

The PR19 rollercoaster sets off

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The water companies' business plans for the next price review period are in Ofwat's hands. Katey Pigden considers what the regulator has revealed about those plans so far, as the scrutiny begins.

Business plans for PR19 have been a long time in the making but, for now at least, water companies can do no more. They have a four-month wait to see if Ofwat looks favourably upon their proposals and earmarks them for fast-track. No company wants to find itself in the slow lane for the next price review period.

After agonising over the detail for months, the 3 September submission day was a bit of an “anticlimax”, one chief executive tells Utility Week. The regulator will be tight-lipped about individual plans until 31 January 2019, but it has wasted no time in beginning to scrutinise the hefty documents – a total of more than 5,000 pages.

Just a week after receiving them, Ofwat put together a chart comparing the data that companies have provided about how: customers' bills will change, leaks will be tackled and daily water use per person will change between 2020 and 2025.

Proposals and engagement

The 2019 price review sets the price, service and incentive package that the water companies must deliver during the five-year period. As part of PR19, each water company in England and Wales has set out a business plan detailing what it intends to deliver and what it proposes to charge customers.

Ofwat says it expected companies to engage with customers and stakeholders “actively, meaningfully and effectively” while developing their business plans. Indeed, companies appear keen to show how they have developed their proposals with customers and for customers.

Water UK’s manifesto for the sector, published on the same day water companies submitted their proposals to Ofwat, says the business plans are the result of an “extensive consultation exercise” with 5.3 million customers.

While there will be similarities and common themes across all the plans as a result of Ofwat’s four main themes for PR19 – great customer service, affordable bills, resilience in the round and innovation – each plan, as Water UK observes, is “unique” and reflects the priorities of the communities served by individual companies.

Thames Water, which no doubt feels it has something to prove after being criticised for its leakage and pollution

performance, says it consulted a record one million customers to develop its “ambitious” five-year business plan. It started the process nearly three years ago – including topics such as customer service, leaks, wastewater and bills – gathering feedback from all customer groups and through a variety of channels.

Steve Robertson, chief executive of Thames Water, says: “Our proposals are a true reflection of what our customers have told us they want to see.”

As well as consulting customers, the water sector is set to invest more than £50 billion on improving services – a 13 per cent increase on the previous five-year business period.

Collectively the sector reveals plans for a “major investment programme in services, a significant cut in leakage, an overall real-term reduction in bills, and a big increase in help for people who struggle to pay”. It also includes a programme to improve the environment under which 8,000km of rivers will be cleaned and improved.

As part of the proposals, average domestic water bills are expected to fall by more than 4 per cent in “real terms” across England as a whole, according to Water UK. That seems to tick Ofwat’s affordability box, but as Tony Smith, the CEO of the Consumer Council for Water (CCWater), is quick to point out, the water industry is “too often guilty of talking in ‘real terms’”.

“There is a danger that customers will feel misled when they see the final bill that lands on their doormat, particularly when many households have told us they don’t think there are getting a fair deal from their company,” says Smith.

He adds: “The prospect of bill reductions has already grabbed many of the headlines, but what has been overlooked is the fact that many customers will see their bills rise once you factor in inflation and the potential impact of regulatory incentives.”

Northumbrian Water has one of the most ambitious plans to cut bills. It proposes a reduction of up to 14 per cent for all customers in its drive to offer “world class” customer service to the whole of the region. It says customers will not have to wait five years to receive the benefits of these changes.

The company will begin in 2020 with a 10 per cent cut in water bills and a 12 per cent cut to sewerage bills for customers across the north east. These reductions will increase to 12 per cent and 14 per cent by 2024/25.

Northumbrian’s customer service director Claire Sharp says: “While other water companies are having to increase bills, we’ve been very successful in running an efficient business and we are in a fantastic position to be able to pass these benefits on to our customers... The ability to cut our customers’ bills by up to 14 per cent has been down to great forward planning as a business and a good investment in our assets and networks.”

One of the companies that is opting to increase its bills “slightly” is Anglian Water. The company says the hike will only be 1 per cent over the five years. It argues this is reflective of two things: a £6.5 billion investment programme – a 30 per cent increase – and the fact that it cut its bills by 9 per cent at the start of this current AMP – the biggest cut in the industry, and double the average.

Setting the pace

Environment secretary Michael Gove visited Anglian a few days after it submitted its business plan to learn about the company’s sector-leading approach to leakage. Despite having the best record in the country for dealing with leaks, Anglian has committed itself to a further 22 per cent leakage reduction between 2020 and 2025.

Meanwhile, Yorkshire Water aims to reduce leakage by 40 per cent between 2018 and 2025 – to both minimise its impact on the environment and increase resilience.

In what it describes as a “first of a kind”, the company aims to become an open data business and will publish data sets that underpin its business plan submission, including 12 months of leakage data and reports into pollution incidents. Liz Barber, Yorkshire Water’s director of finance, regulation and markets, tells Utility Week: “It’s important to be honest about our performance – good and bad.”

CCWater’s Smith says: “Leakage is an issue that really matters to customers so we think it’s a shame that more companies have not

shown more ambition and targeted going beyond the 15 per cent reduction the regulator Ofwat has set out.

Companies should be taking action now as part of a more ambitious long-term vision to cut leakage.”

Nicci Russell, managing director of efficiency champions Waterwise, says she is looking forward to reading the water efficiency ambition in the plans. “On a first pass it plays much more of a role in the core plan and narrative of some companies than others, but we’re optimists.”

Ofwat senior director David Black says: “Over the coming months, we’ll be scrutinising each and every plan in detail to ensure they are robust enough to deliver a high quality, affordable and resilient service to customers in the years 2020-25 and beyond.

“As we test each plan, we’ll be looking for evidence of ambition and innovation and crucially, we’ll want to see customers and the environment put to the fore as never before.”

While it will be a “fast-track” ticket for some companies, it will be a bumpy ride for others with ups and downs. The rollercoaster journey of PR19 is just getting started.

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