

Ofwat: ambitions for PR24+





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On 27 May, Ofwat published ‘PR24 and Beyond: Creating tomorrow, together’, setting out its initial views on the framework for the next price review (PR24) and future price reviews. Ofwat’s report contains higher-level ideas with an emphasis on creating value.

Ofwat’s report is thorough and stands at around 130 pages. Oxera will explore the document in detail in a forthcoming issue of *Agenda*. Here, we provide a summary.

Against a backdrop of **climate change**, which threatens the resilience of networks and water resources, **growing customer expectations and concerns about damage to the environment** from water abstraction, storm overflow pollution and carbon emissions, and **concerns about affordability** (amplified during the COVID-19 pandemic), Ofwat sets out four interlinked goals that PR24 must deliver against:

1. focusing more on the long term;
2. delivering greater environmental and social value;
3. reflecting a clearer understanding of customers and communities;
4. driving improvements through efficiency and innovation.

Having a long-term focus

Ofwat is proposing to strengthen its approach to resilience so that companies are more strongly incentivised to maintain their assets in the long term. Ofwat may also provide greater clarity on its approach to future price reviews beyond PR24, including future incentives. It is also contemplating whether to combine its assessment of business plans and the draft determination to create a two-step process.

Ofwat will also continue its focus on companies’ financial resilience. There are a number of proposals here, in relation both to long-term asset stewardship and to financial standing—further analysis of the details will be required.

Environmental and social value

The regulator acknowledges the difficulties in monetising wider impacts, but wants to see greater consistency in how companies take such factors into account in their decision-making. Ofwat also wants to see a further reduction in perceived CAPEX bias, including more nature-based solutions. It wants to consider how PR24 (and future price controls) can support companies in achieving net zero. There will arguably be a balance here in seeking an industry-wide standard approach to these issues versus one that is tailored to each company.

Understanding of customers and communities

Ofwat wants ‘a simpler, more targeted and more effective approach to capturing customers’ views’. In practice, this would mean Ofwat working with the companies to conduct collaborative customer research for England and Wales, to complement companies’ own engagement. This could be read as favouring more centralised and standardised research over company- and region-based customer engagement and research.

Efficiency and innovation

Ofwat states that since 2011, productivity growth has been weak. It expects companies to develop a much better understanding of how they can become more efficient as they deliver PR19, including through working in partnership with other organisations and making better use of data—including by embracing open data, which should inform their PR24 business plans. The regulator will also seek to further develop markets for developer services, bioresources, water resources and the provision of large infrastructure. It will be interesting to see what blend of regulatory and market reforms will emerge over the coming years.

*Oxera will explore these issues further in a forthcoming issue of *Agenda*.*

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