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Curb the ministerial credit card [1]

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Attention has focused on energy bills, but Britain?s water industry has its own troubles ?drought orders, hosepipe bans, and tariff hikes. The new management at water regulator Ofwat should focus on changing the counter-productive incentives that are damaging efficiency and choice.

Because companies are regional monopolies, regulation involves careful balancing between enabling companies to finance investment, and protecting customers from higher prices. It?s now time to tip the scales: the drive towards attaining ever-increasing water and environmental quality at an ever-increasing cost must come to an end.

Following reductions in real incomes, the 2014 Ofwat price review should set below-inflation price limits that would give nominal stability to the tariffs paid by customers.

The focus on environmental improvement has driven up costs for consumers and choked supply. Massive investment has been financed by rising tariffs. Now it is time to intensify the search for more cost-effective ? and less capital intensive ? methods.

Ministers have treated regulatory financing arrangements as an environmental credit card, with too little concern for those paying the bills. Take the Thames Tideway ? a major new sewer under the Thames at an estimated cost of £4bn, the need for which may arise from neglect of sewer maintenance. The objectives of dealing with storm water could be dealt with much more cheaply than by a grandiose tunnel project.

More use should be made of markets. Retail competition ? along Scottish lines - should be extended . There should be more trading of raw and bulk water, including supplies from independent providers.

Existing company networks should be linked to enable water to be transferred, by trading, from the water rich North to the thirsty South, reducing the incidence of hosepipe bans, giving choice to customers, and incentives to companies. Extension of metering should be linked to the use of pre-payment devices that would reduce bad debt by helping customers to budget for their water bills.

And water companies, especially when private equity owned, need to improve their governance: footloose global money has now acquired ownership, and should behave more responsibility to its customers.

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