Key points – England and Wales

Effect on customers' bills

- Price limits of 4.2% a year on average for five years (before inflation) – one-third less than that sought by companies. Average household bills up by £46 (18%) from £249 to £295 over five years (before inflation). This compares with the companies' proposals for an average increase of £72 (29%).
- Increase in bills needed to finance substantial (£16.8 billion) capital programme for further environmental and service improvements, and higher costs faced by companies.
- Increase of 8.5% in bills, on average, in April 2005 – almost half the overall increase – to reflect current levels of companies' costs. The companies sought on average a 12% increase in 2005.

Benefits

- All current essential services safeguarded for customers and the environment – this requires a bigger programme to maintain pipes, sewers and treatment works for the future.
- Safe and more reliable supplies of drinking water – achieved through further improvement projects in water quality and security of supply.
- Further protect the environment – achieved through a major programme of work to deliver tighter standards at over 1,000 sewage treatment works, and improve over 2,000 overflows from the sewerage system. This will improve our rivers and coastal waters, and includes 379 investigations to inform decisions on future environmental protection.
- More than 95% of companies' and ministerial proposals included in price limits. Some proposals not included as yet, where we consider they are not fully justified.
- A programme of nearly £1 billion to safeguard homes against the risk of sewer flooding. This would resolve or mitigate every known high-risk problem of internal flooding from overloaded sewers where companies' plans said action is needed by 2010. By then, the proportion of properties at risk would reduce to 0.01% of households.

Effect on companies

- We have scrutinised each company's business plan thoroughly and all representations on our draft determinations (more than 500) have been considered.
- Demanding but achievable efficiency challenges (eg operating cost efficiencies of 1.4% each year for water and 1.3% for sewerage) assume that all companies, especially the less efficient, will improve further and faster than the economy as a whole. There is scope for all companies to outperform our assumptions. And there are improved incentives for the best performers to become more efficient.
- Financing assumptions that are appropriate for efficient companies to maintain access to the capital markets (eg post-tax cost of capital of 5.1%). Regulatory capital value is estimated to rise from just under £35 billion to almost £41 billion.
- We have set price limits that we consider will enable each company to carry out and finance its functions, meeting all the requirements set out above. **Price limits are as high as they need to be but no higher than they have to be.**

Price limits (%)

	2004-05		2005-06	2006-07	2007-08	2008-09	2009-10	Average
Ofwat's final determinations	3.4		9.6	3.9	3.2	2.5	2.0	4.2
Companies' business plans	3.4		13.4	7.1	4.6	3.4	2.9	6.2

Customers' bills

Expected effect on household bills		**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Average annual household bill	Water (£)	117	130	134	137	139	140
	Sewerage (£)	132	140	144	148	152	155
	Total (£)	**249**	**270**	**278**	**285**	**291**	**295**

What is driving the changes in bills?

Average household bill in 2004-05		**£249**	
Less	(1) past efficiency savings and outperformance	**(3)**	
	(2) scope for reduction through future efficiency improvements	**(13)**	
Plus	(3) maintaining base services	**18**	
	of which (a) changes in revenue		(6)
	(b) changes in operating costs		10
	(c) changes in capital maintenance		7
	(d) changes in impact of taxation		5
	(e) financing		2
	(4) maintaining security of supplies to all customers	**11**	
	(5) the impact of improvements in services	**33**	
	of which (a) drinking water quality		9
	(b) environmental improvements		21
	(c) service performance		3
Average household bill in 2009-10		**£295**	
Change from 2004-05 to 2009-10		**£46**	

Capital investment assumptions 2005-10

	Water £ billions	**Sewerage £ billions**	**Total £ billions**
Capital expenditure[1] (five-year total)			
Capital maintenance	4.2	4.2	8.4
Supply/demand balance	1.7	0.6	2.3
Quality enhancements	2.1	3.4	5.5
Enhanced service levels	–	0.6	0.6
Total	**8.0**	**8.8**	**16.8**
£ per property	341	391	732

1 Capital expenditure is net of capital contributions.