



Office of the Director General of Water Services
Centre City Tower, Birmingham B5 4UA

Philip Fletcher
Director General

20 November 2001

Dear Colleague

In September three companies - South West Water, Bournemouth & West Hampshire Water and Dee Valley Water - applied for an interim determination of their price limits. On 8 November, we published for consultation our draft interim determination for these three companies.

We have identified and corrected errors in the draft price limits. The error arose in the calculation of the K factors, resulting from double counting of some of the additional revenue needed by companies. This led to an overstatement of the price limits.

In the case of South West Water, there was a compensating error in the allowance for depreciation. This correction can be offset against the other, and means that there is little change to our view of likely price limits for this company. For the other two companies, the correction produces lower price limits.

I greatly regret these errors. We are taking steps in Ofwat to avoid any repetition.

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The table below sets out the correct draft interim determination for these three companies:

| | | 2002-03 | 2003-04 | 2004-05 |
|---|---|----------------|----------------|----------------|
| South West Water | Price limits set at Periodic Review in 1999 | 2.0 | 2.0 | 2.0 |
| | Draft, as published 8/11/01 | 3.7 | 3.8 | 3.7 |
| | Revised draft interim determination | 3.9 | 3.9 | 3.9 |
| Bournemouth & West Hampshire Water | Price limits set at Periodic Review in 1999 | -1.7 | 0.0 | 1.7 |
| | Draft, as published 8/11/01 | 1.2 | 1.2 | 1.2 |
| | Revised draft interim determination | 0.3 | 0.3 | 0.4 |
| Dee Valley Water | Price limits set at Periodic Review in 1999 | -3.0 | -3.0 | 0.0 |
| | Draft, as published 8/11/01 | 1.1 | 1.0 | 1.0 |
| | Revised draft interim determination | -0.5 | -0.5 | -0.5 |

For South West Water

The original Draft Determination published on 8 November predicted an increase in the average household bill of £26 between 2001-02 and 2004-05. This is now predicted to be £27.

For Bournemouth & West Hampshire Water

The original Draft Determination predicted an increase in the average household bill of £5 between 2001-02 and 2004-05. This is now predicted to be £3.

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For Dee Valley Water

The original Draft Determination predicted an increase in the average household bill of £1 between 2001-02 and 2004-05. We now predict that bill will decrease by £3.

This correction of arithmetical errors in the proposed price limits takes no account of responses to the consultation so far received, nor does it represent any change in Ofwat's approach to the issues raised by the interim determination applications. All responses will be carefully considered and are still requested by Thursday 29 November. I will announce my final interim determination for each company by 14 December.

This letter is being shared with all water company managing directors, the London Stock Exchange's Regulatory News Service, and everyone who was sent press release PN51/01 which announced our consultation on the draft interim determinations.

A handwritten signature in black ink that reads "Philip Fletcher". The signature is written in a cursive style with a large initial 'P' and a long, sweeping underline.

PHILIP FLETCHER

Director General of Water Services