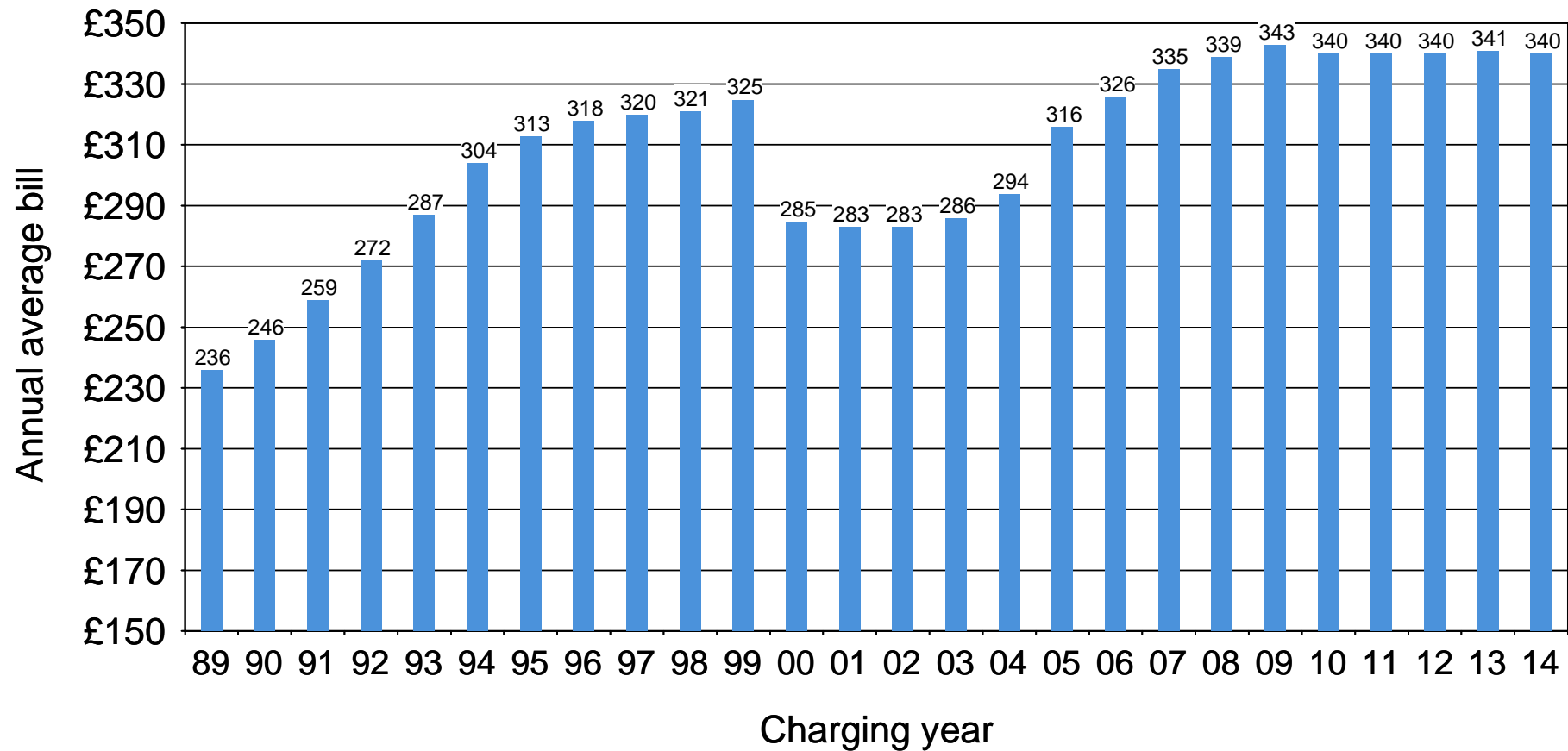


- Industry average K 0.5%pa (from -0.2 at DD)
- Average bills down £3 by the end of the period (£14 at DD) – companies wanted bills to go up by 9% (£31)
- £22.1bn capex (up by £1bn on DD)

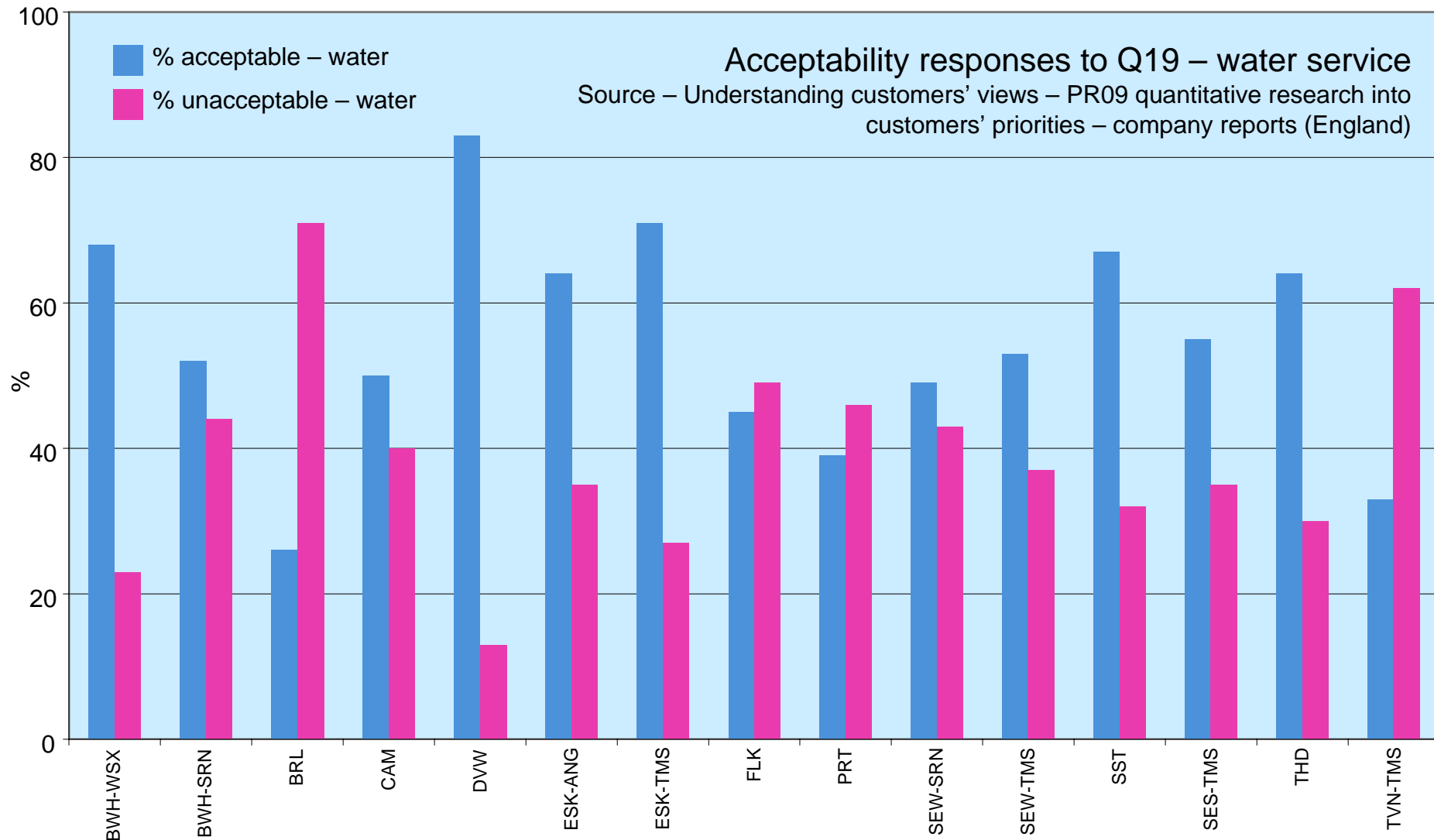


Bills profile

Average bills from 1989 to 2015 (today's prices)

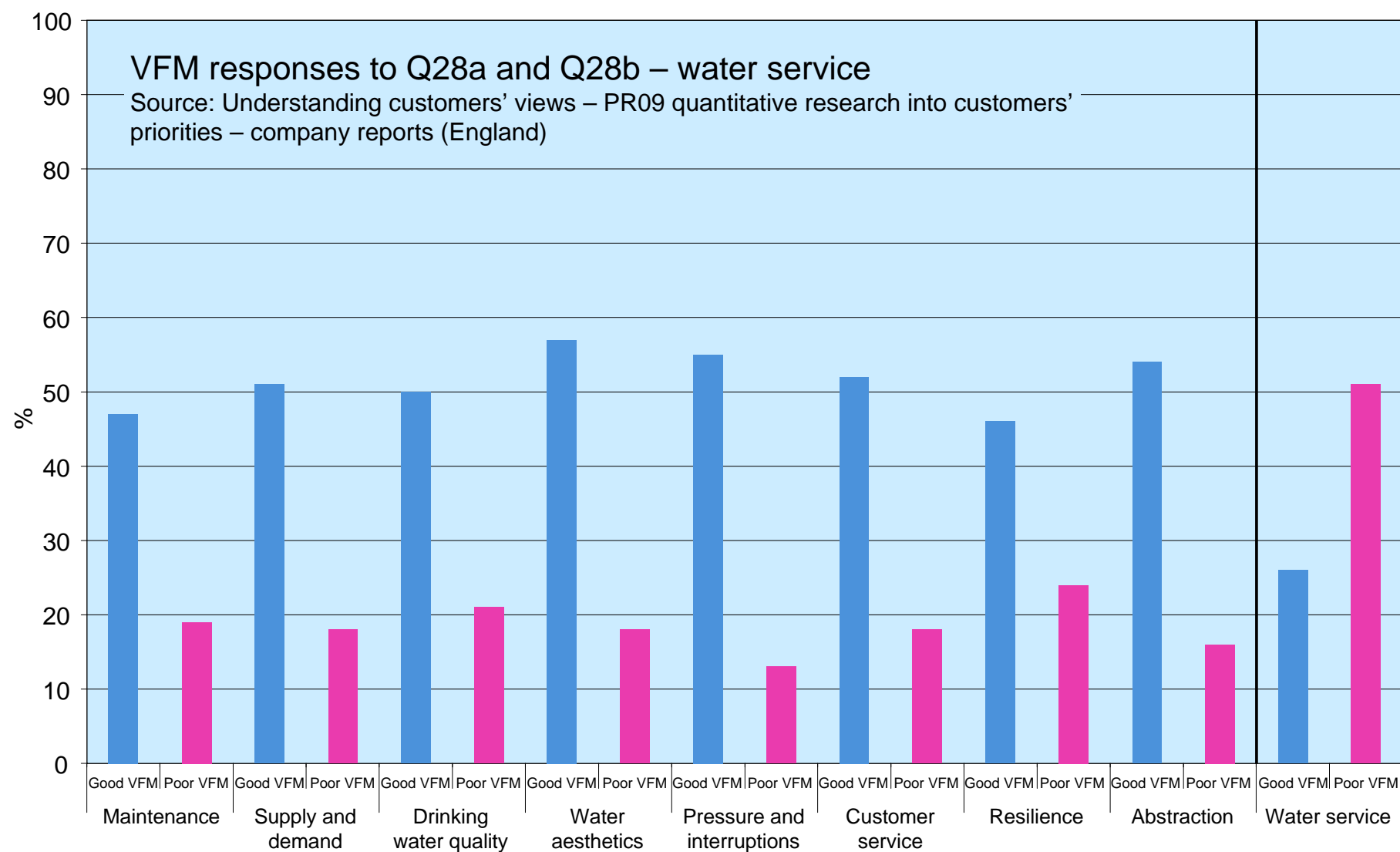


Consumer research results

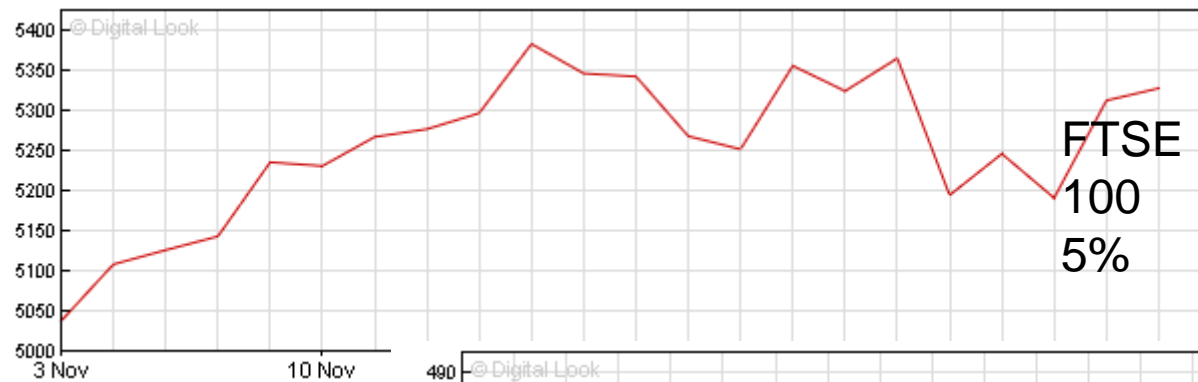


Protecting consumers, promoting value, safeguarding the future

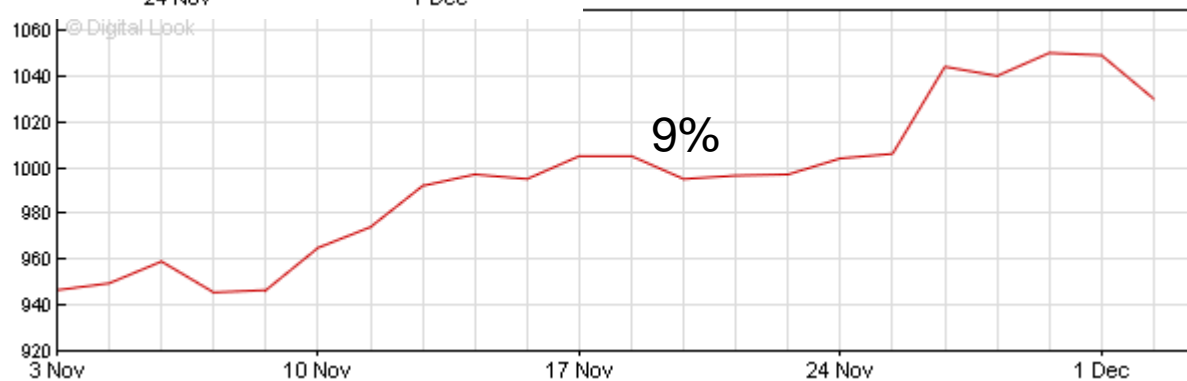
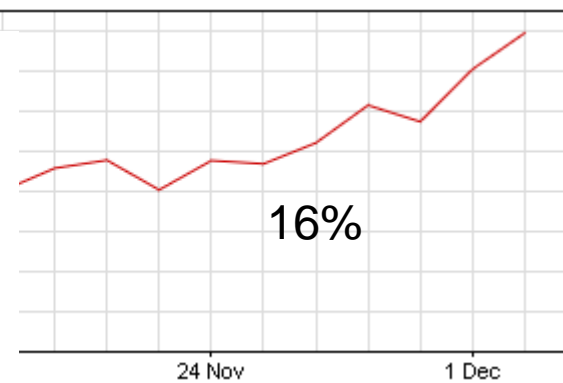
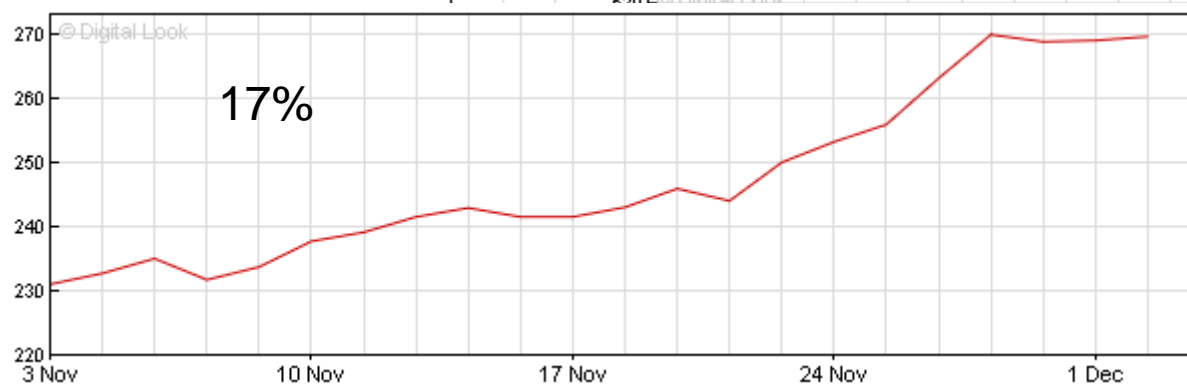
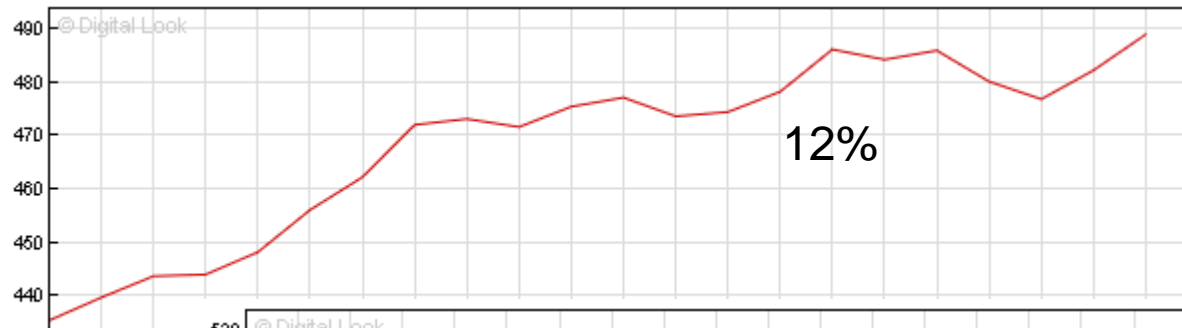
PR09 consumer research – Bristol Water



Protecting consumers, promoting value, safeguarding the future



3 Dec 2009





Post-FD

Companies had 60 days to make decision on whether to accept the price limits:

- Balance risks and costs of referral with potential benefits
- Understanding the external risks
- Not an easy decision – and best not rushed
- Bristol Water only company to go

CC had 6 months to decide

CC set BRL wholly new price limits – did not just decide on components





Next steps

We have set price limits – now the companies have to deliver!

We monitor performance through an annual return

We take action where we see performance declining – or where things are not being done

We deal with requests to change price limits

We plan what to do in 5 years time!



Key Documents

Framework and Approach for price setting:

Setting price limits for 2010-15: Framework and approach

http://www.ofwat.gov.uk/pricereview/pap_pos_pr09method080327.pdf

Final determinations 2010-15:

Future water and sewerage charges 2010-15: final determinations

http://www.ofwat.gov.uk/pricereview/pr09phase3/det_pr09_finalfull.pdf

Service and delivery report 2009-2010:

http://www.ofwat.gov.uk/regulating/reporting/rpt_los_2009-10.pdf

Financial performance report 2009-2010:

http://www.ofwat.gov.uk/regulating/reporting/rpt_fpe_2009-10.pdf