



Addressing the challenges of water demand &
climate change

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Past challenges

Past successes

Future challenges

How Ofwat is preparing itself to address these challenges

Conclusion

Achievements since privatisation



No longer the dirty man of Europe



£90 billion of investment in infrastructure



Leakage reduced by about 35% from its peak in 1990s



Improved environmental quality



Delivered with a low cost of capital

Future challenges



Climate change –
drier summers,
wetter winters



Increased demand
because of
population growth
and distribution



Environmental
regulation – WFD to
cost £30 billion to
£100 billion

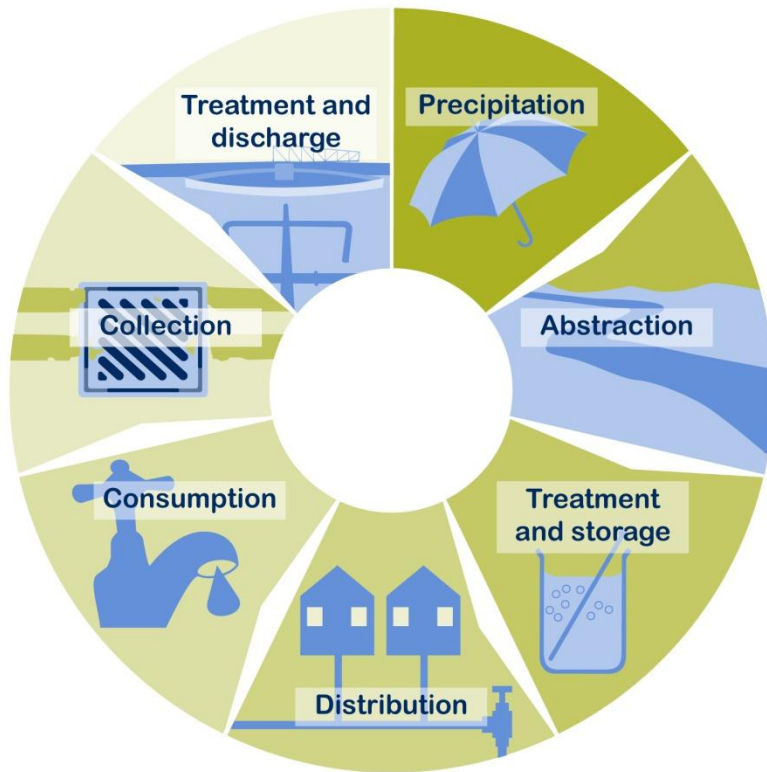


Increasing problems
of affordability and
bad debt



Rising
consumer
expectations

Our vision – sustainable water



Sustainable water

“A sustainable water cycle in which we are able to meet our needs for water and sewerage while allowing future generations to meet their own needs”



Dedicated team

Have a forum to spread knowledge and ensure climate change implications are incorporated into decisions

Part of the Carbon Reduction Commitment scheme

Undertaken a climate change risk assessment

Encourage use of more sustainable forms of transport for our staff

Increased how much we recycle



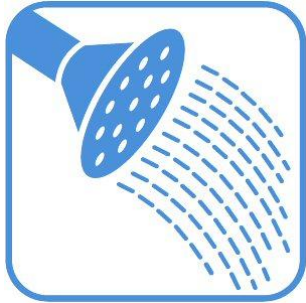
Introduced carbon accounting for companies

Cost of carbon now included in cost-benefit analysis

Regulatory system allows flexibility around need for investment supply/demand because of climate change

Ensure the companies' water resource management plans show an understanding of the impact of climate change

Water efficiency targets



Starting in 2010-11

Companies must reduce demand by one litre per person per day

Runs until 2015

Improving the evidence base for water efficiency is a key part of the process



In order for consumers to use an efficient level of water, conditions must be conducive to allow this to happen

Commenced the Future Water Charging project to consider whether reform is needed

Considering long-term challenges such as charges & incentives, demand management and affordability and debt

Is there a role for more metering? If so, what would that transition look like?



We need customers to demand less water to help supply/demand balance

We need to better understand what drives people to make decisions

Interested in the insights behavioural economics may bring to this area

Plan to publish a focus report soon on this issue



We need to improve our knowledge of what makes a demand intervention successful

Have been gathering information internally, and sent an information request to the companies

Diverging results for the same types of intervention



Provide funding for its work

Sit on its steering group

Provide comments and feedback on work

The aim is for companies to use this work to help inform how they meet their water efficiency targets



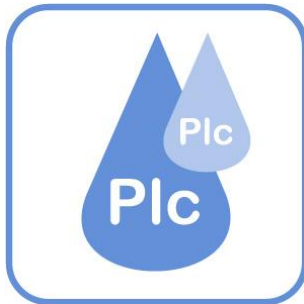
Prices reflect the cost of treating and transporting water

To abstract water the companies pay a fee to the Environment Agency, but this does not place a value on the resource itself

If licence reform leads to the price of raw water better reflecting scarcity, it will have a major influence on decisions taken at that – and all subsequent – parts of the value chain

This could mean the resource is used better – lower leakage, better case for investing to reduce demand

Any change to the licensing regime is for the EA to decide



Refers to trading of raw and treated water

Markets can help to reveal information about the value of water

Trading can help companies balance supply and demand

Can mean fewer resources are developed in areas of relative scarcity

Increasing the scope for companies to trade could require legislative reform



Recommended by independent review by Prof Martin Cave

Companies will compete with one another in several ways

Price and service will be important considerations

One means of differentiation is to work closely with customers to help them reduce demand

This will lead to bill savings and a demand reduction

For Government to decide whether to extend the scope for retail competition



Sectors have achieved a lot to address past challenges

Now face different challenges – climate change and growing demand – which we cannot ignore

We will need to work differently now and in the future to address them

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