

Protecting consumers, promoting value and safeguarding the future



Consumer Choice and Water Efficiency

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9 April 2008

Overview

- Introduction
 - Ofwat's strategy
 - Consumers' preferences
- Incentives
 - for consumers
 - for companies
- Consumer buy-in
- The future – role of competition
- Conclusions

Ofwat's Strategy

- Our strapline summarises our mission. Our strategy is about how we will deliver.
- Themes relevant to water efficiency:
 - Taking the long term view of sustainability.
 - Keeping consumers at the heart of what we do.
 - Competition where we reasonably believe it will benefit consumers.

Consumer Preferences

- Consumers want:
 - Safe, reliable water supplies.
 - Freedom to choose how much they use.
 - Bills as low as possible.
 - Protection for the environment.

Water Efficiency – A Win for Consumers

- Water efficiency is about:
 - Reducing waste, not restricting choice.
 - Less waste means lower costs, lower bills, and less harm to the environment.

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Incentives

Incentivising and Empowering Consumers

- Metering links consumers' choices more directly to long-term costs. You use less, it costs your supplier less, you pay less.
- *“Better informed customers make better choices, and we know that the increased use of metering is a further spur to reducing demand without compromising our quality of life.”* (Defra – Future Water)

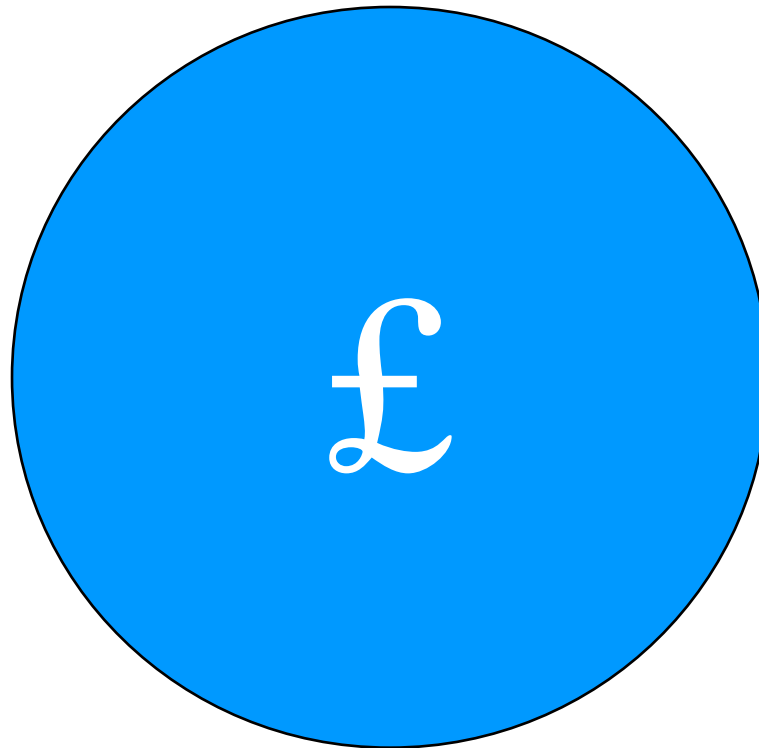
Incentivising and Empowering Consumers

- Our charging strategy consultation:
 - “support for a faster transition towards high levels of meter penetration”
 - “encouraging the development and trialling of innovative tariffs”

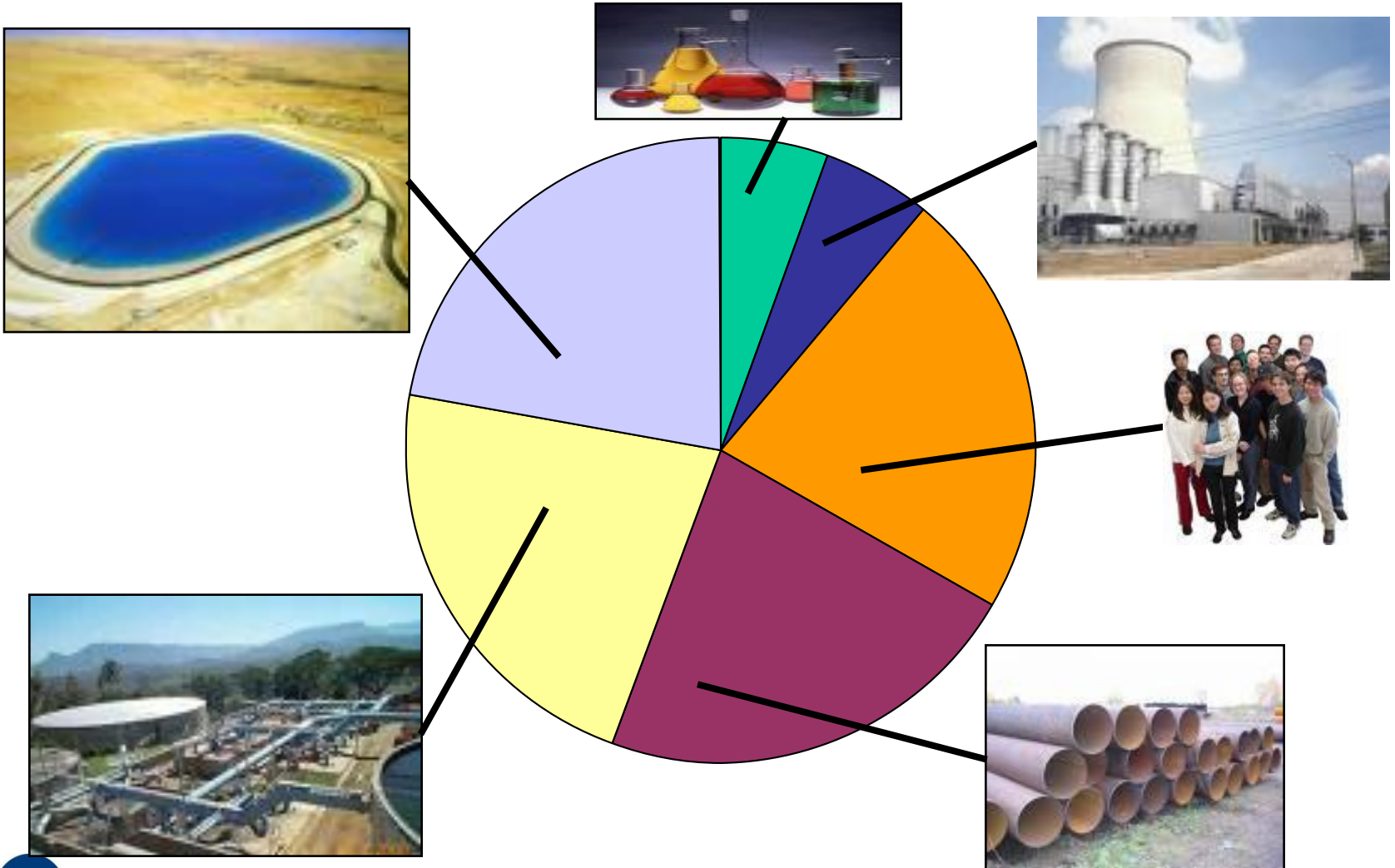
Incentivising Companies

- Currently in companies' interests to sell more water.
- Can see this from looking at immediate changes in costs and revenues when metered consumers decide to use more or less water.

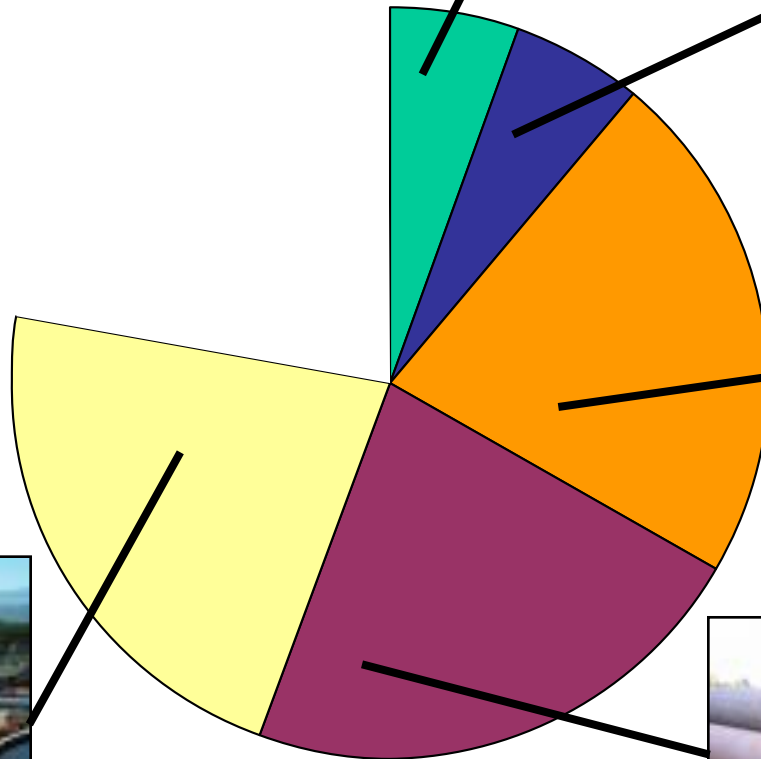
Cost of supplying water



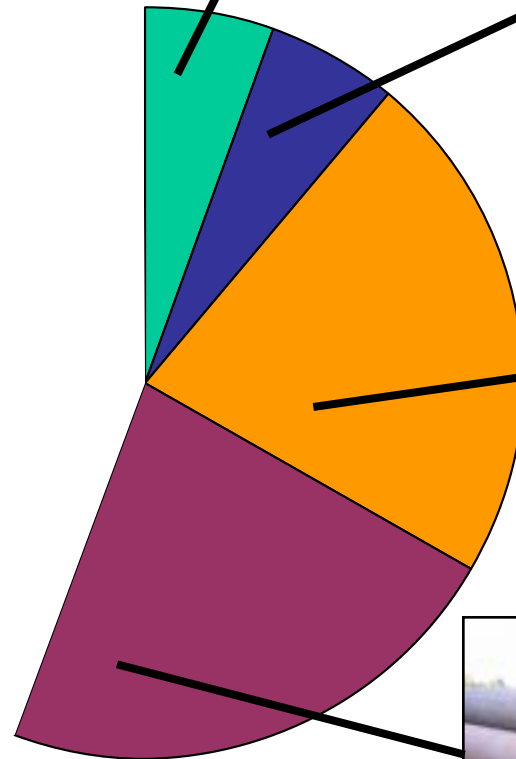
Cost of supplying water



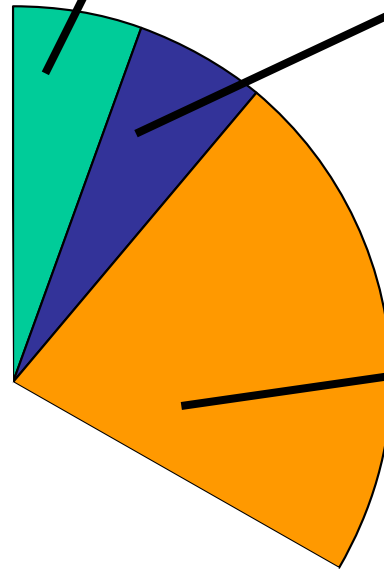
Short term costs



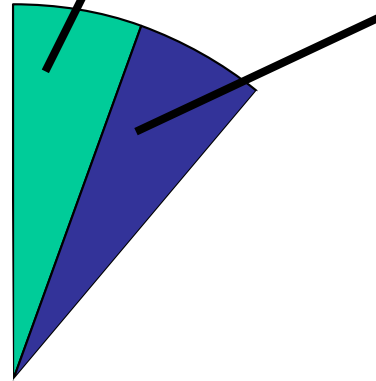
Short term costs



Short term costs

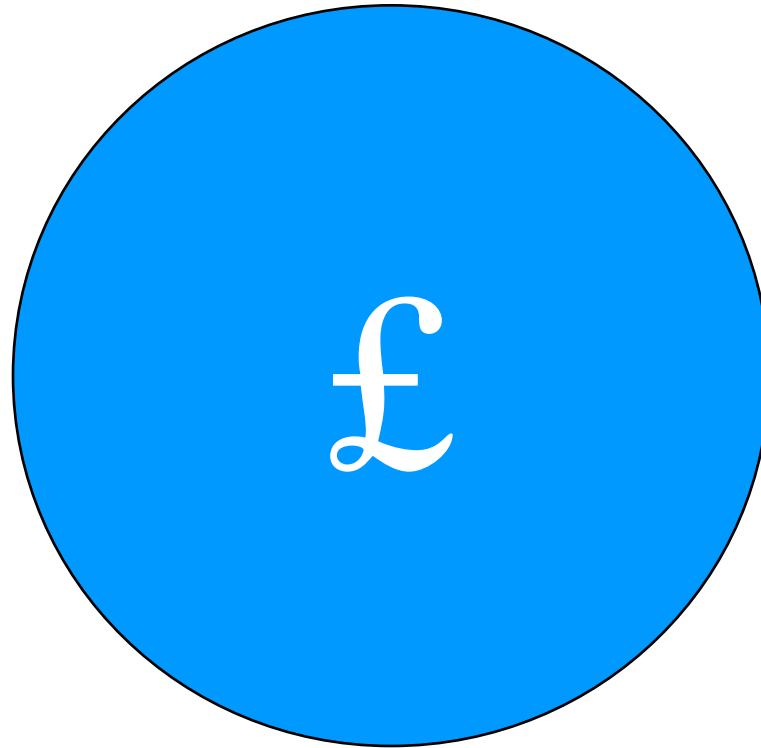


Short term costs



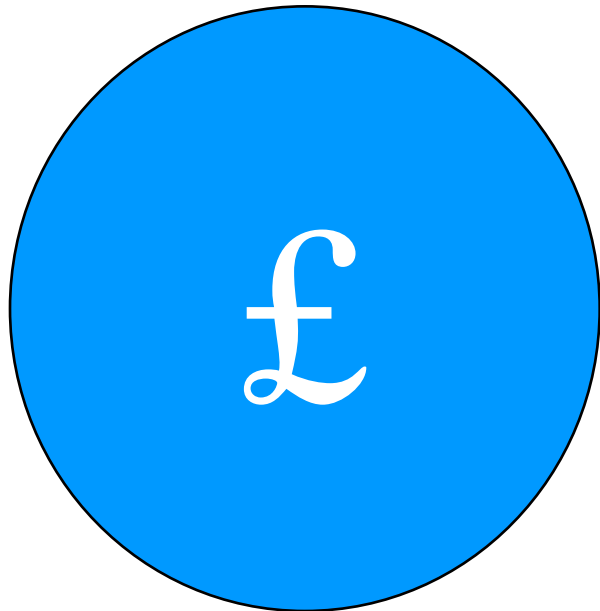
What happens to revenues?

Metered charges are based on all those costs, so revenues change significantly

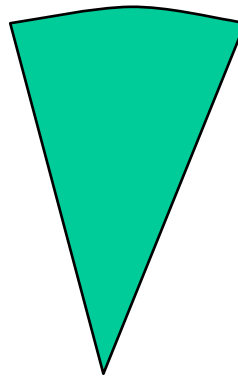


Water efficiency incentives

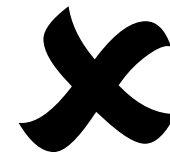
Reduction in revenue



Reduction in costs

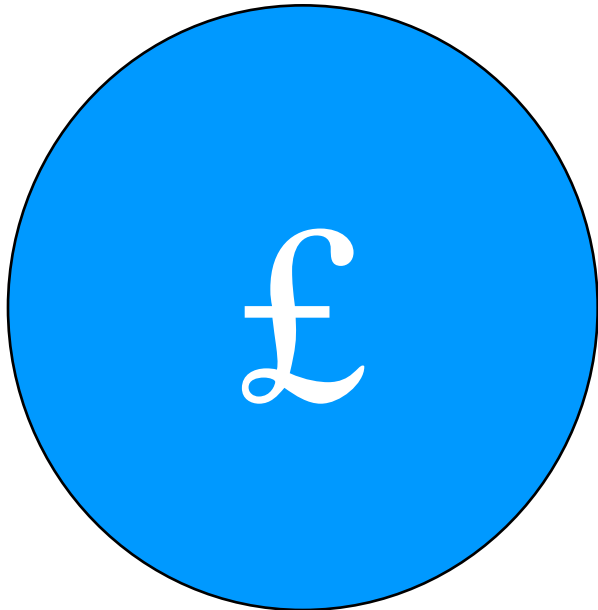


Incentive

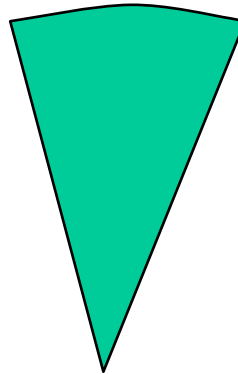


Fairness

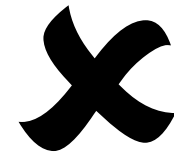
Increase in revenue



Increase in costs

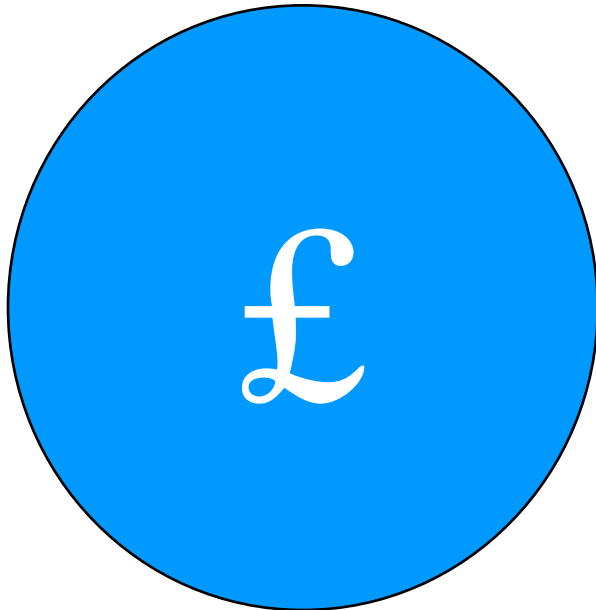


Fairness

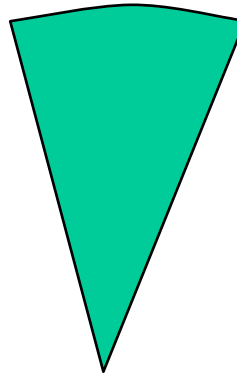


Is there a solution?

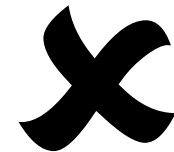
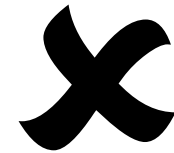
Change in revenue



Change in costs



Incentives
and
Fairness

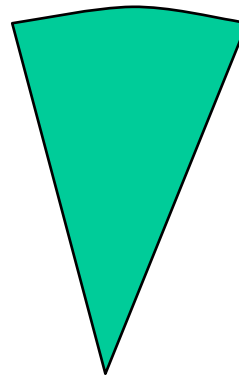


Is there a solution?

Change in revenue

Change in costs

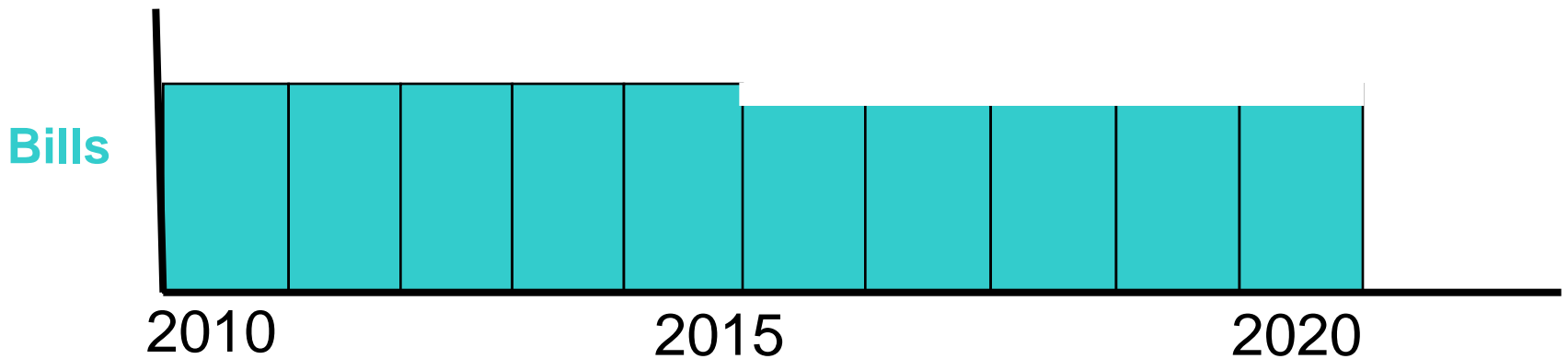
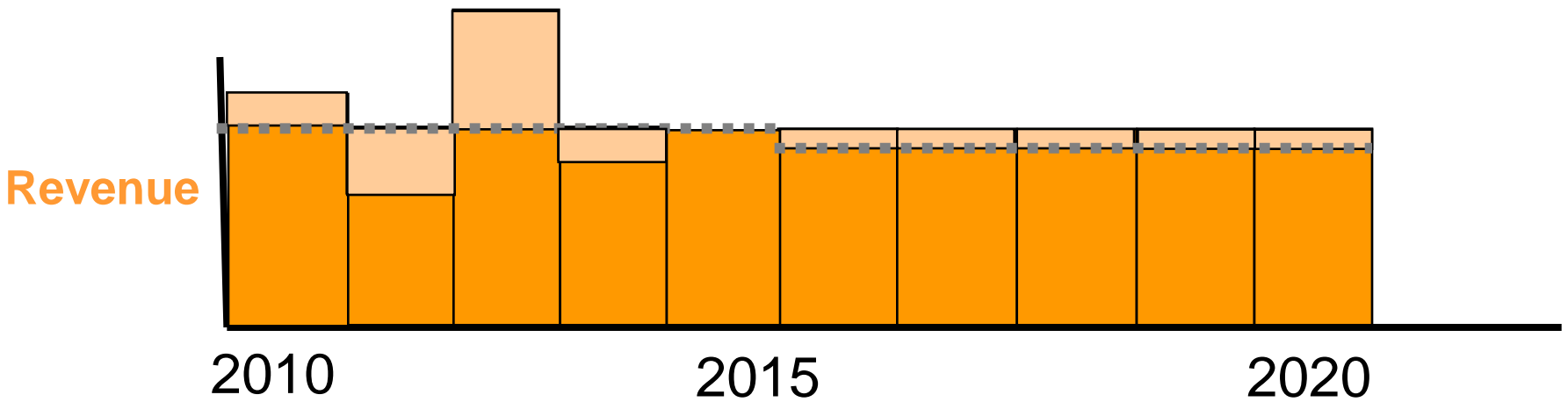
Incentives
and
Fairness



Revenue correction mechanism

- At PR14 correct for revenue “surplus” or revenue “shortfall” between 2010 and 2015, plus interest.
- We will spread the correction over the following review period.

Revenue correction mechanism



Incentives... and Targets

- Voluntary targets for 2008-09 and 2009-10
- Formal targets from 2010-11.
- Proposals at draft stage.
- Plan to consult in the Summer.
- Targets will need to be stretching but allow companies flexibility to adopt most appropriate measures in their regions.

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What more can we do?

Consumer Buy-In

- Water companies' appeals to consumers to reduce waste must be credible.
- They must demonstrate commitment to control leakage.
- We are investigating a possible improvement to the way we require companies to set leakage targets.
- New approach would challenge companies to catch up with the most efficient performers.

The Future - Competition

- Competition encourages innovation.
- New tariffs, rewarding careful consumers.
- Rival retailers competing on service, including water efficiency support, as well as on price.

The Future - Competition

- Reform of abstraction licensing regime.
- Environment Agency Water resources strategy envisages a future in which
*“People value and use water reasonably...
Water is priced properly.”*
- Market-led prices for abstraction – better reflecting the value of water.
- Sharper price signals but need to reconcile with minimising bills.

Conclusions

- Our strategy puts consumers at the heart of what we do.
- Water efficiency is a “win” for consumers.
- But need better incentives – informed choices.
- Better incentives for companies too.
- Competition can help to deliver better outcomes for water efficiency.

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