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 - 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- £1.673 Billion Withdrawn by Labour Government in 1997 - Windfall Tax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

Water Holding Company
Thames Plc

Regulated
Water Services Company
Thames Water Ltd

Non-Regulated
Other Subsidiaries
e.g Plumbing Services
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
- 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
  \[ P = RPI + K \]
  
  $RPI = \text{Retail Price Index}$
  
  $K = \text{Price increase/decrease above RPI}$
### Current Metered and Un-metered Bills (£)

<table>
<thead>
<tr>
<th></th>
<th>Metered</th>
<th>Unmetered</th>
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<tbody>
<tr>
<td>Lowest</td>
<td>295</td>
<td>370</td>
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<tr>
<td>Northumbrian</td>
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<tr>
<td>Highest</td>
<td>411</td>
<td>811</td>
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<tr>
<td>South West</td>
<td></td>
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<tr>
<td>Industry Average (weighted)</td>
<td>355</td>
<td>417</td>
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Average Bills since Privatisation (£ in today’s prices)
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