



## UKWIR Project RG-07

### Regulatory Incentives and Information Requirements

#### Need for Project

Whilst the regulatory framework for water in the UK has clearly delivered significant benefits over the last 20 years – for example over £50 billion of investment in England & Wales – it is not clear that the current regime remains fit for purpose.

This concern has arisen for several reasons:

- The continuing high levels of investment into the industry, while the scope for additional efficiency savings is reducing, is placing greater strain on the overall regulatory package. Linked to this is the need to assess the performance of the regime in areas like quality improvement.
- The current regime is not considered to support innovation in the Industry. Investment in R&D is operational and therefore included in efficiency assessments. This along with the likelihood that payback is not possible within the five year regulatory cycle, acts as a disincentive to investment in innovation.
- Possible changes to the industry structure arising from a concern about facilitating greater competition and possible more efficient use of resources across Company boundaries – as detailed in documents like the Cave Review. And
- An ongoing question about whether the regulatory reporting requirements are providing the right amount and detail of information needed for effective regulation.

#### Objectives

This project has two key objectives:

- To determine whether the current regulatory framework for water is

appropriate to meet the new challenges facing the Industry with particular regard to sustainable development, innovation and competition.

- To identify and recommend developments in the regulatory approach that will deliver the best outcomes for customers.

#### Scope and Work Programme

This project has been broken into a number of phases:

First – a review of the existing regime, stakeholder concerns about the regime and possible future structures for the industry – this should allow a determination of the key issues and their prioritisation.

Second – identification of possible options for reform with lessons from other industries, a broad assessment of their implications for the water industry and consequently an assessment of their likely applicability to the industry.

Third – development of some initial recommendations for reform and possible further analysis needed.

The approach being adopted involves:

- Assessment of the current regime and other regimes against a set of agreed criteria;
- Analysis of the impacts of the various regimes, drawing on publicly available information and the outputs from other regulatory reviews, such as Ofgem's RPI-X@20.
- High-level quantitative analysis where necessary and possible to determine direction and degree or approximate scale of impact for different possible reforms.





It is also planned to involve stakeholders through workshops, consultations and bilateral discussions.

An expert panel will be utilised to provide support to the project and an objective assessment of whether the recommendations provide an appropriate way forward. Membership of the panel and their precise inputs will be developed as the project commences.

The planned outputs from this project focus on proposals for reform and possible areas of further research if that is needed. These will be disseminated through a project report and stakeholder dissemination workshop.

### **Timetable**

Over a 24 week period the project will:

- Hold an initial (options) workshop around week 10 – proposed date is July 9<sup>th</sup>;
- Provide a draft report by week 18;
- Hold a second (dissemination) workshop around week 22 – proposed date is September 22<sup>nd</sup>; and
- Provide the final report by week 24.

Several steering committee meetings will take place also at key stages during the process.

It is also expected that ongoing communication will occur and, if necessary, additional steering committee meetings.

### **Benefits**

If reform of the regime is needed the benefits could be significant. Government and the industry is placing significant emphasis on a greater role for competition in the industry as a way of delivering reduced prices to customers. Without the right regime in place this may not happen.

Reform could also lead to increased innovation in the sector which should improve efficiency and consequently lead to lower prices for customers. Facilitating innovation

was a key concern of the Cave review and ensuring that the regulatory regime is support of this ought to lead to these benefits.

Further, the cost of regulation to the industry could be reduced – this would allow companies to offer lower prices and to focus on their operations rather than regulation.

### **Project team**

This project is being undertaken by a consortium of Cambridge Economic Policy Associates (CEPA) and Mott MacDonald (Motts). CEPA is an economic consultancy and Motts a leading engineering consultancy. The two companies have worked together previously and bring experience of the design and detailed application of water regulation as well as broader experience across other regulated sectors and in other countries.

The Client Manager for this project is Frank Grimshaw and the UKWIR Project Manager is Richard Kirby.

