

Mr R Pointer
Chief Executive
Anglian Water Services Ltd
Henderson House
Lancaster Way
Huntingdon
PE29 6XQ

12 November 2003

INTERIM DETERMINATION – PROVISIONAL RESPONSE

You applied on 26 September 2003 for an interim determination of your company's price limits under Part IV of Condition B of your licence. Your reporter, Roger Sawdon of WS Atkins, submitted his report on your application on 1 October 2003.

Your application covers the additional costs resulting from the following seven items.

- Changes to the requirements for treatment and monitoring for cryptosporidium.
- A proposed programme for tackling additional sewer flooding problems.
- Differences in the rate of change of the construction output price index relative to RPI compared with our final determination assumptions.
- Increased operating costs and uncollected revenue resulting from the ban on disconnection.
- Changes to the National Environment Programme.
- Expenditure to ensure protection of assets.
- Changes to the requirements for plumbosolvency control and lead communication pipe replacement.

Your application did not take into account any changes that have reduced your costs or resulted in extra income.

However our analysis suggests that two such items should be taken into account:

- Changes to the requirements for treatment and monitoring for cryptosporidium;
and
- Changes to sludge strategy

..../....

We have taken both of these favourable changes into account in making our determination.

Annex A summarises your estimates of the effect of these changes on your costs. We have completed our initial assessment of your application. Our provisional views on the impact of the changes on your costs are also set out in the summary table in Annex A. Our approach and our initial findings, judgements and conclusions are summarised in Annex B. We have provided you separately with some confidential explanatory notes expanding on Annex B.

We have reviewed the changes in your long term sludge strategy and the permanent enhancements that you have delivered. We still need to assess the impact of the associated movement in costs. This draft, therefore, is based on our understanding of the information you have provided to date. We will wish to discuss this with you prior to finalising our interim determination.

Our initial assessment of the total impact of all of the relevant items on your costs is that the net effect of the changes is to reduce the overall cost pressures on the company, as compared with the 1999 price determination. This net reduction is sufficient to exceed the materiality threshold set out in Condition B of your licence.

In calculating our draft revised price limits we have used the calculation set out in Condition B of your licence. The revised price limits set out in annex A result in a K of 0.1 in 2004-05, which would apply from 1 April 2004. This represents a decrease of 2.4 on the K set at the 1999 price determination.

We are aware that customers have said that they would prefer stable bills between years rather than see a decrease in prices in one year quickly followed by an increase in prices the following year.

Our analysis to date suggests that even if the counter notice on sludge were not to be included in the final interim determination, your application would still not exceed the materiality threshold and no adjustment to price limits would be necessary. We therefore wish to consult on whether, if this remained the case, it would be appropriate to conclude the interim determination without applying the sludge counter notice and consider the permanent enhancements and associated costs you have completed as part of the periodic review process.

Such an approach would provide a more stable bill profile but ensure that customers still received the full benefit of the net reduction in required funding for your sludge strategy.

Please could we have your written representations on this draft determination by Wednesday 26 November 2003. We will be meeting you on 28 November 2003 to hear your representations. We are seeking written comments from other interested parties by Wednesday 3 December 2003.

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We aim to issue our final determination of your application by 11 December 2003. We are placing this draft determination in our library and announcing it to the London Stock Exchange.

This letter and its enclosures have been copied to Richard Bird (DEFRA), Jeni Colbourne (DWI), David Gallagher and Graham Tate (Environment Agency), Andrea Cook (Chairman of WaterVoice Northumbria), Catherine Harvey (Chairman of WaterVoice Eastern), your local members of Parliament and members of the European Parliament.

PHILIP FLETCHER

ANNEX A

ANGLIAN WATER SERVICES LIMITED
DRAFT INTERIM DETERMINATION – Autumn 2003 – SUMMARY TABLE

Description		Company's Assessment (September 2003)	Ofwat's Initial Assessment (November 2003)
Item 1 – Cryptosporidium – Additional requirements for continuous monitoring and treatment			
1.1	Estimated net change in capital expenditure over the AMP3 period	-	(£15.0m)
1.2	Estimated net change in operating expenditure over the AMP3 period	£1.8m	£0.5m
1.3	Materiality amount (NPV of total net change in costs)	£4.6m	(£16.3m)
1.4	Contribution towards materiality threshold	0.6%	(2.3%)
Item 2 – Protection of assets			
2.1	Estimated net change in capital expenditure over the AMP3 period	£7.7m	£6.8m
2.2	Estimated net change in operating expenditure over the AMP3 period	£0.13m	£0.12m
2.3	Materiality amount (NPV of total net change in costs)	£7.5m	£7.3m
2.4	Contribution towards materiality threshold	1.0%	1.0%
Item 3 – Lead – changes to compliance programme			
3.1	Estimated net change in capital expenditure on lead communication pipe replacement over the AMP3 period	-	-
3.2	Materiality amount (NPV of the net change in costs)	-	-
3.3	Contribution towards materiality threshold	-	-
3.4	Estimated net change in capital expenditure on plumbosolvency control over the AMP period	£4.7m	£1.9m
3.5	Estimated net change in operating expenditure on plumbosolvency control over the AMP3 period	£1.6m	£1.1m
3.6	Materiality amount (NPV of total net change in costs)	£11.3m	£5.7m
3.7	Contribution towards materiality threshold	1.6%	0.8%
Item 4 – Changes to the National Environment Programme			
4.1	Estimated net change in capital expenditure over the AMP3 period	£6.4m	-
4.2	Estimated net change in operating expenditure over the AMP3 period	£0.05m	-
4.3	Materiality amount (NPV of total net change in costs)	£8.2m	-
4.4	Contribution towards materiality threshold	1.1%	-
Item 5 – Sewer Flooding			
5.1	Estimated net change in capital expenditure over the AMP3 period	£12.1m	£11.8m
5.2	Materiality amount (NPV of total net change in costs)	£12.0m	£11.8m
5.3	Contribution towards materiality threshold	1.7%	1.6%
Item 6 – Changes in the Notified Index			
6.1	Estimated net change in capital expenditure over the AMP3 period	£54.5m	£53.5m
6.2	Materiality amount (NPV of total net change in costs)	£58.9m	£57.8m
6.3	Contribution towards materiality threshold	8.2%	8.0%
Item 7 – Loss of disconnection			
7.1	Estimated net change in capital expenditure over the AMP3 period	-	-
7.2	Estimated net change in operating expenditure over the AMP3 period	£0.3m	-
7.3	Estimated net change in unrecoverable revenue over the AMP3 period	£3.4m	-
7.4	Estimated net change in financing costs over the AMP3 period	£2.3m	-
7.5	Materiality amount (NPV of total net change in costs)	£26.8m	-
7.6	Contribution towards materiality threshold	3.72%	-

Item 8 – Changes to sludge strategy						
8.1	Estimated net change in capital expenditure over the AMP3 period		-			(£137.0m)
8.2	Estimated net change in operating expenditure over the AMP3 period		-			(£11.1m)
8.3	Materiality amount (NPV of total net change in costs)		-			(£195.0m)
8.4	Contribution towards materiality threshold		-			(27.1%)
OVERALL ASSESSMENT						
9	Materiality amount (NPV of total net change in costs)		£129.4m			(£134.4m)
10	Anglian Water turnover for 2002-03 used in materiality test		£719.3m			£719.3m
11	Materiality test		18.0%			(18.7%)
PRICE LIMITS		2000-01	2001-02	2002-03	2003-04	2004-05
12	Current price limits (as set in November 1999)	-10.0	1.0	2.2	2.5	2.5
13	Draft revised price limits	-10.0	1.0	2.2	2.5	0.1
Notes:						
9. Additional costs are shown as positive, savings and revenue gains are shown as negative.						
10. Ofwat's assessment of materiality includes relevant, non-trivial items only. Relevant, but trivial items (item 3) are not included in the overall assessment of materiality at line 9.						
11. The appropriate discount rate used is 4.2%						
12. Materiality test – Result must be greater than +10% or less than –10% to trigger a change in price limits.						
13. All monetary values are stated in September 2003 prices.						

**ANGLIAN WATER SERVICES LIMITED
DRAFT INTERIM DETERMINATION – AUTUMN 2003
SUMMARY OF OFWAT'S INITIAL ASSESSMENT**

INTRODUCTION

1. We have followed a four stage assessment of your application in accordance with the terms of Condition B of your company's licence.
2. You included seven changes in your application.
 - Changes to the requirements for treatment and monitoring for cryptosporidium.
 - A proposed programme for tackling additional sewer flooding problems.
 - Differences in the rate of change of the construction output price index relative to RPI compared with our final determination assumptions.
 - Increased operating costs and uncollected revenue resulting from the ban on disconnection.
 - Changes to the National Environment Programme (NEP).
 - Expenditure to ensure protection of assets.
 - Changes to the requirements for plumbosolvency control and lead communication pipe replacement.
3. We issued counter notices in respect of changes to the requirements for treatment and monitoring for cryptosporidium and changes to your sludge programme of work.
4. Our assessment of your application and the counter notices is summarised below.

STAGE 1 – CONFIRMATION THAT THE CHANGED REQUIREMENTS ARE RELEVANT CHANGES IN CIRCUMSTANCE OR ARE COVERED BY SPECIFIC NOTIFIED ITEMS

Item 1 – Cryptosporidium - additional requirements for continuous monitoring and treatment

5. When we set price limits in 1999 the extent of the requirements to deal with the risk from cryptosporidium was uncertain. Only work that had received technical support from the Drinking Water Inspectorate (DWI) was included in price limits. This did not include any requirement to carry out continuous monitoring.
6. The letter sent from the DWI to Anglian Water Services on 31 July 2000 set down the programme of work you were required to carry out to meet the requirements of regulation 23B of the Water Supply (Water Quality) Amendment Regulations 1999. This was a programme of regulatory monitoring at five sites. The DWI wrote to you again on 7 August 2002 to confirm the programme under the Water Supply (Water Quality) Regulations 2000.

7. We have received confirmation from the DWI that the work set out in your application is necessary to meet your obligations under the cryptosporidium regulations.
8. Work to install treatment processes at six sites to deal with cryptosporidium in the raw waters was assumed at the 1999 final determination. The DWI has informed us that these measures are no longer required. The six sites are:
 - Aylsham (ref. 714)
 - Hillington (715)
 - Barrow (716)
 - Moulton (717)
 - Baylham (718)
 - Beck Row (719)
9. We consider that the monitoring requirements in your application and the changes to the treatment requirements at these six sites qualify as a relevant change of circumstance.
10. The costs in your application are trivial. Ordinarily, we would not take these into account. However, we deal with the costs of cryptosporidium monitoring and treatment together at interim determinations. Consequently we have taken into account your monitoring costs in our assessment.

Item 2 – Protection of assets

11. In November 2001 DEFRA instructed water companies to accelerate the planned programmes of work to ensure the ongoing protection of assets. This brought forward work that was required under the existing code of practice. This is a relevant change of circumstance.

Item 3 – Plumbosolvency treatment to reduce lead levels in drinking water

12. In 1999 we allowed in price limits a programme to comply with the new lead standards. This assumed both lead communication pipe replacement and plumbosolvency control. During the 1999 periodic review the DWI stated that it would review the most effective means of delivering compliance, and plumbosolvency control is now the preferred initial approach.
13. The DWI has confirmed that the provision made in the 1999 final determination for meeting the new lead standards was only for the purpose of setting prices. The programme of work set down in the Inspectorate's letter to you dated 31 July 2003 'Water Supply (Water Quality) Regulations 2000: Regulation 41 – Approval of Programmes of Work' replaces the letter of support provided for the periodic review process.
14. We have received confirmation from the DWI that the plumbosolvency control programme set out in your application is necessary to comply with the new lead standards. We consider that the change in your plumbosolvency control programme is a relevant change of circumstance.

Item 4 – Changes to the National Environment Programme

15. You discussed with the Environment Agency changes to the National Environmental Programme (NEP) under the change protocol in relation to the four waste water treatment works in your application.
16. In our letter of 21 January 2003 to Andrew Snelson we confirmed that the total cost of these four schemes, and of one other put forward at the time, was trivial at 0.8% of company turnover. We explained that we would not therefore refer the amendments and associated costs to DEFRA officials to consider, as there were no implications for price limits. We said that you will receive the return on your investment in due course, when it is consolidated into the Regulatory Capital Value (RCV).
17. In your application you have submitted revised cost estimates, that are in total greater than 1% of turnover. But the matter has already been dealt with under the change protocol when the change, based on your costs, was trivial. Consequently we do not consider this is a relevant change of circumstance.

Item 5 – Sewer flooding

18. In March 2002 we published a consultation paper 'Flooding from sewers: A way forward'. As part of our consultation we invited views on proposals for tackling sewer flooding in the period up to 2005. We confirmed in MD180 'Flooding from sewers' (September 2002) that we are willing to consider proposals for companies to address more problems
19. Where as a result of a proposal from a company we establish a revised set of regulatory outputs to deal with sewer flooding and a company is making an application for an interim determination (because of other changes to its costs and revenues), we consider it is appropriate to take account of the increased costs to deal with sewer flooding in any interim determination.

Item 6 – Changes to the Notified Index

20. You can request an interim determination of price limits where the Notified Index is different from our assumptions when we last set price limits. The Notified Index measures the rate of change in national construction costs compared to the rate of change in general inflation. The movement in the construction output price index (COPI) compared to the movement in the retail price index (RPI) is different from the movement we assumed when we set price limits in 1999.
21. This difference is a relevant change in circumstance under Condition B of your licence.

Item 7 – Loss of disconnection

22. We set out a notified item in the 1999 price determination to protect you from the consequences of increased levels of bad debt and costs of debt recovery arising from the loss of the power to disconnect domestic customers for non-payment of bills.

23. Using the methodology set out in RD12/01 to calculate the changes in your bad debt and costs of debt recovery, your total debt related costs have actually fallen since 1998-99 and therefore do not trigger the notified item.

Item 8 – Changes to sludge strategy

24. Your 1999 Business Plan included your proposals to comply with Government guidance for the disposal of sewage sludge, as set out in 'Raising the Quality' in September 1998. This followed discussions with the Environment Agency, DETR and Water UK. The industry plans were drafted to comply with the ADAS safe sludge matrix for dealing with sewage sludge. We set price limits in 1999 to allow you to change and enhance your disposal routes for sewage sludge so that you would be fully compliant with the ADAS safe sludge matrix for the agricultural route for 50% of your sludge. You would dispose of 50% by the other routes you described in your plan, chiefly gasification.

25. Your strategy in your 1999 business plan involved moving from 82% disposal to farmland to 50%. You justified this change on the grounds that it was prudent to target some investment in innovative energy recovery technologies and a more diverse range of agricultural products. This would enable you to be more responsive to changes in the recycling market for sewage sludge.

26. Your plans included a major capital programme to enhance your disposal routes to provide confidence and resilience for the longer term in your disposal routes. These included seven gasification plants, seven proposals for composting, a considerable amount of digesting, pre-pasteurising, as well as production of light-weight aggregate and pellets.

27. In your original plan, this capital investment leading to enhanced long term security of your disposal routes for sludge was due for completion by March 2005.

28. In your June Return 2002, the reporter commented that you were planning to reduce dependence on the agricultural route and planned to reduce reliance on this disposal route to 50%. The reporter also commented that progress with the gasification pilot was satisfactory, but that there were problems with completion date of the light-weight aggregate plant at Tilbury.

29. We were therefore surprised to learn from discussions in summer 2003 and your June Return 2003 that you had completely reappraised your sludge strategy, and were planning to defer your plans for gasification plants and had made other major changes to your plans.

30. This has now been confirmed in your draft business plan, where you have stated you are now planning 100% disposal to agricultural routes.

31. Your company preferred strategy submitted in August 2003 includes a further £180m to invest in digestion and drying to produce a product suitable for final disposal to farmland, but that may also have a market elsewhere for example, in power stations or cement kilns. Your capital enhancement programme for 2005-10 includes sites where you told us you were planning to install gasification or other plant in AMP3.
32. Overall, we made provision in price limits in 1999 for you to carry out a major capital intensive investment programme for you to secure the continuing satisfactory disposal of your sewage sludge in the longer term, to comply with Government requirements. Your plans and your assumptions for your investment profile in 1999 price limits forecast that you would deliver these improvements to your strategy by the end of AMP3 (March 2005).
33. You have not taken the steps we expected to deliver these improvements by the end of AMP3. You have also not delivered equivalent outcomes to secure the longer term disposal of sludge. From your reports and letters to us, as well as your draft business plan, you will not be doing so. Your plans now extend well into AMP4.
34. This is a relevant change of circumstance under Condition B of your licence.

STAGE 2 – ASSESSING THE APPROPRIATE NET ADDITIONAL COST ATTRIBUTABLE TO EACH CHANGE

Item 1 – Cryptosporidium - additional requirements for continuous monitoring and treatment

35. You have included in your application five sites where you have chosen to deal with the requirements of the cryptosporidium regulations by carrying out continuous monitoring. The reporter has commented that the decisions made by your company are reasonable.
36. We have reviewed your costs for meeting the requirements for cryptosporidium monitoring, and considered the reporter's report. We have also looked at market prices for this type of work reported by other companies.
37. We compared your additional operating costs for carrying out continuous monitoring for cryptosporidium with a benchmark and found them to be high. We reduced the operating expenditure in your submission to the benchmark.
38. We believe that there will be increases in efficiency for this labour intensive procedure, and consequently we have assumed a future efficiency of 2.5% per annum for operating expenditure.
39. We deducted the costs assumed at FD99 for the six cryptosporidium treatment schemes that are no longer required.

Item 2 – Protection of assets

40. We did not reduce the capital expenditure in your application because your latest capital enhancement catch-up factor for water non-infrastructure is 0%, but we assumed a continuing capital enhancement efficiency of 0.75% pa.
41. We reduced the operating expenditure by 1.5% pa, the catch-up factor for enhancement opex, and we assumed a continuing efficiency of 0.75% pa.

Item 3 – Plumbosolvency treatment to reduce lead levels in drinking water

42. The DWI stated in Information Letter 13/98 that the provision made for meeting the new lead standards was solely for the purpose of estimating costs for the periodic review. The Information Letter made it clear that financial provision was subject to companies agreeing specific programmes of work with the DWI once the criteria for action had been agreed. After the final determination, the DWI set out in Information Letter 12/2000 the criteria for action, which resulted in more emphasis on treatment to reduce plumbosolvency than was assumed in the final determination.

43. You have included in your application 28 sites where you have installed new treatment and 19 sites where you have optimised existing treatment.
44. In our assessment we compared the total volumetric output of the works in the notional plumbosolvency programme assumed at the 1999 final determination with the total volumetric output of the works in the confirmed programme where new treatment is required. We have taken into account only the proportion of the costs assumed at the 1999 final determination associated with the net additional volumetric output of the confirmed programme.
45. The volumetric output of the confirmed programme is about 75% greater than that of the notional programme. Our approach, as generally applied in other interim determinations, was to include the outputs now required in the same manner as we would have at the 1999 Periodic Review if we had been aware of the present facts. Therefore in our assessment we have allowed 75% of the costs assumed at FD99.
46. We have also allowed the expenditure not directly associated with phosphate dosing but still required for plumbosolvency control and which was not included at FD99. In assessing the costs in your application for optimising existing treatment we employed the reference assumptions set out in RD 28/03. We did not reduce the relevant capital expenditure because your capital enhancement catch-up factor for water non-infrastructure is 0%. We reduced the relevant operating expenditure by 1.5% pa, your catch-up factor for enhancement opex, and we assumed a continuing efficiency of 0.75% pa.

Item 4 – Changes to the National Environment Programme

47. This is not a relevant change of circumstance. Please see paragraphs 15 to 17 above.

Item 5 – Sewer flooding

48. We said in MD180 that we would consider proposed programmes for additional work to address sewer flooding where these are based on a system for prioritising schemes established in consultation with the relevant WaterVoice Committee. The prioritisation process must be based primarily on an overall assessment of the severity and frequency of the problems faced by the customers concerned. You have submitted such a proposal for the removal of 241 properties at a projected cost of £12.1m. When the correct inflation index was applied, this changed to £11.8m
49. We have considered your proposal and taken account of comments from WaterVoice Eastern. We have also assessed, with the input of your reporter, the cost of your proposals and the ability of Anglian to achieve the additional outputs. Based on the reporter's views we sought further explanation for four of your schemes. In light of your responses we confirm that we have included £11.8m of additional expenditure to resolve internal flooding problems at 241 properties.

Item 6 – Changes in the Notified Index

50. When we set price limits in 1999, we made assumptions about the movement in the Notified Index over the period 2000-05. This index represents the movement in COPI relative to RPI. We assumed that COPI moved in line with RPI over the period to 2005. In practice COPI has increased at a greater rate than RPI and the Notified Index is, consequently, greater than we assumed.
51. We have assessed the change in your capital costs from those we assumed in the 1999 periodic review to take account of the actual movements in the Notified Index in 2000-01, 2001-02 and 2002-03. This is consistent with the approach you have taken in your application.

Item 7 – Loss of disconnection power

52. We have carefully assessed the information submitted in your application. Where appropriate we have requested further clarification from you and your reporter.
53. In your application you explained that:
- the amount of debt which you cannot collect (as measured by additional charges made to your profit and loss account);
 - the cost of financing additional outstanding revenue; and
 - the operating costs relating to debt recovery.

have all increased since the implementation of the Water Industry Act 1999.

54. You have challenged the approach that Ofwat uses to assess changes in the level of unrecoverable revenue. Your submission calculates the increases in unrecoverable revenue using changes to the household provision as charged to your profit and loss account rather than the methodology used by Ofwat which considers changes to the level of household revenue written off.
55. The different methodologies used produce significantly different results. Your household bad debt charge has increased since 1998-99, whereas the household revenue written-off has fallen. The result of this is that using your methodology you have experienced an increase in debt related operating costs, whereas using Ofwat methodology you have experienced a reduction in the costs, therefore excluding this element from your claim.
56. We have followed this 'write-off' approach consistently for interim determinations in 2001 and 2002 and consider that this policy is appropriate as actual write-offs are a definitive and final amount and are subject to less management interpretation.

57. Our methodology also allows companies the financing costs of carrying increased levels of revenue outstanding. The notified item is a one-way item and there is no scope to claw back revenue allowed for changes to the bad debt charge, which may not subsequently be realised. We acknowledge that you are prepared to discuss a new symmetrical Notified Item but we do not consider that to be appropriate.

58. Further information is provided in the explanatory notes.

Item 8 – Changes to sludge strategy

59. In making the adjustment of your need for capital investment and operating expenditure, we have considered:

- the provision assumed in your price limits in 1999 for enhancements to sludge disposal; and
- the capital expenditure you have reported to deliver enhancements to your sludge disposal.

60. You have informed us that you have had a change of strategy, which entails very major changes to your plan. Instead of moving away from the agricultural route, you are now planning 100% final agricultural disposal.

61. We have removed the costs attributed to your 1999 sludge disposal strategy.

62. We have added back appropriate net additional costs for the programme you have reported you are carrying out. You are taking short term measures to comply with the safe sludge matrix.

63. We have used the costs you have reported to us for enhancement in the first three years of AMP3 as a starting point. You report that with these short term measures you are complying with the safe sludge matrix, and disposing of all your sludge in a satisfactory way. We have assumed that this will continue. We have therefore assumed that you will need the same level of operating costs for enhancement that you have reported in 2002-03. We have also assumed that you will incur some capital expenditure in the last two years of this pricing period at the same level you reported for 2002-03. This will enable your continued satisfactory disposal of sludge in the short-term, and allow you to justify your proposals for the longer term in your final Business Plan.

64. We have adjusted your costs to reflect your relative efficiencies for capital procurement and operating expenditure. These are 4% for investment in non-infrastructure and 4.5% per annum for operating expenditure associated with sewerage service enhancements, and 0.75% continuing efficiency. These are the latest comparative information we have, as set out in our letter to Regulatory Directors 28/03 published on 22 July 2003.

STAGE 3 – MATERIALITY TEST – IN AGGREGATE DOES THE SUM OF ALL THE CHANGES EXCEED THE MATERIALITY THRESHOLD SET OUT IN THE LICENCE?

65. Condition B of the licence sets a materiality threshold for consideration of interim determinations. A revision of price limits is triggered if the present value of the net additional costs and revenue losses arising from the changes is greater than 10% of the turnover of the appointed business in the latest financial year for which accounting statements have been delivered to Ofwat. The licence also allows for price limits to be adjusted in instances where the net present value of the materiality calculation is less than minus 10% of turnover. For the purpose of this calculation, capital costs are calculated up to 31 March 2005 and operating costs and revenue losses are calculated over 15 years.
66. The results of our analysis, based on the revised assumptions set out above, are summarised in Annex A. In this instance, the materiality amount is minus 18.7% of turnover, so in accordance with Condition B, the materiality threshold has been exceeded.

STAGE 4 – IMPLICATIONS FOR PRICE LIMITS IF THE MATERIALITY THRESHOLD IS EXCEEDED

67. Because the materiality threshold is exceeded the calculation in the remainder of Condition B, paragraph 14.2 is then carried out to determine what change is made to the Adjustment Factor. Our provisional assessment of your company's application is that the price limits for the charging year 2004-05 should be revised as set out in the table in Annex A.