

EV1 September 2006

# A CIWEM Conference

## The PR09 Price Review- What should it fund?

**16 November, 2006**

**SOAS, London**

To book tickets for this conference online, please click [here](#)

Key objectives of the conference are to:

- Help to clarify the relative priorities for investment in the water industry as a whole
- Review the key general issues affecting the water industry in the run-up to PR09
- Suggest means by which these might be addressed
- Make progress in ensuring a common understanding of data and terminology

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A Conference for The Chartered Institution of Water and Environmental  
Management

Organised by CMS – Coastal Management for Sustainability

CIWEM Conference  
The PR09 Price Review – what should it fund?  
SOAS, London 16<sup>th</sup> November 2006

## Welcome to the conference

This information gives the answers to some of the most frequently raised questions that arise at the conferences we organise.

### Conference Outputs

- **Key Lessons** – We have posed several questions [see coloured sheets at the end of these notes]. The feedback from your responses will be made available to you after the event.
- **The Power Point presentations** will be available shortly after the event on websites [www.coastms.co.uk](http://www.coastms.co.uk). We will notify you by email when these have been placed on the sites.

**Questions** If you have any questions during the event about bookings, finances, or logistics please see Christina Beech at the registration desk; she will be pleased to help.

**Timing** We will try to ensure that the conference runs on time to allow the allocated time for speakers and as importantly for discussion. A bell will be rung 5 minutes before the start of sessions.

**Refreshment Breaks** In running events in London over the last 10 years we have used two main refreshment breaks during the day that enable us to split the sessions and breaks more evenly. A sandwich buffet is available in the first break and sweet course during the second.

**Food** There is always ample food at the events and you can come back for more. Once you have collected your food could you move away from the serving table. Catering staff are on hand if you need anything, including extra drinks.

**Evaluation form** There is an evaluation form at the end of delegate notes; your views will help us improve future events. Please leave these at the registration desk along with your badge when you leave.

**Valuables** If you have anything you value keep it with you i.e. do not leave laptops unattended.

**Before you leave** Check you haven't left anything in the conference hall. Please also take any leaflets or reports.

## Background

Now that the water industry is starting to prepare for the PR09 price review, it is time to consider the need for investment in key areas such as water resources, drinking water quality, the quality of surface and ground water bodies, and drainage and flood protection. It is also timely to revisit a number of general issues relating to the Periodic Review process as a whole, issues that were discussed at the successful CIWEM conference held in November 2005.

Since PR04, a better understanding of external influences such as the Water Framework Directive (WFD) and climate change have meant that priorities for investment are shifting. At the same time customers expect higher drinking water standards and issues such as lead concentrations, discolouration and bacteriological quality are being addressed and water safety plans drawn up. Ultimately, Ofwat will set the price limits under the guidance of ministers, and it is important that stakeholders are given the opportunity to put forward their views on the need for investment within areas that concern them and on the level of charges that customers are willing to pay. It is also important that the eventual programme is drawn up so as to facilitate its effective delivery by utilities, suppliers, contractors and consultants.

The investment programme will be influenced by a number of general issues, one of the most important is the desirability of developing a more integrated mechanism for regulation. The WFD can best be addressed by the use of whole-catchment solutions in which both point sources and diffuse pollution can be dealt with together. At the same time, closer co-operation between the economic and quality regulators would help to ensure that investment programmes deliver best value for money and that consistent approaches to the requirement for data and the use of terminology are developed. Other major national issues that need to be resolved include:

- The funding of sustainable development in the water industry
- The desirability of continuing the existing 5-year Periodic Review cycle and the relative merits of alternatives, including a continuous rolling programme and a 6-year cycle
- The balance between investment in new plant and equipment and maintenance of existing facilities
- Suggestions for change to the existing scheme for financial incentives and penalties

Ofwat recognises the importance of these issues and consultation papers have been issued to obtain the views of water industry stakeholders on how they should be addressed. However, although the papers and outcomes have been discussed by written correspondence, meetings and conferences, these in general have approached the subject from a particular viewpoint. It may be argued that there has not been an opportunity for open debate of all of the issues together and that there is a need for this before the PR09 framework is finalised.

## Aims and objectives of the conference

This conference aims to provide a neutral forum to discuss water economic regulation in general and PR09 in particular. It will provide a platform for speakers from the water utilities, regulators, consumer representatives and all those interested in investment in the water environment and in the delivery of the investment programme. It will give an opportunity to discuss what investment is needed and how the necessary money should be raised.

Key objectives of the conference are to:

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## Programme

09.00 Registration and Coffee

### Session 1: 9.45-11.30am

Session Chair: Ruth Allen, Ewan Group

09.45 Welcome to the Conference on behalf of CIWEM

09.50-10.10 **PR09 – emerging themes** **George Day**, Ofwat

10.10-10.30 **Looking forward to PR09** **Hilary Aldridge**, Environment Agency

10.30-10.50 **Drinking water quality provisions in PR09 - have we reached the end of command regulation?** **Milo Purcell**, DWI

10.50-11.10 **PR09 – the view of the consumer** **Deryck Hall**, CCWater

11.10-11.30 Discussion

11.30-12.15 Buffet and refreshments

### Session 2: 12.15-1.55pm

Session Chair: Paul Whatley, Atkins

12.15-12.35 **Investment Priorities from a Water UK Viewpoint** **Janet Wright**, Water UK

12.35-12.55 **Integrated catchment management** **Kieran Conlan**, Cascade Consulting

12.55-1.15 **Bridging the gap – matching catchment management to the needs of the consumer** **Jonathan Hillman**, Scott Wilson

1.15-1.35 **Funding for sustainable development** **Adrian Johnson**, MWH

1.35 -1.55 **Capital maintenance - a review of incentives and efficiencies**  
**Paul Chadwick**, Mott MacDonald

1.55- 2.40 Sweets and refreshments

### Session 3: 2.40-4.00pm

Session Chair: **George Day**, Ofwat

2.40-3.10 **PR09 - A Business Plan for all Stakeholders** **Martin Hall**, Ewan Group

3.10-3.20 **Priority issues for discussion, arising from delegates' views**

3.20-3.50 **Open discussion**

3.50-4.00 **Summary of proposed solutions and actions**

**4.00 Close**

## PR09 – Emerging themes

### George Day

Head of Capital Maintenance, Ofwat, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA  
Tel No: 0121 625 1454 Email: [George.day@ofwat.gsi.gov.uk](mailto:George.day@ofwat.gsi.gov.uk) Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)

I will outline the key emerging themes for the 2009 periodic review from the Ofwat perspective. This will draw on the outcomes of our consultations on the length of the price review period, our sustainable development duty and our approach to assessing capital maintenance needs, and broader asset management.

The key challenges for the industry and the regulators in the lead up to the periodic review include:

- placing asset management plans within a longer term perspective
- securing best value for customers, through robust cost benefit analysis
- assessing service priorities and investment needs in an integrated framework, while maintaining strong incentives for efficiency.

## Looking forward to PR09

### Hilary Aldridge

Head of Environmental Quality, Environment Agency, Rio House, Waterside Drive, Aztec West, Almondsbury, Bristol, BS32 4UD

Tel No: 01454 284444 Email: [hilary.aldridge@environment-agency.gov.uk](mailto:hilary.aldridge@environment-agency.gov.uk)

The Environment Agency's role in PR09 is to:

- advise Ministers on environmental obligations and priorities;
- prepare programmes of schemes to deliver these requirements; and
- advise Ministers as part of the statutory water company water resources plans process.

The Periodic Review process has delivered significant environmental and service improvements. Time does not stand still and for PR09 there are new environmental obligations as well as the continuing challenge of securing what we have already achieved. Another new challenge is the public consultation of the Water Company Water Resources Management Plans and our role in reviewing and advising Ministers on those Plans.

The emerging environmental problems are more complex and messy to resolve. Their solution will require a more integrated approach, working with other sectors and at the catchment scale. We want to see the long-term planning approach extended to cover all aspects of PR09.

The water industry will have a major part to play in ensuring that our water bodies achieve good ecological status. PR09 must enable water companies' to contribute, as required, to the first cycle of the actions required under the Water Framework Directive.

## **Drinking water quality provisions in PR09 – have we reached the end of command regulation?**

### **Milo Purcell**

Deputy Chief Inspector (Regulations), Drinking Water Inspectorate, Room M01, 55 Whitehall, London, SW1A 2EY

Tel No: 020 7082 8033 Email: [milo.purcell@defra.gsi.gov.uk](mailto:milo.purcell@defra.gsi.gov.uk) Website: [www.dwi.gov.uk](http://www.dwi.gov.uk)

The presentation will review what has been achieved so far to improve the quality of drinking water supplies in England and Wales, and assess the continuing pressures to maintain in a sustainable way a clean safe supply to consumers. The presentation will examine the challenges to securing adequate fund provisions for drinking water supply arrangements, and discuss potential drivers for programmes of work – including whether new or revised standards are likely to emerge, whether there is evidence of deterioration in raw water quality, and other specific issues that are likely to be part of the PR09 debate.

Information on Periodic Review issues, programmes of work, and key guidance will be available on our website throughout the Periodic Review process. Current information on progress with the AMP4 programme of work is also available on the website.

DWI Project Manager for PR09 is Claire Pollard [Tel: 020 7082 8046; [Claire.pollard@defra.gsi.gov.uk](mailto:Claire.pollard@defra.gsi.gov.uk)].

## Consumers' Expectations

### Deryck Hall,

Policy Manager, Consumer Council for Water, Victoria Square House,  
Victoria Square, Birmingham, B2 4AJ  
Tel No: 0121 345 1030 Email: [deryck.hall@ccwater.org.uk](mailto:deryck.hall@ccwater.org.uk)

By common consent the 2004 price review was the most open and transparent to date. But did it deliver the right result for the environment and for consumers? Were the issues that consumer groups identified as important in the lead up to PR04 adequately addressed. If not, why not? And what should consumers expect from PR09?

The presentation will, from the consumer perspective, cover four main areas:

1. Key lessons from the 2004 price review
2. Issues of importance to consumers for PR09
3. How consumers could be involved in the price review process
4. Desirable outcomes from PR09

### Key references and Website

Consumer Council for Water (CCWater) publications:

- 1 *Forward Work Programme 2006-07 to 2008-09 (March 2006)*
- 2 *Operational Business Plan 2006-07 (March 2006)*
- 3 *Too precious to waste – review 2006 (July 2006)*

The above publications are available on the CCWater website at [www.ccwater.org.uk](http://www.ccwater.org.uk) or by contacting Karen Blanchette, Communications Officer on 0121 345 1006

## Investment Priorities for PR09 from a Water UK perspective

### Janet Wright

Water UK, 1 Queen Anne's Gate, London, SW1H 9BT

Tel No: 020 7344 1842 Mobile: 07917 448403 Email: [jwright@water.org.uk](mailto:jwright@water.org.uk)

Determining what should be the priorities for investment by water companies has been a traditionally contentious feature of all past price reviews. PR04 however appeared to establish a more balanced approach, with greater focus on capital maintenance and improvements in service, such as to reduce the abomination of sewer flooding. The customer voice was allowed to be heard and a coordinated approach taken to eliciting their views.

The challenges of prioritising investment for PR09 will be no less than at PR04, with many competing demands for investment. Recent events have called into question just how well we and our regulators have understood customer priorities or how well customers have understood the price contract. Climate change will need to be taken on board. Sustainability and customer focus must be the watchwords for prioritising investment.

The paper discusses the implications for companies' business plans and the role of cost-benefit, WTP studies and customer engagement. Regulators will need to be joined up and bought in, if the traditional spats are to be avoided, and to align regulatory incentives with this agenda. The Minister's recent commitment to producing a strategic long term vision for the sector holds the promise of bringing greater clarity early on in the process some key policy issues and priorities

As important as the priorities for investment, the paper argues are the questions of scale and pace. Calls for investment will need to be robustly scrutinised, given rising concerns with affordability and the rising cost of financing persistently high levels of investment. There are significant choices to be made over the implementation of the Water Framework Directive. The paper argues for a no-regrets approach and adherence to the Polluter Pays Principle for a sustainable delivery of its requirements.

An implication of the approach described is that regulators will need to be more flexible to the likely very different local priorities in water company areas. One size will not fit all.

## Integrated Catchment Management

### Dr Kieran Conlan

Cascade Consulting, Enterprise House, Manchester Science Park, Lloyd St North,  
Manchester, M15 6SE

Tel No: 0161 227 9777 Email: [kieran.conlan@cascadeconsulting.co.uk](mailto:kieran.conlan@cascadeconsulting.co.uk)

Website: [www.cascadeconsulting.co.uk](http://www.cascadeconsulting.co.uk)

Integrated catchment management is an often mentioned concept, but one that means different things to different people. The paper therefore seeks to establish what we should consider as ICM and whether we have the tools and institutional arrangements to deliver it. The presentation firstly explores the strategic nature of ICM, looking briefly at the over-arching framework linking surface and groundwaters to the landscape and considering the drivers for ICM and catchment improvement.

Consideration is then given to whether we currently have an “integrated” approach and the sectors that should contribute to the catchment analysis. If we are to be integrated, what are the key issues and are there suitable delivery mechanism(s) (e.g. PRO9, CSF, EA FCM etc.). The paper will then briefly describe the availability of required assessment tools (strategic to specific) necessary to inform the planning process, from which to deliver appropriate management measures. The discussion will reflect the many gaps in our current knowledge, from integrated strategic thinking (e.g. how to apply SEA at the catchment level) through to specific ecosystem impact assessments (e.g. effects of increased competition on ecological recruitment during extreme events) that could alter our view on the suitability of measures.

The paper will conclude with my thoughts on what the Water Companies have and could contribute to ICM and what level of integration with other mechanisms, both institutional and technical, would be beneficial in the delivery of ICM.

## Bridging the Gap - matching catchment management to the industry end users

### Dr Jon Hillman

Scott Wilson, Mansfield i-Centre, Hamilton Way, Mansfield NG18 5BR  
Tel No: 01623 600660 Email: Jonathan.Hillman@scottwilson.com

The Integrated Catchment Management (ICM) concept is advocated as benefiting water quality, water quantity (resources and flooding), ecology, and as being cost efficient in its broadest sense. Intuitively, it is a concept that people agree with and its benefits have been well extolled.

For the water industry, the DWI advocates Water Safety Planning (WSP) as the most effective way of ensuring that a water supply is safe and that it meets health based standards and other regulatory requirements. A WSP is based on a comprehensive risk assessment and risk management approach to all steps in a water supply chain.

Catchment risk assessments are an integral part of the WSP 'catchment to consumer' concept. The primary objectives in protecting human health and ensuring good water supply practice are:

- minimisation of contamination of source waters
- reduction or removal of contamination through '*appropriate treatment processes*'
- prevention of contamination in the distribution network

Crucially, the approach requires documentation of management arrangements, and monitoring of each control measure, such as catchment management.

Research continues into catchment management in both the physical and social sciences, but objective criteria of success can be difficult, with confounding effects and lags in the system. There are many cases where proxy measures are used to demonstrate success, but few projects monitor changes directly in water quality due to the large resources needed. This is needed in order to help decide on 'appropriate treatment processes'.

For water supply, the end users of catchment management are WTW managers and ultimately the consumers. The experiences of WTW operations, with and without 'catchment management', are extremely important and should be documented alongside scientific evidence to show that catchment management is having a measurable impact. The ultimate end-point for water supply is a change in plant design or management to improve effectiveness or reduce cost as direct result of catchment projects.

Some have suggested that the regulatory system should be amended to allow for lags between implementation of catchment management and possible benefits, and the uncertainties that currently exist in its effectiveness. Similarly, the water industry also comment that £1.5bn and £3.5bn 'environmental investment' under AMP3 and 4 will also show significant lags before the full benefits, such as improved water quality, are shown. Investment in adequate water monitoring, ecological and chemical, in conjunction with modelling, would help to defend against over investment, whilst at the same time helping to target resources.

In short, catchment management offers a great deal, but investment in 'catchment management' under PR09 will need careful consideration if it is to deliver practical – and measurable – benefits for the water industry, regulators, enforcers, and most importantly – customers.

## Funding for Sustainable Development

### Adrian Johnson

Sustainable Development Knowledge Leader, MWH, Craigievar House,  
77 Craigmount Brae, East Craigs, Edinburgh, EH12 8XF  
Tel No: 0131 339 0777 Email: [adrian.johnson@mwhglobal.com](mailto:adrian.johnson@mwhglobal.com)

The principles and priority areas embedded in the UK Government's sustainable development strategy and other sustainability-focused approaches provide the context for developing a clear vision for a sustainable water industry. Agreeing such a vision should help clarify the relative investment priorities for PR09 and beyond.

In a consultation paper on its new sustainable development duty, Ofwat invited comments from the industry on what sustainable development means for them, what the key issues will be for PR09 and how it can best contribute.

Issues such as climate change, the Water Framework Directive, rising energy prices and the need to maintain affordability present major challenges to the water industry. In addition to meeting regulatory requirements, a sustainable water industry would prioritise areas such as water conservation, energy and resource efficiency with an ultimate goal of carbon neutrality, adaptation to climate change, local stakeholder interest and pricing that reflects the economic value of water.

Addressing these challenges will require:

- new collaborative approaches to strategic planning;
- a focus on outcomes rather than prescribed outputs;
- decision-making that promotes integrated and adaptable solutions;
- more sharing of good practice; and
- new ways of measuring progress.

MWH's own sustainable development report is available from: [www.mwhglobal.com](http://www.mwhglobal.com)

## Capital Maintenance – a review of incentives and efficiencies

### Paul Chadwick

Technical Director, Mott MacDonald, Demeter House, Station Road, Cambridge, CB1 2RS

Tel No: 01223 463602 Mobile: 07960461129 Fax No: 01223 461007

Email: [Paul.Chadwick@mottmac.com](mailto:Paul.Chadwick@mottmac.com) Website: [www.mottmac.com](http://www.mottmac.com)

The presentation will review the current incentives relating to capital maintenance, including the assessment of efficiency and comment on some of the issues of relevance to PR09 and beyond. The presentation will cover the following topics:

1. Capital Maintenance – a review of incentives
  - Application of the Common Framework (CMPCF) and the economic level of capital maintenance – the incentive to lead
  - Serviceability and the threat of shortfall procedures if it is not adjudged to be stable
  - OPA – the incentive to maximise performance
  - Cost – the incentive to drive costs down or receive tough efficiency targets
2. The role of OPA – is there a conflict with the CMPCF?
3. Valuing shortfalls – how will this be done without making companies risk-averse?
4. Capital efficiencies – is this largely covered by the CMPCF?
5. Optimising the capex/opex balance – the conflict with opex efficiency assessments
6. Application of the Common Framework and efficient delivery of service – the theory
7. Application of the Common Framework – reality:
  - Comparison of PR04 CMPCF scores with OPA
  - Comparison of PR04 CMPCF scores with efficiency
8. Reasons for gap between theory and practice and lessons for PR09
9. Summary of issues to address for PR09

## **PR09 – A Business Plan for all Stakeholders**

### **Martin Hall**

Head of Strategic Consulting, Ewan Group plc, Priory Court, Poulton,  
Cirencester, GL7 5JB

Tel No: 01285 850415 Mobile: 07753 832354 Email: martin.hall@ewan.co.uk

Satisfying the aspirations of all stakeholders through the business planning process is notoriously difficult. Each stakeholder will see a range of issues and requirements that are important to them and will expect to see improvements delivered in term of performance and costs.

In the past water company business plans have been divided into separate sections for quality work driven by legislation, maintenance programmes to provide the base service, growth investments to meet increasing demands and enhancements to provide changing service requirements. These are often confusing delimitations and the trade-offs between quality and maintenance in particular make visibility of the benefits unclear.

With the advent of the UKWIR common framework for capital maintenance planning the concept of risk to service has become more embedded within the industry. This provides an opportunity to consider the performance of assets, the service provided to customers / environment and the benefits that investments deliver in a more consistent manner.

Increasingly in the future it will be possible to prepare business plans that take an integrated approach, which consider all the investment drivers and define the benefits that individual investments deliver. In this way it could be possible to prioritise all potential improvements in a consistent methodology enabling direct comparisons to be made between all the investment opportunities. For example investments to deliver the Water Framework Directive could be prioritised against sewer replacement schemes that could be compared to water resource schemes. This approach would enable a very transparent business planning approach and each stakeholder would be able to understand the merits of particular improvements. This approach has been referred to as Total Asset Management.

**The PR09 Price Review – what should it fund?**  
**November 16<sup>th</sup> 2006, SOAS, London**  
**Meeting Evaluation**

1. Name: \_\_\_\_\_ Phone No: \_\_\_\_\_  
You can answer anonymously

2. What do you think needs to be done to address the key issues identified ?

• Issue \_\_\_\_\_

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• Issue \_\_\_\_\_

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• Issue \_\_\_\_\_

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3. How valuable did you find the meeting? (circle)

(Not valuable)

1

2

3

4

(Very valuable)

5

4. What would you do to improve the event?

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Please leave the completed evaluation at the end of the event  
Or return to CMS by fax on 01531 890415

**The PR09 Price Review – what should it fund?  
November 16<sup>th</sup> 2006, SOAS, London  
Meeting Evaluation**

Organisation type \_\_\_\_\_

e.g. Water industry, agency / regulator, consultant

**2. What do you believe should be the top priorities for water industry investment in PR09?**

**1<sup>st</sup>** \_\_\_\_\_

**2<sup>nd</sup>** \_\_\_\_\_

**3<sup>rd</sup>** \_\_\_\_\_