



Sustainability & the 2009 periodic review

George Day
Head of Asset Strategy
CIWEM Conference, 11 October 2007

Overview

- Sustainability – duties and Ofwat's approach
- PR09 themes
- Climate change
 - mitigation
 - adaptation
- Cost benefit analysis
- Security of supply
- Long term asset management
- Conclusions: what do we want to achieve?



Sustainability & Ofwat's duties

- Three primary duties
 - To protect consumers' interests
 - To ensure an efficiently run company can finance its functions
 - To ensure that companies' functions are properly carried out
- SD duty added in 2005
 - To contribute to achievement of sustainable development

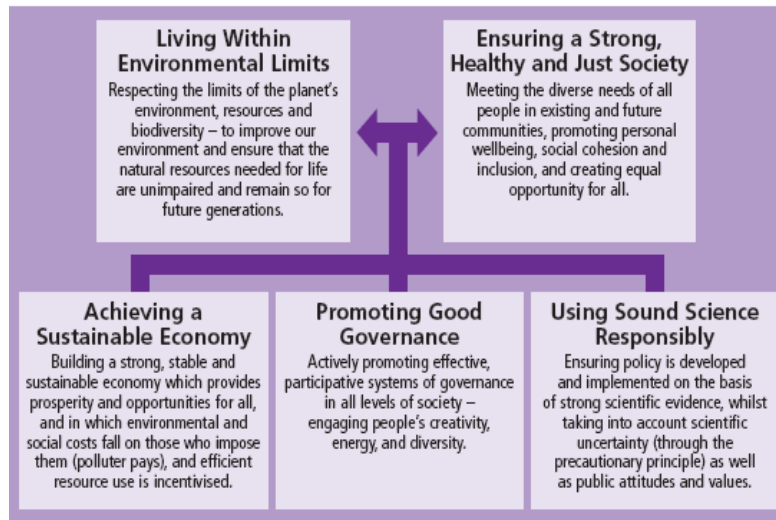


Ofwat's approach to sustainable development

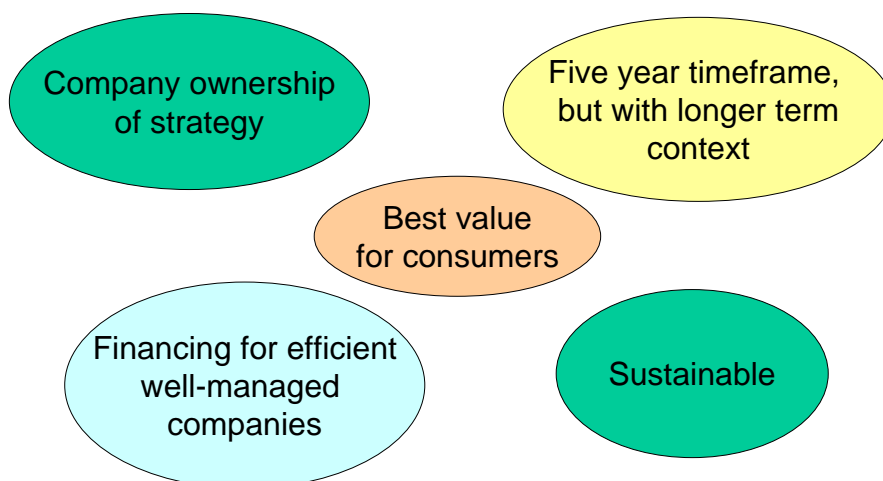
- Key themes from consultation in 2006
 - Buy in to Govt's principles/strategy
 - Absolutely consistent with our primary duties
 - Should run through all our work
 - Long term approach
 - Safeguarding essential services and resources for future generations
 - Broad notion of value – not just keeping bills down
 - Wider social and environmental impacts must be taken into account in decision making



UK government's SD principles



PR09 themes



Strategic direction statements

- Companies to set out early statement of long-term strategic vision
 - Basis for consultation with stakeholders
 - 25 year time horizon
 - Provide context for 5 year price review
 - Vision for value and service for consumers
 - Key business drivers e.g. climate change and strategic response



Climate change and PR09



MD219 – A sustainable water industry – to PR09 and beyond

- Need to improve understanding of climate change and implications for the industry
- Promote improved understanding of the implications for the water industry
- Consider the carbon impact of the industry in guiding PR09 choices

PR09 must reflect both

- Mitigation
- Adaption



Climate change mitigation

- Recognise industry is a significant contributor to UK GHG emissions
 - 2% of industrial energy consumption
 - NB other GHGs
- Rising energy use to deliver water quality improvements
 - Potential tension of local and global environmental aspirations
- Climate change bill
 - It is clear that water industry must play its part in the wider UK effort
- Ofwat role
 - To promote common approach to measuring/reporting carbon/greenhouse gas emissions
 - Ensure carbon impacts are taken into account in investment decisions (social cost of carbon)



Climate change adaptation

- Climate change is happening, so industry must adapt
 - Key part of the rationale for long term plans
 - Not just a PR09 issue – timeframe well beyond 2015
- Need to develop a common understanding of the adaptation challenges
 - Huge challenge across range of issues - water resources, drainage, underground assets, etc.
 - Investment needs to be evidenced
 - Pace of change, flexibility
 - Customers must be confident on value
 - Which areas need focus before PR09?
 - Drainage planning?



Cost benefit analysis

- Central to our PR09 policy
 - Tool to focus on value
 - ‘Sound science’
- We want to see cost beneficial integrated plans
- This includes taking full account of social and environmental impacts

We will challenge each company to produce investment plans that are clearly part of a long-term cost-beneficial plan for its consumers and the environment

(Ofwat Forward Programme 2007)

‘Value.. not just in the narrow sense of customer bills, but also in the wider sense of value to society, encompassing the environment and the economy’

(A sustainable water industry – to PR09 and beyond, MD219, Oct 2006)



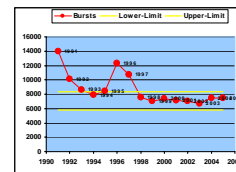
Security of supply

- Increased focus on water resources
 - Key issue for long-term sustainability
 - 2005-06 drought: spotlight on leakage and water efficiency
- Leakage
 - Review of alternative approaches to target setting
 - Understanding variations in per capita consumption
 - Environmental and social costs
- Managing demand
 - Best practice register for water efficiency
 - Companies to explore case for metering
 - Water efficiency targets



Long term asset management

- 2004: 22% uplift in maintenance capex
 - Improved guidance on asset management principles (the 'common framework')
 - Better plans by companies
- Suite of indicators to gauge long-term serviceability of assets
 - Tougher stance to ensure companies deliver stable asset serviceability (required output)
- Companies must take forward looking view of service risks to maintain flow of services to customers
 - Best practice in asset management
 - Sound asset data and service modelling
 - Understanding of whole life costs and service risks



PR09: what do we want to achieve?

- Part of long-term approach to protecting consumers
- Price limits that deliver the best value for water consumers and allow efficient water companies to provide a sustainable service into the future
- Each company to take ownership of its long term strategic agenda

