

Annual report 2000-01
of the Director General of Water Services



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For the period 1 April 2000 to 31 March 2001

To

RT. HON. JOHN PRESCOTT, MP

Deputy Prime Minister,

Secretary of State for the Environment, Transport and the Regions

RT. HON. RHODRI MORGAN, MP AM

First Secretary of the National Assembly for Wales

I confirm that during this period I received no general directions under section 27(3) of the Water Industry Act 1991



PHILIP FLETCHER

Presented to Parliament in pursuance of section 193 of the Water Industry Act 1991

Ordered by the House of Commons to be printed 9 May 2001

HC 441

Our Vision>>

A water industry that delivers a world-class service, representing best value to customers now and in the future.

Our Mission>>

To regulate in a way that provides incentives and encourages the companies to achieve world-class services in terms of quality and value for customers in England and Wales.

>>The Year's Achievements

In March 2000 we published our forward programme for 2000-01.

It delivered a broad range of objectives ensuring that customers receive a good quality service at a fair price; protecting their interests; safeguarding the environment and water quality; and providing incentives to the companies to improve performance. One year on, our work is set out in detail in this report.

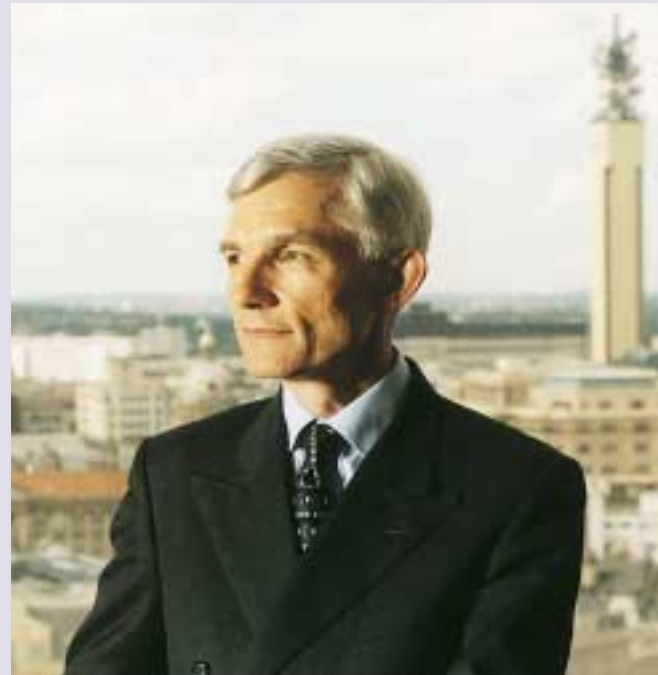
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Director General's review



This is my first annual report. I succeeded Sir Ian Byatt, the first water regulator, in August 2000. He can look back on 11 years of achievement since the privatisation of the water and sewerage companies in 1989. Over that time he established the reputation of Ofwat as an authoritative economic regulator. I aim to build on that achievement with the help of Ofwat staff. I am grateful for all the hard work and commitment they have shown over the last year.

The 1999 price review set demanding targets for the industry. Domestic customers saw their bills from April 2000 fall by an average 12.5% before inflation. Increases in bills for 2000-01 have also been held, on average, below the rate of inflation. At the same time, the companies are undertaking a major programme of capital investment to safeguard drinking water quality and to protect the environment. In an industry where competition is inherently difficult to develop and companies maintain effective local and regional monopolies, price regulation has provided the incentive to benefit customers and the environment.

Over the year, there has been much debate over how best we can ensure that the companies will deliver value to all their stakeholders: customers, owners, lenders and the wider environmental and social interest. The debate takes as its starting point the need to ensure the continuing delivery of safe, high-quality drinking water and the removal and treatment of wastewater in ways which safeguard environmental objectives. I work closely with my fellow regulators, the Drinking Water Inspectorate (DWI) and Environment Agency (EA), to these common ends.

Competition Commission references

Two small water-only companies appealed to the Competition Commission against Ofwat's price determinations, which were accepted by the other 24 companies. The Commission broadly endorsed key aspects of Ofwat's determination, including our assumptions on the cost of capital. But it also indicated that it was not convinced by Ofwat's approach towards maintaining the serviceability, or fitness for purpose, of capital assets and on the treatment of depreciation. The Commission's views, and those of the industry and other stakeholders, are being considered in preparation for the next periodic review to take effect in April 2005.

Changes to price limits

The last periodic review provided for possible changes to price limits to take account of additional changes in circumstances. Three companies applied for such interim determinations in autumn 2000 and, after review, two were granted an increase.

The structure of the industry

During the year, there have been two changes of ownership of large water and sewerage companies. Thames Water is now owned by the German-based company RWE and Dŵr Cymru (Welsh Water) by the American-based WPD (Western Power Distribution). Neither sale jeopardised their position as significant comparators in the industry, or led to further consolidation, and, after consultation, neither needed to be referred for examination to the Competition Commission. A third bid has been made, for Mid Kent Water, by a management buyout backed by a German bank.

Companies have also been considering whether they can best meet the regulatory and business challenges facing them by restructuring. In July 2000 Sir Ian Byatt concluded that proposals, by Kelda, for Yorkshire Water to be restructured as a mutual owned by its customers would not be in their best interests. I agreed with his view.

Subsequently, a not-for-profit company limited by guarantee, Glas Cymru (Glas), has bid for Dŵr Cymru. I agreed that its proposals meet the regulatory criteria designed to protect the interests of customers, provided that certain specific conditions are met and that the company can successfully raise the finance it needs. The circumstances of the bid included the purchase of Dŵr Cymru at a significant discount to its regulatory capital value, clear separation of interest between the buyer and seller, and the support of the democratically accountable body, the National Assembly for Wales. These conditions will not be easy to replicate for other water companies. Whether such structures can maintain the incentive for further efficiency gains over a long period will take time to demonstrate. The company is restricted in purpose to the ownership of water company assets and its functions will largely be out-sourced to major operators - another significant change of approach which Ofwat will continue to watch closely.

Competition

The Competition Act 1998 took effect on 1 March 2000. Ofwat has established processes and expertise to respond to possible cases of anti-competitive agreements and abuses. So far, progress in market competition has been slow. The threat of competition is, however, affecting companies' behaviour, not least in developing their understanding of customers' needs and providing a more sophisticated service, especially for large users.

The existing legal framework does permit competition to develop. Further legislative changes, in particular to allow entrants to be separately licensed for the production and sale of water, whilst the distribution network continues to be owned and managed by the incumbent companies, should help in the promotion of competition. I welcome recent Government proposals to legislate on this. Ofwat has already contributed to the development of thinking on these lines and will take an active part in future developments. In the meantime we shall maintain our ability to compare performance between companies and, by promoting best practice, continue to encourage companies to improve their overall efficiency.

Regulating company performance

We monitor company performance regularly and seek action to remedy deficiencies. We work closely with the quality regulators to ensure that companies are delivering the agreed programme. At the same time we seek to ensure that our reporting requirements are no more onerous than they need to be for effective regulation.

Approving water and sewerage charges

The Water Industry Act 1999 gave Ofwat power to approve each company's charges scheme from 2000-01 onwards. Significant developments have included more sophisticated tariffs for large users, approval for self-financing discounts for direct debit customers and Regulations designed to protect vulnerable customers.

Customers

We continue to work closely with the ten Customer Service Committees (CSCs) and their national body, the Ofwat National Customer Council (ONCC), set up to ensure that customer interests are properly protected. The committees speak independently of the regulator and I am encouraging them to develop their independent voice nationally. Over the year, seven chairmen have stood down. I am grateful to them for the important contribution they have made in developing customer representation. Their successors have been appointed in accordance with best public sector practice, in one case on an acting basis pending a full competitive process.

I particularly pay tribute to Sheila Reiter (Chairman of Wessex CSC) who has chaired ONCC for the past three years and is now passing the chairmanship to Maurice Terry, Chairman of North West CSC.

Ofwat's accountability

Ofwat was established by law to speak independently of Government. We remain accountable to Parliament and the National Assembly for Wales. Over the last year, we have given evidence to three separate parliamentary committees on Ofwat business: to the Public Accounts Committee on leakage and water efficiency, the Environmental Audit Committee on the last periodic review and its implications for the future, and to the Environmental Sub-Committee on the Government's proposals for a draft Water Bill. We respond to individual MPs and Assembly Members on constituency concerns. Over the last year we have, in particular, developed our service for the National Assembly, to whom we are responsible in respect of Welsh companies.

Ofwat is financed by a charge on water customers through the water companies. Ever since privatisation, we have charged less than our maximum entitlement. A consultant's report, commissioned by HM Treasury on the efficiency of the economic regulators and published in February 2001, noted that Ofwat's costs have been held approximately level in real terms since 1997-98. We look to maintain our efficiency. We cost each customer in England and Wales, on average, some 48p a year. We remain committed to providing cost-effective regulation.

We are also committed to consultation with our stakeholders, demonstrated in our approach to various proposals for change. This year, for the first time, we held a workshop with stakeholders to develop our forward programme for 2001-02, published in March 2001. It sets out our specific aims and objectives in the development of economic regulation for the water industry. We will monitor our progress and report on its delivery next year.

Specific challenges for the coming year include the possibility of a new Water Bill to enable Ofwat to promote competition in the industry and to establish a separate Consumer Council for Water to represent customer interests. We shall also be developing our proposals, in consultation with others as we look towards the next periodic review. We stand ready to respond to proposals from the companies themselves in delivering their objectives.

By transparent and predictable regulation we look to enable companies to continue to deliver their services to customers and to achieve an efficient approach to long-term investment. By open communication we will work to ensure that all stakeholders are kept informed and have the opportunity to have their say.



Philip Fletcher

Director General of Water Services

Setting prices

CHAPTER 1

The new price limits, which we set in November 1999, took effect on 1 April 2000. 24 of the 26 companies accepted them.

All companies published their five-year monitoring plans. We reviewed them to make sure that they reflect the customer service standards and deliver the environmental and water quality outputs that are funded by the new price limits.

Competition Commission

Two small water-only companies, Mid Kent Water and Sutton & East Surrey Water, did not accept the price limits and appealed to the Competition Commission. This independent appeal mechanism is an important part of the price review process.

The Commission reviewed the companies' case for increased prices and Ofwat's determination methodology. We provided written submissions, attended hearings with the Commission Panel and had working-level meetings with Commission staff.

We announced the Commission's decision in August 2000 and published the full reports (September 2000). Revised prices for these two companies came into effect from 1 April 2001.

The Commission broadly endorsed Ofwat's approach to price setting including the estimated cost of capital. But, the Commission felt we had not taken sufficient account of specific factors affecting the two companies. The Commission took a different view to Ofwat on: efficiency; numbers of meter optants; location of water meters; levels of bad debt; capital maintenance expenditure; and depreciation of assets. We are taking account of the issues raised by the Commission in developing proposals for the Periodic Review 2004 (PR04).

The Commission also allowed the companies to reclaim the costs of the inquiry from their customers.

Table 1: Revised Price Limits

	2000-01	2001-02	2002-03	2003-04	2004-05	Cumulative change after 5 years
Mid Kent Water						
>> Ofwat Final Determination	-19.7	0	0	0	1.6	-18.4
>> Competition Commission Determination	-19.7	4.5	3.2	0	0	-13.4
Sutton & East Surrey						
>> Ofwat Final Determination	-17.0	-5.0	-2.4	0	0	-23.0
>> Competition Commission Determination	-17.0	3.8	2.1	0	0	-12.0

Business plans

We placed two submissions from the companies in the library in May 2000:

- >> ***non-confidential elements of the Business Plans, which had been submitted by the companies during the price review (Submission K); and***
- >> ***the Quality Costing update (Submission J).***

For Mid Kent Water and Sutton & East Surrey Water, that information is available in the Competition Commission reports.

The review of the Periodic Review process

The 1999 Periodic Review (PR99) was a large and complex project. We reviewed our approach and management of the process of price setting. To help us develop and improve our project management for the next Periodic Review, we commissioned MORI to survey stakeholders. We published the outcome of the review in an open letter to companies (MD164). Lessons learned from the review will guide our plans for PR04.

Environmental Audit Committee inquiry

The Environmental Audit Committee launched an Inquiry 'Water prices and the environment'. Ofwat appeared before the Committee in July 2000. The Committee published its report and recommendations in November 2000.

The Committee recommended that Ofwat should:

- >> ***reconsider its approach to describing the benefits of environmental and quality investment;***
- >> ***be more transparent;***
- >> ***develop further its approach to determining the investment companies need to make to maintain their assets; and***
- >> ***make a positive contribution to sustainability.***

Our response to the Committee's report is published on Ofwat's website www.ofwat.gov.uk.

Philip Fletcher gave evidence to the Committee on Ofwat's response to the recommendations in February 2001. He described:

- >> ***Ofwat's role in the price setting process;***
- >> ***how we will improve transparency within the limitations of maintaining commercial confidentiality;***
- >> ***our work in developing forward-looking indicators that measure the fitness for purpose of companies' assets; and***
- >> ***our willingness to have a sustainability duty.***

In response to the Committee's criticism of our approach to capital maintenance, we accepted that particular attention should be given to the development of the basis for determining future investment in maintaining the infrastructure. Our intention will be to achieve the optimum balance between necessary new investment, charges to customers, and the ability of water companies to continue to finance their functions within a framework that maintains pressure for continuing efficiency gains.

The Committee also recommended that we make clear what work we expect from the companies on capital maintenance needs. We had already started this work. In April 2000, we outlined the information companies need to include in future business plans to support their proposed capital maintenance programmes. We expect future programmes to be soundly based on a full economic appraisal of needs.

Our evidence to the Committee is published in 'Water prices and the environment: government response and follow-up' (HC 290-i).

Interim determinations of price limits

We identified a number of specific uncertainties when setting price limits in 1999. These concerned the likely take-up of optional meters, and other matters which were not wholly taken into account in the new prices. Companies can apply for an adjustment to their price limits if these uncertainties, (or other factors already set out in the licence) increase costs, or decrease revenue, by more than 10% of turnover. Three companies did so this year: Anglian Water, Dŵr Cymru and Tendring Hundred.

Following our investigation, we consulted the companies, the CSCs, and other stakeholders on our draft interim determinations in November 2000 and published the final decisions in December 2000. We did not change price limits for Anglian Water, because they did not meet the materiality threshold, but we did revise price limits for Tendring Hundred and Dŵr Cymru.

CHAPTER 2 New structures

Following the 1999 Periodic Review, some companies have proposed to restructure their businesses in ways new to the water industry. We examined the proposals and set out a framework for assessing them.

The current investor-owned equity-financed model has served customers well. The model generates shareholder pressure on management to improve efficiency. Customers gain at periodic reviews from these efficiency savings.

New company structures may hold the potential for further efficiency gains but may also present risks. We must be sure that we can continue to carry out our duties and protect customers' interests. Safe, pure water and environmental standards are not negotiable.

Ofwat formally invited views on the general issues raised by restructuring proposals in 'New ownership structures in the water industry' (June 2000). This was followed very soon after by our consultation on the specific proposals put forward by Kelda for Yorkshire Water (see next page). This examined the constitutional and regulatory issues arising from the proposal and how Ofwat should assess such proposals. This led to the development of a framework against which the specific Kelda proposals and any further proposals could be assessed.

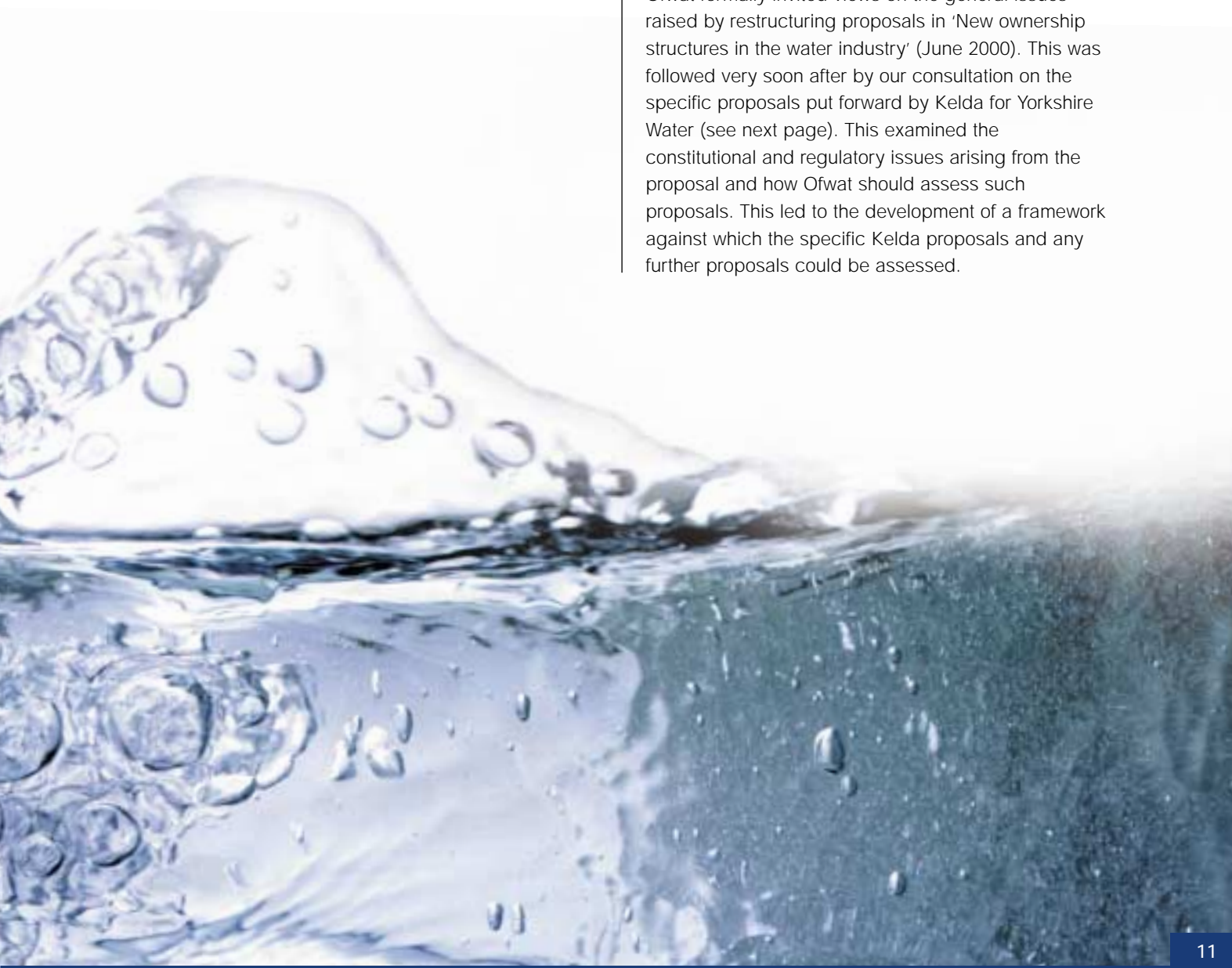


Table 2: Revised Price Limits

	2000-01	2001-02	2002-03	2003-04	2004-05	Cumulative change after 5 years
Dŵr Cymru						
>> Final Determination	-10.5	-0.5	0	1.2	1.0	-9.0
>> Interim Determination	-10.5	0.2	0.7	2.0	1.8	-6.2
Tendring Hundred						
>> Final Determination	-6.9	1.0	2.0	2.0	2.0	-0.2
>> Interim Determination	-6.9	3.5	3.6	3.7	3.7	7.4

This framework requires companies to:

- >> *clearly demonstrate the specific benefits to customers of the proposals;*
- >> *show that, where there are any additional risks to customers, the benefits outweigh any additional risks or uncertainty;*
- >> *ensure that new financial structures are sufficiently flexible to protect customers from the impact of any cost shocks*
- >> *ensure that the incentives for ongoing efficiency savings are maintained compared to the current equity financed model;*
- >> *ensure that the practical concerns associated with any separation of asset ownership from operations and the introduction of a competitive procurement strategy have been addressed properly;*
- >> *ensure that the quality regulators (EA and DWI) can regulate the new structure;*
- >> *allow all regulators continued access to the information required to maintain regulatory effectiveness;*
- >> *demonstrate that customers have been properly consulted; and*
- >> *demonstrate the independence of the buyer from the seller of the existing licence holder where the restructuring involves a change of ownership.*

In addition to the restructuring proposals put forward by Kelda for Yorkshire Water, Ofwat has also considered the proposed acquisition and restructuring of Dŵr Cymru by Glas Cymru.

Kelda

In June, the Kelda Group proposed to turn Yorkshire Water into a mutual. Ownership of the assets, and responsibilities under the licence, would pass to a not-for-profit body owned by its customers. All operations would be outsourced and the mutual would be financed entirely by debt. Shareholders would vote on the Kelda proposal and Ofwat wanted to ensure that customers had their say.

We consulted about Kelda's proposals. As part of the consultation process, we took part in a public meeting held by the Yorkshire CSC to hear customers' views.

Following this consultation, in July we published 'The proposed restructuring of the Kelda Group: A preliminary assessment by the Director General of Water Services'. We concluded that the proposals should not be allowed to go ahead in their current form as they failed to meet adequately the framework criteria developed in the paper. Following this announcement, Kelda dropped its proposals.

Glas Cymru

In December, Glas Cymru (Glas) announced that it had agreed terms for the acquisition of Dŵr Cymru from WPD (Western Power Distribution). Like Kelda, Glas proposed to separate ownership and operation of the assets, and to finance the assets by debt. However, Glas' proposals were for a company limited by guarantee, not a mutual body owned by customers.

We consulted on Glas' proposals in 'The proposed acquisition of Dŵr Cymru Cyfyngedig by Glas Cymru Cyfyngedig' (November 2000). We appeared before the National Assembly for Wales and took part in two meetings in public held by the CSC for Wales, in Cwmbran and Llandudno.

We published our views on the Glas proposals in a position paper in January 2000. We concluded that, subject to conditions as set out below, Glas should be allowed to try to secure the necessary financing. Glas should:

- >> *agree licence modifications;*
- >> *give a public commitment to customer benefits;*
- >> *make public its incentive schemes for executive management;*
- >> *make public its commitment to limiting its activities to the single purpose of providing water and sewerage services;*
- >> *give a public commitment to appointing the members of Glas on the basis of best practice;*
- >> *confirm that the rights proposed for bondholders do not impede the Director's duties under the Water Industry Act 1991.*

At the same time, we published an open letter to all Managing Directors (MD166), setting out the regulator's duties in relation to regulated companies. We intended companies to use this letter to explain the role of regulation to investors.

Glas also sought the reinstatement of certain conditions in Dŵr Cymru's licence which gave protection to the company. In particular, Glas asked for the 'shipwreck clause', to be reinstated. This allows for price limits to be reset if a company suffers, or benefits, from an unexpected event - that could not have been prevented by prudent management - which materially affects its finances. Ofwat believes that these conditions should be available to all companies and we published a further open letter (MD167) inviting views.

Following consultation in March, we intend to modify Dŵr Cymru's licence, as foreshadowed in the January position paper.

CHAPTER 3

Extending competition and handling merger activity

Extending competition

So far market competition has not taken off as far, or as quickly, as many hoped it would. Ofwat's role is to create the framework for competition and to protect customers' interests, but it is for the companies, new entrants and customers to take up the opportunities.

The consultative draft Water Bill (November 2000) proposes to change the Director's secondary duty to facilitate effective competition into a primary duty to protect consumers' interests by promoting it. The Bill does not yet contain details of how competition could be expanded. To that end, Ofwat contributed to an interdepartmental study, which examined options for taking competition forward. In the light of that work, the Government announced (March 2000) that the Water Bill would provide for the licensing of new entrants to the production and retail parts of the business. As part of the new framework competitors will be able to make common carriage agreements with incumbents.

The Department of Environment, Transport and the Regions (DETR) intends to publish a consultation paper in the summer to develop the Government's proposals. Resulting legislative changes could increase the scope for competition to bring benefits to water customers.

The Competition Act 1998

The Competition Act 1998 (CA98) came into force on 1 March 2000. We published a revised 'Current state of market competition in the water sector' in June 2000, which showed a change in companies' attitudes to competition. We established a process for dealing with complaints under the Act, consistent with guidance from the Office of Fair Trading. We have now investigated over 40 complaints.

We have dismissed around three-quarters of these cases because there were insufficient grounds to pursue an investigation. However, in many cases, Ofwat's involvement has encouraged parties to resolve matters between themselves, or it has led to water companies amending their policies or conduct. We continue actively to promote awareness of the Act.

Types of complaints received

Subject area	Number received
>> Common carriage and other new entrant issues	7
>> Tariff issues	10
>> Abstraction of water	2
>> Marketing and promotion of materials and services	4
>> Provision of infrastructure	17
>> Other	4

Common carriage

Common carriage is the shared use by other suppliers of an Appointee's network to provide water and/or sewerage services to different customers.

CA98 has added impetus to the development of common carriage. Following the introduction of CA98, we asked companies to publish access codes by 31 August 2000. These describe how they would grant others access to their networks. We advised the companies what these codes should include to provide a robust framework.

Inset appointments

An inset appointment is where one supplier replaces another for a given area. All applicants in recent years have benefited from the increased clarity that Ofwat has introduced into the application process. In its early stages, the process was often protracted. We achieved our target of processing the completed applications in four months, for greenfield sites, and seven months, where a bulk supply agreement was required.

Inset appointments continue to stimulate companies to improve the service they offer to customers. This year we granted inset appointments to:

- >> **Northumbrian Water for a greenfield development at Tofts Farm in Cleveland; and**
- >> **Anglian Water for Kodak in Harrow.**

The Government, at Ofwat's request, lowered the consumption threshold for large user inset appointments in England from 250 million litres of water per year to 100 million litres. This makes over 1000 further large customers eligible for an inset appointment.



Abstraction licences

Owat supports greater flexibility in abstraction licensing.

We took part in DETR's steering group assessing:

>> ***the potential role of incentive charging - that is, charging for a licence according to the environmental impact of the abstraction;***

>> ***possible increased trading in water abstraction licences.***

We await the Government's response to its April 2000 consultation on economic instruments in relation to water abstraction.

Increasing trading in licences would, we believe, help to ensure a more efficient allocation of resources. While still protecting the environment, it would help to open up competition in the industry. We have asked the Government to review their abstraction and competition proposals together, before legislation is introduced.

Mergers and other changes

The ownership of companies is primarily a matter for shareholders. We are concerned to make sure that we can still regulate effectively and protect customers' interests following mergers.

Reducing the number of independent water and sewerage companies may harm the public interest because it reduces our ability to compare companies' performance. In some cases, this harm may be remedied by preserving comparative competition, or by price cuts, which push the company towards the efficiency frontier.

There have been three mergers this year.

In April 2000, St David Capital, controlled by Nomura International plc, bid for Hyder plc (the holding company for Dŵr Cymru). In May, WPD bid for the same company. With Ofgem, we jointly consulted interested parties on the two bids (in April and June 2000 respectively). WPD became the owners of Hyder plc in September 2000. In December, Glas Cymru Cyfyngedig approached WPD for the acquisition of Dŵr Cymru (see Chapter 3). Glas Cymru has agreed licence modifications, in principle, based on those agreed by WPD at the time of its acquisition.

Following consultation, in October we changed Three Valleys Water's licence to include the area formerly served by North Surrey Water. The two companies were already under the same ownership (part of the Vivendi Group). The amendments safeguarded customers' interests by allowing Owat to continue to compare the performance of the two areas.

We also consulted (in September 2000) on the proposed take-over of Thames Water plc by RWE AG. The merger went ahead and in December the new owner agreed licence modifications for Thames Water Utilities Ltd to ensure that we continue to protect customers' interests, now that Thames is part of RWE's much larger group.

Developments from previous mergers

In January 2000, UFACEX UK Holdings plc, a subsidiary of Union Electrica Fenosa SA (UEF), acquired control of Cambridge Water plc. As a condition of this acquisition, UEF agreed licence changes, safeguarding effective regulation. Following statutory public consultation, the amendments were incorporated into Cambridge's licence in May 2000.

Following public consultation, a single licence for Northumbrian Water and for Essex and Suffolk Water took effect from 1 April 2000 (both companies were already owned by the Lyonnaise -Suez group).

Yorkshire Water and York Waterworks announced a merger in 1999. The merger went ahead and we extended Yorkshire's licence to include the area formerly served by York with effect from 1 April 2000. In PR99, we set different price limits for the two companies. Following the merger, York's customers will benefit from a further 15% price cut in 2004-05.

Other changes

Following consultation in November 1999, as part of PR99, we agreed three new triggers for interim determinations to reset price limits between price reviews. These arose from the Water Industry Act 1999. The new triggers are:

>> ***greater take up of free meters than we had assumed;***

>> ***the consequences of the removal of each company's right to disconnect domestic customers for non-payment of charges; and***

>> ***the cost of schemes to help vulnerable metered customers.***

This year we also amended companies' licences to change the method we used to decide whether changes in companies' revenue or operating costs should be eligible for an interim determination.

In August 2000, Sutton and East Surrey Water became the final company to have its licence changed to remove large industrial users from the basket of charges to which price limits apply.

Licence changes to allow five-yearly price reviews, which were agreed with companies in September 1998, came into effect from 1 April 2000.

We have also updated how we calculate the maximum fee that Owat could recoup from companies to meet our costs.

CHAPTER 4

Regulating company performance

We use comparative competition as a powerful tool to improve company performance. It encourages companies to provide better service at lower costs. It stimulates the behaviour that market competition might produce. We monitor companies' outputs and report on their investment each year. Fair and firm regulation is a critical part of our work to protect customers.

A major part of our role is to monitor companies' performance. This year we reported on companies' performance for the final year of the price limits set in 1994.

Collecting information

We collect a range of detailed information from the companies to enable us to monitor and compare their performance and to set challenging goals. We have established internal procedures designed to ensure that we do not require information unnecessarily.

Review of Regulatory Accounting Guidelines

We require the companies to publish annual Regulatory Accounts in accordance with Ofwat's Regulatory Accounting Guidelines Nos 1 - 4 (RAGs).

RAGs change to take account of our requirements. During the year we started a review to consolidate these changes and to adopt best practice.

Regulators jointly consulted on their review of regulatory accounts in October and published a final paper in April 2001. We will reflect the findings of this in our own review of the RAGs in the water sector this year.

Publication of the June Return 2000

The companies' annual returns set out their regulated activities, service to customers, expenditure and performance. We use the information to compare and monitor companies' performance and their progress in meeting legal obligations and delivering services.

We made public the non-confidential elements of the June Returns in December 2000 on CD-ROM.

Review of the June Return

In May 2000, we consulted on the information required for the June Return from 2001-05. We aimed to reduce the burden of information collected from the companies, while still ensuring that we can carry out our duties.

Particular factors in determining our information requirements this year are:

- >> **the final determination of price limits;**
- >> **the Water Industry Act 1999;**
- >> **Ofwat's review of the June Return 2000;**
- >> **the separate monitoring carried out by the EA and DWI.**

As a result of the review, we improved and reduced our information requirements from the companies (RD17/00).

Review of information capture system

We reviewed our electronic information capture systems to make them easier to use. In August 2000, we consulted companies, Reporters, Auditors and subscribers on our current systems. In response, we recommended and developed a new system. This offers reduced loading time, improved performance and networking for multiple users. We also improved the electronic reporting requirements manual.

The new systems were issued to users in March 2001. Feedback from users of the systems will contribute to future developments.

Reporters/Auditors

Each company must employ a named individual as a Reporter. The Reporters have a duty of care to the Director and report to him on the accuracy and reliability of regulatory information and on underlying company assumptions.

The Reporters scrutinised and reported on information from the companies. This year their work included:

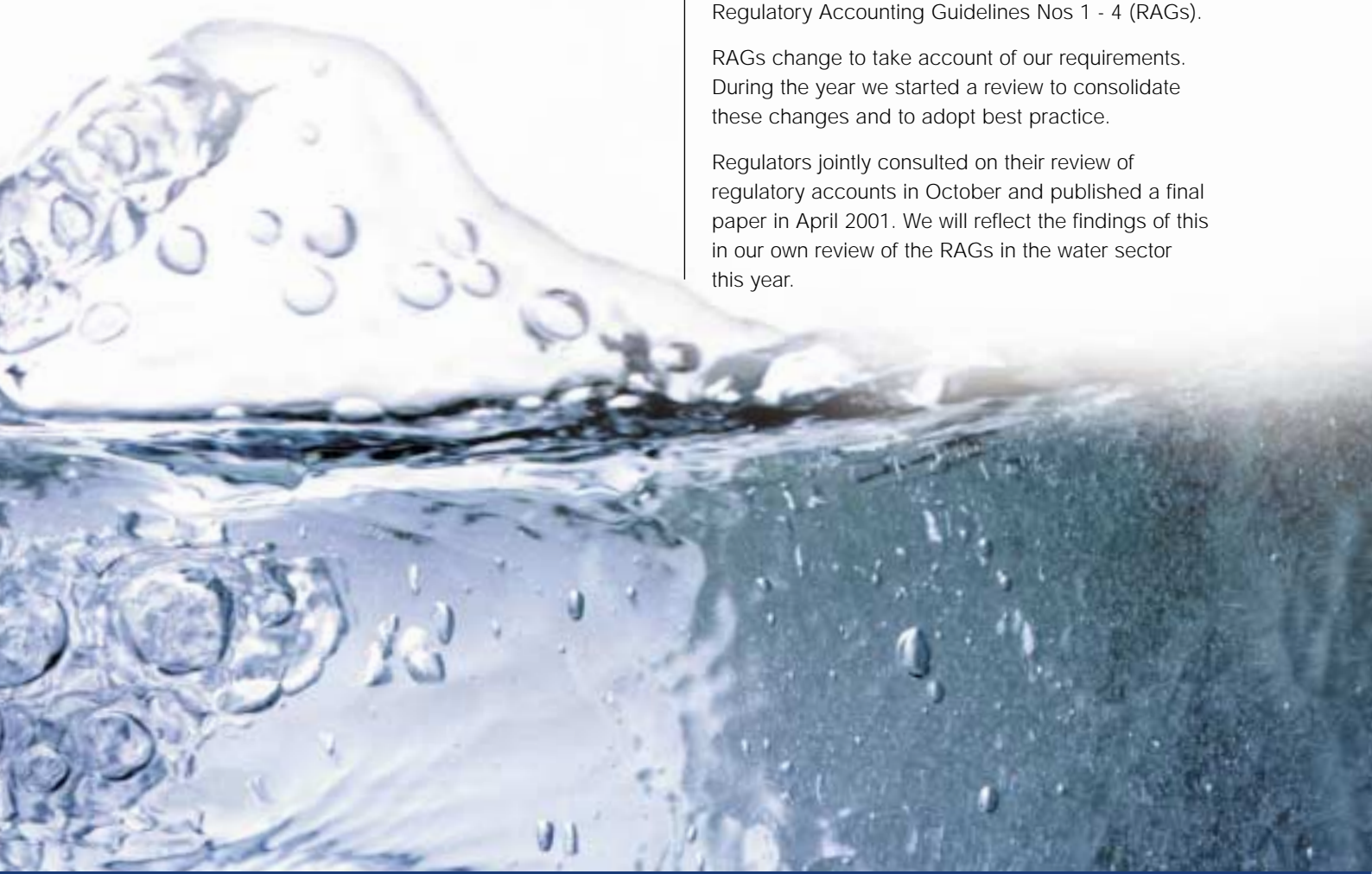
- >> **all companies' Monitoring Plans;**
- >> **June 2000 Returns;**
- >> **one company submission following reference to the Competition Commission;**
- >> **information supporting interim determinations; and**
- >> **companies' sewerage service econometric information submissions.**

Half-yearly reports on progress with the Urban Waste Water Treatment Directive programme by Southern Water were made by the company Reporter.

The Reporters for South East Water, Thames Water, Bournemouth and West Hampshire Water and Dee Valley Water reviewed the supplementary leakage reports for those companies.

Ofwat needs clear reports that address the key issues and concerns not covered by the companies in their submissions. To help achieve this, this year we:

- >> **held two Joint Auditor/Reporter Workshops in November and March.**
- >> **identified our top-performing Reporters and made our annual award to them. These went to Roger Sawdon and his team from WS Atkins Consultants for their work on South West Water, and to Colin Page and his team (Montgomery Watson) for their work on Folkestone & Dover Water.**
- >> **issued new guidance to Reporters for the June Return 2001.**
- >> **completed 17 Reporter appointments. In accordance with the Reporter protocol we decided which Reporter should be appointed for each company by reviewing tenders and, where appropriate, interviewing short-listed candidates. New Reporters were appointed to eight companies, and included one firm new to Reporting.**



Reporting performance

We compare and contrast the performance of the companies to apply competitive pressure to them. Following detailed analysis of company returns we publish the results in five annual reports:

>> ***'Levels of service for the water industry in England and Wales 1999-2000 report' (July 2000).***

Ofwat's analysis of data from the companies, the EA and the DWI confirmed that company performance continues to improve against the levels of service indicators.

>> ***'Financial performance and expenditure of the water companies in England and Wales 1999-2000 report' (July 2000).***

This report summarises the financial position, performance and extent of operating expenditure and capital investment made by companies.

>> ***'Leakage and the efficient use of water: 1999-2000 report' (September 2000).***

We publish leakage targets and report on company performance. Now companies which show consistent progress towards robust economic levels of leakage will be monitored against their own targets. All companies continue to promote the efficient use of water by their customers and activity continues in key areas of cistern devices, water audits and liaison with institutions.

>> ***'Water and sewerage service unit costs and relative efficiency: 1999-2000 report' (December 2000).***

Our approach to efficiency has delivered savings to customers. Companies are already beginning to make progress in achieving Ofwat's targets. Total operating expenditure for 1999-2000 is already below the figure assumed for 2000-01 when prices were set in 1999.

>> ***'Tariff structure and charges: 2000-01 report' (May 2000).***

This sets out the tariffs for the year and explained our decisions in approving charges schemes for the first time.

Measuring levels of service

A new requirement has been placed on companies to carry out and report to Ofwat on customers' satisfaction with the services they receive. We will use this information to monitor trends. Results of companies' surveys will be submitted as part of the Annual Return to Ofwat for the first time in 2001.

We are disappointed that the industry has not yet decided to implement a survey of satisfaction with the quality of telephone contacts. We will continue to work with companies to take this forward and with the CSCs to monitor the quality of service in other areas.

Assessing overall performance

The Competition Commission inquiry into price limits for Mid Kent Water and Sutton and East Surrey Water supported Ofwat's approach towards assessing overall company performance and linking it to prices to provide incentives to maintain or improve standards. However, we need to ensure that our approach remains appropriate following changes in the legal requirements and outputs expected of companies over the coming years. Work has therefore begun on a review of the method, which will lead to a public consultation during the summer of 2001. We are also working with Ofgem as they develop their Information and Incentives Project for electricity distribution.

Leakage and water efficiency - developing our approach

In December 2000, the National Audit Office (NAO) published its report on our progress towards securing the Government's aims for reducing leakage and promoting the efficient use of water. The Public Accounts Committee formally considered the report in February 2001 and called the Director as a witness.

Leakage

The industry has reduced its leakage by a third since 1995-96. The NAO concluded that the companies had responded positively to Ofwat's requirements to reduce leakage and that the reductions benefited customers and the environment. A tripartite study (with EA and DETR) into leakage, which will be completed in summer 2001, will address many of the NAO's recommendations. We will report back in our annual leakage report in September. Even after a very wet winter, companies need to maintain and improve their performance.

Promoting water efficiency

We accept the NAO's recommendation that further work is needed to understand better the effectiveness of water efficiency activities. We shall also encourage companies to share the results of their research and trials. We continue to work with UK Water Industry Research Ltd (UKWIR) which is researching best practice in water efficiency trials on behalf of the companies.

To establish a co-ordinated national approach to the efficient use of water, we met with the water companies, DETR and the EA. We also contributed to seminars and research projects on water efficiency.

Review of water efficiency plans

This year we have reviewed companies' water efficiency plans in conjunction with CSCs and the EA. We first approved them in 1997. We asked the companies to submit new strategies for 2000-05 and we will publish details of the general contents of the plans. We will monitor company progress against these strategies.

Balancing supply/demand

Companies must be able to deal with normal variation in the weather and still deliver service to customers. We monitor the companies' water resource positions to check that they still have sufficient supplies. At the same time, companies must manage leakage and customers' demand for water. This year we published our analysis of patterns of demand since 1992-93, including comparisons of the peak demands in the hot dry summers of 1989 and 1995. 'Patterns of demand for water in England and Wales 1989-1999' (September 2000) showed that the volume of water put into distribution has fallen since 1995 by around 12% because of a combination of leakage reductions and more widespread metering. Although 1995-96 was a drought year, distribution input has still fallen by almost 10% since 1994-95. Companies are now better positioned to safeguard supplies and to cope with dry years than in either 1989 or 1995.

In September 2000, companies submitted the first annual updates of their 25-year Water Resource Plans to the EA. These enabled us to track companies' progress in delivering the outputs that were funded in price limits. They help us to assess the consistency of companies' approaches to issues such as leakage control, competition and charging policy. This regular review of long-term plans will help us understand key water resource issues.

The long run marginal cost (LRMC) of supplying water is a key measure of how much it will cost companies to meet demand for water in future. We have used LRMC to guide our decision-making on water resource issues. We worked with companies this year to improve their estimates of LRMC. A number of companies submitted revised estimates, and in many cases, these appear to be more consistent with our understanding of their water resource constraints. We will continue to work with companies and will publish further guidance.

Monitoring and reporting on drinking water and environmental quality

Over the five years from 2000-05, companies will deliver a major programme of improvements for which £7.4bn was assumed in price limits. Ofwat continues to work with the quality regulators to monitor and report on company progress in delivering these improvements.

>> *The EA published the final programme of work to safeguard the environment included in price limits (in the Annex to 'Achieving the quality' - April 2000).*

>> *The DWI has confirmed and when necessary, amended the programme of improvements in drinking water quality. Amendments chiefly relate to measures reducing lead levels in tap water and reducing the risk from cryptosporidium.*

Maintaining serviceability

Companies must maintain their network assets in such a condition that they can carry out their regulated activities economically and efficiently. We monitor company performance on this by assessing trends in serviceability to customers using a number of indicators.

This year we joined with the DWI and the EA, to start two projects to review and improve the set of serviceability indicators that we currently use. We are involving the companies in this work. We have also joined the steering group of an UKWIR project to develop a common framework for assessing capital maintenance requirements.

We will review the approach to the broad equivalence between capital maintenance expenditure and current cost depreciation, in conjunction with the developing policy on the economic appraisal of long-term capital needs. Consequently the review of broad equivalence has been re-phased to take place in 2001-02.

International comparators

This year, we published our third report looking at the comparison of the water and sewerage companies in England and Wales with enterprises in other parts of the world - specifically Australia, the Netherlands, and the United States. The report received information for 1998-99 from overseas enterprises with a view to identifying suitable comparators to inform better our judgements about the relative performance of the regulated companies.

These comparisons are important as they allow us to set the performance of the companies in England and Wales in a wider context. Customers benefit where these comparisons lead to better performance.

This year, Western Australia Water Corporation and Sydney Water have provided full sets of data for comparative purposes. We will now be looking more closely at Australian companies as we consider the issue of appropriate maintenance levels for water and sewerage systems. Closer to home, the Netherlands and Northern Ireland may well offer valuable comparisons. We provided Water Service Northern Ireland with a full analysis of its comparative performance and look forward to a closer analysis of comparative performance in the future.

Keeping costs transparent

Transfer pricing

Water companies have a statutory duty to trade at arm's length from associates. Ofwat monitors the companies to ensure that customers don't pay an inflated price due to cross subsidy.

This year, we clarified our guidance to the companies on transfer pricing (RAG 5.03), taking account of our recent transfer pricing audits and reflecting best practice in procurement.

This year, we visited Anglian Water, Northumbrian Water, Severn Trent Water and Thames Water to verify that our recommendations had been put into practice. Further investigations have been undertaken at Yorkshire Water and Southern Water. Following a visit, we report our finding to the company and recommend a course of action to address any problems.

Details of this year's work are published in the 'Financial performance and expenditure of the water companies in England and Wales'.

Multi-utilities

Some water and sewerage companies are part of multi-utility groups. Greater synergy and efficiency savings should deliver benefits to customers. Integration between water and electricity businesses should not compromise the ability of each utility to discharge its licence duties.

We worked closely with other regulators, principally Ofgem, to ensure that the costs to water customers can be separately identified from other utility costs. This year, we visited North West Water to review cost allocation systems and new management structures within the United Utilities group.

Summary of regulatory action and enforcement activity 2000-01

Quality enhancement

We continued to work with the EA and the DWI to monitor company progress with meeting their legal obligations for both the water and the sewerage service.

Work on one of the key obligations, the Urban Waste Water Treatment Directive is generally progressing well. Four schemes in Southern Water give rise to concern. The company now reports every six months, so that Ofwat and the EA are aware of current progress.

Leakage

Two companies (South East Water and Dee Valley Water) failed to meet the Director's leakage targets for 2000-01. These companies were required to report quarterly on progress to meet these targets.

In addition, two companies were required to report periodically on progress. These companies were Thames Water (quarterly reporting continued) and Bournemouth and West Hampshire Water (final half yearly report).

Capital maintenance

In PR99 three companies (Wessex, Southern and Dŵr Cymru) were funded for increases in capital maintenance activity because of unsatisfactory trends in serviceability. Information provided in their June 2000 Returns confirmed our 'marginal' assessment of the serviceability to customers of certain asset categories. We met the companies to discuss our concerns and the companies presented their plans for restoring serviceability.

The June 2000 Return from South West Water identified an increasing number of sewer collapses, pollution incidents and flooding due to overloaded sewers. In the light of this, we invited the company to present to us its proposals for returning the serviceability of its infrastructure assets to a stable trend.

Levels of service

Where companies underperform against set criteria, or industry averages, Ofwat takes regulatory action. We did so with South East Water. Its performance in 1999-2000 in answering written complaints and answering telephone calls from customers was poor. The company was told to provide its plans for improvement and to submit monthly reports on progress against those plans. These reports show the company has taken steps to address these issues.

We also took regulatory action against Dee Valley Water which underperformed in maintaining supplies to its customers and Mid Kent Water which reported a significant increase in properties receiving inadequate pressure levels. In both cases we asked the company to provide us with their plans for improvement, and to submit quarterly reports.

CHAPTER 5

Approving water and sewerage charges

The Water Industry Act 1999

The 1999 Act received Royal Assent on 30 June 1999. It provides new entitlements for water consumers, particularly household customers:

- >> *it prohibits the disconnection of the water supply to homes because of non-payment;*
- >> *from April 2000 it gave many consumers new rights to choose how they are charged for water and sewerage services;*
- >> *it allows rateable value to continue to be used as a basis of charging after 31 March 2000;*
- >> *it allows the Secretary of State for the Environment, Transport and the Regions, to make Regulations concerning particular charges to particular groups; and*
- >> *it gives Ofwat powers to approve companies' charges schemes from April 2000.*

This year we worked with the companies to make sure that their charges schemes, which we must approve, properly set out their charges and the conditions for them.

Optional metering

All household customers are now entitled to have a meter fitted free of installation charge (subject to the installation not being unreasonably expensive or technically impractical). This year we have discussed with companies the approach we expect them to follow in providing this option. From April 2001, we expect all companies to meet customers' requests for installing meters within three months of receiving a formal application. No disputes about customers' entitlement to the installation of a meter free of charge were referred to Ofwat in the first year.

Tariffs for vulnerable groups

Regulations made under the 1999 Act required companies to introduce new tariffs in April 2000 protecting some customers on low incomes (those who either have a large family or a specified medical condition) from high metered bills. The Regulations apply to companies operating mainly in England. However, Dŵr Cymru and Dee Valley have introduced similar tariffs in anticipation of similar regulations being made by the National Assembly for Wales.

Market research: vulnerable groups

In June 2000 we commissioned market research into customer attitudes to developing further social tariffs, subsidised by customers, to protect a wider range of consumers. The research concluded that customers are most willing to help people with medical conditions requiring additional water use. We encouraged the water companies to take account of this in their charges schemes by extending the vulnerable group tariff to customers with a wider range of medical conditions.

In September we asked companies to report on the number of customers taking up the protection. This take-up has proved to be low so far, and we offered advice to companies on operating the scheme. Companies will update their reports in their June Returns.

Customer debt

Companies are no longer allowed to disconnect domestic customers for non-payment of water charges. They have, therefore, reviewed and developed a range of debt recovery methods and means of encouraging customers to pay bills. We and Ofwat National Consumer Council set up a joint seminar, to take place in May 2001, to discuss best practice in debt recovery. Results will feed into a review of our guidelines to companies on debt recovery practices.

Bad debt

The Periodic Review acknowledged that companies may spend more recovering debt now that they cannot disconnect domestic customers. We accepted that interim determinations might be necessary, if companies found costs increasing significantly. In 2000, for the first time, we collected detailed data concerning companies' debt collection costs and practices. Analysis showed that levels of debt and debt recovery varied significantly across the industry. There is limited evidence yet of any general increase in debt, or debt recovery costs, but it may be too soon to draw any firm conclusions. The position will be reviewed this year in the light of information for 2000-01.

Approving charges schemes

Once price limits are set, each company decides individual charges which are published in an annual charges scheme. 2001-02 is the second year Ofwat has approved companies' charges schemes under the powers given in the 1999 Act. This year, we reviewed our approval process and advised companies in June 2000 (RD15/00) on the procedures for 2001-02.

Ofwat approved proposals from North West Water, to introduce direct debit discounts for household and non-household customers. We approved this on the basis that these accounts cost less to manage. North West is the first company to introduce this discount.



All companies have been required to maintain acceptable payment arrangements for low-income customers, including provision for cash payments, free of charge, at reasonably accessible locations.

Ofwat has applied six key principles in approving charges schemes for 2001-02:

- >> *Charges should reflect costs.*
- >> *Companies should set the levels of measured and unmeasured household charges to ensure a fair balance.*
- >> *Companies should set a fair balance between measured sewerage charges and trade effluent charges.*
- >> *Companies should keep standing charges for metered customers low.*
- >> *Companies should offer rebates to customers whose properties do not drain surface water to the companies' sewers.*
- >> *Companies should set charges for large users, with reference to the long run marginal cost of supply.*

We also consulted with the industry on several areas of tariffs policy in summer 2000 ('Approval of companies' charges schemes 2000-01'). We sought views on:

- >> *the appropriate balance between measured and unmeasured household tariffs;*
- >> *the Secretary of State's guidance on the adoption of optional low user (zero standing charge) tariffs for household and small commercial customers;*
- >> *the Secretary of State's guidance on the development of social tariffs; and*
- >> *the Secretary of State's guidance on the desirability of reduced charges for customers with unadopted sewers.*

We published our conclusions in a letter to the companies in September 2000 (MD165). We will work further on optional low user tariffs and reduced charges for customers with unadopted sewers, and will consult again in time for the charging year 2002-03.

Full details of our approach to charges schemes, together with information on charges and tariffs, are set out in the 'Tariff structure and charges 2001-02 report' (May 2001).

Special agreements

Some customers pay a non-standard charge for their water supply, sewerage, or trade effluent service. These charges should reflect the costs the customer imposes. We have placed a special agreements register in the Ofwat library.

Large user tariffs

In response to competitive pressures, companies have continued to review their cost allocations between different classes of customers and develop tariffs for large user customers. There were further reductions in the thresholds for a number of large user tariffs and in addition for some companies, a reduction in the volumetric rates for the tariffs concerned. We also approved a number of innovative tariffs for large users designed to align tariffs more closely to the costs of supply and to maintain incentives to efficient use. The principal test for assessing large user tariffs remains a robust allocation of average accounting costs over the classes of customers concerned. Tariffs for large users must also be consistent with robust estimates of the long run marginal cost of supply. This is particularly important in areas where water resources are constrained.

CHAPTER 6 Working with customer representatives and protecting customers

- >> *Customers are our most important stakeholders.*
- >> *We pursue complaints, settle disputes and protect the interests of all customers.*
- >> *Customer representatives need a strong and independent voice.*

We work closely with the CSCs and ONCC particularly on such issues as Competition Commission appeals, interim determinations, reviewing the Periodic Review, competition, standards of service, water efficiency plans, and the approval of charges schemes. They help us to develop customer-friendly policies.

Complaints and disputes

Ofwat HQ dealt with 658 complaints and disputes in 2000-2001. We obtained compensation and rebates amounting to £553,020.96

The Director dealt with 18 cases alleging breaches of statutory duty or licence requirements. He did not find any company in breach of statutory or licence requirements. Most of these cases were about alleged failures by the companies to drain their areas effectively (the increase in complaints resulted in part from the severe weather of the autumn). Following our intervention, companies are acting to resolve internal flooding problems where we concluded they had been at fault. The Director did not conclude that enforcement action was necessary in any of these cases.



The Director considered 21 complaints that the CSCs had been unable to resolve with the companies. He supported the CSCs' recommendation in eight cases and the companies accepted his recommendation in seven of these. In four cases, he was unable to support the CSCs. Nine cases are ongoing.

The Director dealt with 54 complaints from customers who were not satisfied with the CSCs' investigations. Four of these complaints were upheld and six were partly upheld. The Director obtained increased compensation for the complainant in three cases and in one case, he obtained a rebate of charges. Nineteen cases are ongoing.

Review of complaints procedure

During the year, we reviewed the companies' complaints procedures and consulted the CSCs about them. We also analysed the complaints audits undertaken by the CSCs and the outcome of the individual complaint investigations.

We concluded that the complaints procedures of five companies - Dŵr Cymru, North West Water, Severn Trent Water, South East Water and Three Valleys Water - were not as effective as they should be. We have asked these companies to work with their local CSC to improve them.

Water connection charges disputes

The Director settled 23 disputes - 19 in favour of the customer. Companies were required to make refunds to customers ranging from 17% to 67% of the original charge (an average of 26%).

In addition, 29 cases were referred to companies to review the charge informally, the majority of which resulted in refunds.

Sewer appeals

The Director received 20 appeals and 19 enquiries during the year. Fifteen appeals were resolved informally. We dismissed three of these appeals.

Trade effluent appeals

Of the seven cases brought forward from last year, one formal determination was issued. Six new cases have been received.

Street works

Ten complaints have been made to Ofwat, but none required formal arbitration.

Pipelaying in private land

Sixty-eight complaints were resolved informally, usually by the company agreeing additional compensation payments, or by doing further reinstatement, together valued at £36,000. There were two formal determinations, resulting in awards of £3,250.

Sewer flooding

Although only 0.03% of properties in England and Wales suffered internal flooding by sewage, this is a serious issue for those affected. We have begun work with the industry to investigate the causes and extent of sewer flooding, including the link with sewerage network development and operation. The results will inform our policy on reducing the incidence of sewer flooding.

Guaranteed Standards Scheme (GSS)

The Director settled eight disputes under the GSS. In two other cases, a company accepted his recommendation to pay compensation.

Review of GSS

We have reviewed and improved the GSS. In September 2000 the changes to the scheme came into force for companies based in England. Companies are now required to make payments of £20 (previously £10) for failure to provide minimum levels of service. More payments are now made automatically. Customers whose properties suffer sewer flooding more than once a year can receive compensation for each incident.

Overall, these revisions provide a much better deal for customers who suffer a substandard level of service.

Disabled and elderly customers

Ofwat and ONCC hosted a seminar with the water industry and consumer groups in June 2000 to discuss services to disabled and elderly customers. The seminar was well received. It fed into a consultation and review of the scope and content of Ofwat's 'Guidelines to water companies on services for disabled or elderly customers', which we updated and finalised in March 2001. In light of the constructive comments received and support from those participating, we will follow a similar approach in reviewing our guidelines on debt recovery.

Market research: service levels and customer satisfaction

Ofwat and ONCC aim to provide a better understanding of customers' views on service standards and the way we monitor them. Planning started on a major customer survey for 2000-01 and we are consulting stakeholders.

The Water Resale Order

In April 2000, we consulted on the provisions of a draft Order under section 150 of the Water Industry Act 1991. A Water Resale Order has now been made that will, for the first time, protect 'resale' customers from overcharging. These customers buy their water from a third party, who pays the water company for the supply; a common example is people who live in mobile home parks. The Order will protect these customers from inflated bills by stipulating that the reseller may not charge more in total than the amount he pays the water company, plus a small administration charge. The Order took effect on 1 April 2001.

Representing customers

The statutory regional CSCs and ONCC together represent the interests of all customers. With ONCC and the CSCs, we are taking steps to ensure that they are recognised as speaking for customers' interests, independently from the regulator.

ONCC and the CSCs will publish their own annual report, 'Representing water customers 2000-01' in June 2001.

ONCC Chairman and Members

The Director announced in February that Maurice Terry, North West CSC's Chairman, would take over as ONCC Chairman from 1 April 2001 at the end of Sheila Reiter's three-year term.

CSCs: Review of Chairmen's appointments

The appointments of all ten CSC Chairmen expired in February and March 2001. In making appointments we followed public service best practice. CSC Chairmen's appointments are outside the remit of the Commissioner for Public Appointments, but we complied with the Commissioner's Code of Practice and Guidance.

After consulting the Secretary of State for the Environment, Transport and the Regions and the National Assembly for Wales the Director appointed nine CSC Chairmen in February.

Details of new appointments and re-appointments are set out in table 3 on the next page.

Table 3: CSC Chairmen as at 31 March 2001

CSC	Chairman	First Appointed	Current Appointment Ends	Days Per Month	Remuneration (to 31.3.01) £
Central					
	>> Clive Wilkinson	26.2.90	25.2.01	6	14,261
	>> Roger Taylor	26.2.01	25.2.05	8	19,018
Eastern					
	>> Roger Corbett	1.4.94	31.3.01	6	14,261
	>> Catherine Harvey	1.4.01	31.3.05	8	n/a
North West					
	>> Maurice Terry	26.2.97	25.2.05	8	19,018
Northumbria					
	>> Jim Gardner	26.2.90	31.3.01	8	19,018
	>> Andrea Cook	1.4.01	31.3.05	8	n/a
Southern					
	>> John Beishon	1.10.96	31.3.01	8	19,018
	>> Vacancy*				
South West					
	>> Jessica Thomas	1.4.93	31.3.01	8	19,018
	>> Noel Olsen	1.4.01	31.3.05	8	n/a
Thames					
	>> Herman Scopes	19.4.97	31.3.05	8	19,018
Wales					
	>> Raymond Roberts	26.2.90	25.2.01	8	19,018
	>> John Ford	26.2.01	25.2.05	8	19,018
Wessex					
	>> Sheila Reiter	1.8.95	31.3.05	12**	28,527
Yorkshire					
	>> Eric Wilson	26.2.94	25.2.01	8	19,018
	>> Mohammed Ajeeb	26.2.01	25.2.05	8	19,018

*Acting Chairman from 1.4.01 is Peter Watts **Includes four days as ONCC Chairman; succeeded by Maurice Terry from 1.4.01

CSCs: Members' appointments

Appointments are managed so that approximately one-third are reviewed annually. This year, we reviewed the appointments of 37 members, which expired in April 2001. We re-appointed 22 members and appointed 30 new ones.

At 31 March 2001, the total membership of the CSCs was 118 - 53 (45%) are women, and 13 (11%) from ethnic minority groups.

The age profile for members is shown in table 4.

Names and biographical details of members are published in the annual report of ONCC and the CSCs and on the Ofwat website.

We welcome applications to become a CSC member at any time. A leaflet 'A water watchdog role for you?' and an application form can be obtained from the Ofwat library, CSC offices or the Ofwat website.

Honours

CSC members give their time voluntarily. In recognition of service to water customers, Colin Reynolds, member of North West CSC, received an MBE in the Queen's Birthday honours 2000 and Dr Neil Richardson, member of Central CSC, received an MBE in the New Years Honours 2001. Since the CSCs were established, ten members have had their service recognised in this way.

CSC staff

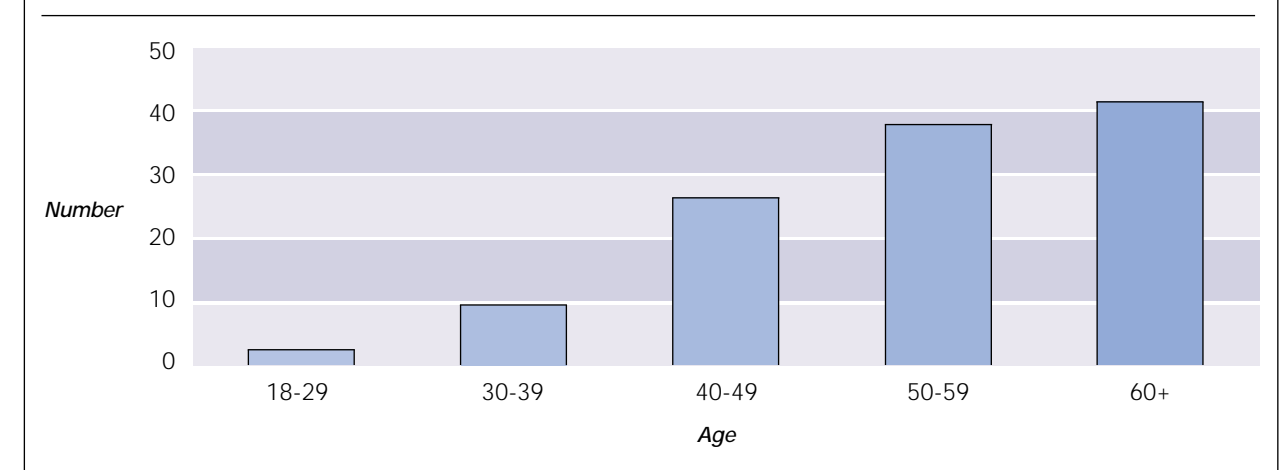
The staff at the CSCs account for nearly a quarter of total Ofwat staff. Through their close contact with the companies and their customers, they fulfil a valuable role and make an important contribution to the development of Ofwat's policy.

Working with ONCC and the CSCs

We continued to work closely with the CSCs. At a strategic level, the Director meets monthly with the Chairman of ONCC to secure ONCC's input into policies and decisions, and ensure that Ofwat is aware of customers' concerns.

CSC views were particularly influential in: reviewing companies' complaint procedures; formulating tariff policies; approving companies' charges schemes, and assessing the quality of services delivered to customers. On service quality, the CSCs' work in carrying out regular audits of company practices continues to be important, supplementing the more quantitative monitoring of service quality through the June Return.

Table 4: Numbers of CSC members in age group



The consultative draft Water Bill

The Utilities Act 2000 received Royal Assent in July 2000. The water and telecom industry clauses had been dropped from the legislation in March 2000. In November 2000 DETR published for consultation the draft Water Bill and the 'Regulatory, environmental and equal treatment appraisals'.

We broadly welcomed the proposed Bill, in particular the objective of placing customers explicitly at the heart of regulation. We are already working with ONCC and the CSCs to help them to be recognised as speaking in the customers' interest independently of Ofwat and providing independent advice to us on key issues.

We were concerned that competition proposals had not been ready to include in the draft Bill and we are pleased to note the Government's intention to publish a consultation paper on the proposed legislative and regulatory framework for competition, which it announced at the end of March. We have drawn attention to those areas in the Bill that we consider could increase regulatory uncertainty for companies and therefore might increase the cost of capital. For example, the proposal for precautionary powers for Ministers to set new standards of performance.

We also provided written and oral evidence to the Environment Sub-Committee's inquiry into the proposed Bill. The Committee published its report and recommendations in its 'Ninth report - Draft Water Bill' (HC145-1).

CHAPTER 7 Managing resources

Finance

Ofwat office spent an estimated £11.1m on running costs, a 2% cash increase on the previous year, and a small reduction in real terms.

Tables five, six and seven (overleaf) summarise the main areas of spending.

Staff costs account for 59% of our expenditure and consultancy services for 6%. Investment decisions are subject to business cases being approved by the Management Board. Expenditure is monitored throughout the year and action taken where necessary.

We control costs tightly. A report by WS Atkins Management Consultants commissioned by HM Treasury, the 'External efficiency review of utility regulators', recognised that our services are professionally managed but also identified where improvements can be made. We will work on these during 2001-02. We continue to operate well within the levels of licence fees that can be recovered from the industry. The estimated total expenditure at the start of the year for 2000-01 was £11.5m. We were able to limit the level of licence fees recovered to £11m. This was achieved by bringing forward £0.5m which had been saved from 1998-99.



Table 5: Estimated running costs - outturn for 2000-2001 (by activity group)

<i>Activities</i>	<i>Estimated running costs £000's</i>
>> Regulatory action	5,359
>> External Relations and Legal Services	1,171
>> Finance, Human Resources, Services and Operations	1,558
>> Customer Service Committees and Consumer Representation	2,411
>> IT Services and Information Management	603
TOTAL	11,102

Table 6: Estimated running costs - outturn for 2000-2001 (by expenditure group)

<i>Expenditure Group</i>	<i>Estimated running costs £000's</i>
>> Permanent staff	6,598
>> Agency and secondees	163
>> Consultancy	698
>> Accommodation	1,450
>> Other costs such as training, travel, stationery and telecoms	2,193
TOTAL	11,102

Table 7: Consultancy and professional services expenditure summary 2000-2001
(company contracts costing between £25,000 and £100,000 including VAT):

<i>Description</i>	<i>Supplier</i>
>> Briefing on City Matters	>> Credit Lyonnaise Securities
>> Corporate Finance Advice	>> Deloitte & Touche
>> Capped Tariffs for Vulnerable Customers	>> DVL Smith Ltd
>> Quality Database	>> GCS Computer Recruitment
>> Efficiency Review	>> W S Atkins (contracted by HMT)
>> Personnel Consultancy	>> Price Waterhouse Coopers
>> Legal Advice	>> Monckton Chambers

The Ofwat Audit Committee reviews the office's financial controls and the financial information produced. The Committee consists of an independent chairman and two independent members.

The Accounting Officer attends meetings, together with representatives of the NAO (as external auditors) and internal audit (provided on contract by Deloitte and Touche). We are implementing the Turnbull Report recommendations as required by HM Treasury. We manage our finances in accordance with Government accounting requirements.

We produced our first set of Resource Accounts this year (for 1999-2000) as required by HM Treasury of all Government departments. The accounts received an unqualified audit certificate and were published by The Stationery Office in January 2001 (HC 176).

Management matters

Appointment of the Director General

Philip Fletcher was appointed to the post of Director General of Water Services, by the Secretary of State for the Environment, Transport and the Regions, with approval from the National Assembly for Wales, on 1 August 2000. This followed an open recruitment exercise.

Office structure

We changed the Ofwat structure to bring together tariff, consumer and competition issues. It also brought water efficiency, supply/demand and leakage into one division. Transfer pricing was also realigned to Regulatory Finance.

Keith Mason was appointed as Director of Regulatory Finance, following the departure of David Rees, the Director of Corporate Finance and Economic Affairs.

The office structure is shown in appendix nine.

Management Board

In October Philip Fletcher set up the Ofwat Management Board.

The board members are:

Director General >> *Philip Fletcher*

Director of Cost & Performance >> *Bill Emery*

Director of Consumer Affairs >> *Mike Saunders*

Director of Regulatory Finance >> *Keith Mason*

Director of Operations >> *Roger Dunshea*.

The board meets weekly and oversees all aspects of the work of the office. Philip Fletcher intends to appoint a non-executive Director or Directors to the Board.

Regulatory Policy Committee

Early in 2000 we set up the Regulatory Policy Committee. This Committee includes three external members, plus the Management Board (see appendix six). The external members are experienced senior managers from a commercial or industrial background. The RPC advises the Director General on the broad range of regulatory policy issues. The Committee meets approximately every two months.

Project management

The Management Board has developed during the year an effective process for monitoring the delivery of outputs against timetable and resources. We adopt the PRINCE 2 methodology for our IT projects.

Staff recruitment and development

Ofwat recruits on merit through fair and open competition. This ensures opportunity for employment, regardless of race, sex, physical disability or marital status.

All recruitment policy and practices are subject to:

>> *external audit by the Civil Service Commissioners (to ensure that Ofwat complies with the guidance set out in its Recruitment Code); and*

>> *internal audit by a senior manager (to ensure that our recruitment policy is being properly followed).*

Staff turnover rose at the beginning of the year, after PR99, when a number of staff moved on. This was expected and repeated the pattern of staff movement at the end of the previous price review. We undertook 44 separate recruitments during the year.

No disabled candidates were recruited during this period.

Ofwat has a total staff of 212 of whom:

- >> **61% are women;**
- >> **16% are from ethnic minority groups;**
- >> **7 are members of the Senior Civil Service (6 men and 1 woman);**
- >> **9% are employed on fixed term and casual contracts;**
- >> **11% work part-time;**
- >> **23% work in the CSCs.**

Investor in People

During the last year we spent around £350,000 on training and development to enable our staff to develop skills to their full potential and to increase Ofwat's performance.

Ofwat achieved IIP accreditation in September 1999. Following the appointment of Philip Fletcher a further assessment was carried out in December 2000, which confirmed our status as an Investor in People. We continued our investment in staff development. This included a major training programme concerning the new Competition Act, with specially designed courses for senior managers and for policy teams, and a post-graduate course for staff involved in developing policy or managing cases.

Table 8: Staff appointed this year

Level	Number Appointed	Proportion of Women (%)	Proportion from Ethnic Minorities (%)
>> Head of Team/Function	3	33	0
>> Middle Management	27	40	22
>> Clerical and Secretarial	14	100	28
TOTAL	44	59	22

Listed below is a summary of the remuneration of the Director General and members of the Senior Civil Service in Ofwat (salaries as at 31 March 2001)

The salary of the Director is £120,000.

Salaries for members of the Senior Civil Service:

>> **80,000 - 84,999** **1**

>> **75,000 - 79,999** **1**

>> **70,000 - 74,999** **2**

>> **65,000 - 69,999** **1**

>> **55,000 - 59,999** **1**

>> **50,000 - 54,999** **1**

Modernising Government

Ofwat is committed to meeting the objectives of the Modernising Government agenda on excellence in policy making, responsive and high quality public services and electronic government. Actions taken so far include 360-degree appraisal for senior managers to facilitate greater personal and organisational effectiveness and diversity training has been arranged for senior managers.

Targets have been set to recruit more people from under-represented groups.

Ofwat staff are involved in a project to set up a network for ethnic minority staff in small departments.

A staff opinion survey was conducted in December and proposals have been put in place to enhance the leadership and direction of the office.

A Communication Working Group has been set up to improve communication and co-ordination between Ofwat HQ and the CSCs.

We have looked at helping staff achieve a healthy balance between work and home commitments and as a result a flexible working at home pilot scheme has been introduced. This will be evaluated to assess the benefits to staff and to Ofwat.

On a regular basis we consult widely on new policy developments and methods of regulation. The reasons for policy decisions and supporting information is also subject to publication.

Regular dialogue and meetings are held with stakeholders across Government, EA, DWI, companies and customer and environmental organisations.

Support services

Effective and efficient office support services remain a high priority. Work this year has included improving the office environment; managing the nine sites occupied by Ofwat; and developing our document management strategy. In May 2000, the regional offices of the Thames and Southern CSCs were relocated to High Holborn in London.

Information systems

This year, we have concentrated on re-inforcing the IT infrastructure. Ofwat HQ has joined the Government's Secure Intranet.

We are now redeveloping our website and developing an Intranet.

The Regulators' IT Managers meet to discuss and exchange ideas and best practice. This has encouraged sharing of information and provided guidance and assistance on new or revisited ventures.

Our overall aim is to provide efficient and cost-effective business systems.

CHAPTER 8

Involving stakeholders

Good communications with stakeholders are essential to effective regulation. Stakeholders rightly expect a lot. We are working hard to improve our service and to keep people properly informed. We aim, as far as possible, to allow everyone to have their say and to get the best range of views.

Having your say

On 14 April 2000 we published 'Having your say', a paper consulting on how Ofwat involves stakeholders in the decision-making process. This set out and invited responses on:

- >> *the style of our consultation documents;*
- >> *achieving the widest/most appropriate range of consultees;*
- >> *steps to enable all to take part;*
- >> *timetable; and*
- >> *publicity.*

In October 2000 we published our code of practice on consultations, taking account of the responses we had received. We will amend the code to take account of good practice.

Consultations

We work hard on consultations and make sure that customers and other interested parties are aware of them. Their views are critical in informing our decisions.

This year we have consulted on 13 occasions to enable stakeholders to have their say (see appendix four).

For issues such as the Kelda and Glas restructuring proposals, we set out in our consultation paper the need for the company to demonstrate that it, too, had properly consulted customers before we could give it regulatory approval.

Copies of consultation papers and decision documents are on the website and available from the library free of charge. Responses to all our consultations (except those marked confidential) are summarised in decision documents and are available for inspection in the Ofwat library.

Stakeholder meetings

We are keen to ensure that views of stakeholders are taken into account in our decision making. We meet customer and environmental representatives to discuss a range of issues.

We attend regular meetings of the Public Utilities Access Forum, an umbrella organisation of which the major consumer groups are members.

We also meet business customers three times a year to seek their views and keep them informed. Membership of the group has grown this year. Key issues have included competition and large user tariffs.

We regularly meet City analysts, including the three major credit rating agencies, particularly about merger issues, or company restructuring. We maintain regular dialogue with the European Investment Bank - the largest single lender to the water industry.

Overseas visitors

Ofwat has received 15 delegations of overseas visitors this year. They came to hear - and ask about - economic regulation and how it works. Many of these visits are arranged by, or in consultation with, Trade Partners UK. These visits have included Ministers, regulators and senior officials involved in the water industry from around the world, including South Africa, Russia, Hungary, Bolivia, Thailand, Brazil, Israel, Australia, China and Ghana.

Forward programme workshops

This year, for the first time, we held workshops for stakeholders at Warwick University as part of the consultation process on our forward programme for 2001-02. The workshops' objective was for us to listen and obtain contributions on what Ofwat can deliver. Sixty-five delegates attended from companies, customer groups, environmental groups, Reporters, auditors and others.

The workshops covered:

- >> *industry structures and competition;*
- >> *price setting and preparing for PR04;*
- >> *customer protection charging and social issues; and*
- >> *annual monitoring of outputs and analysis.*

The workshops were well received. Of those who fed back their views, 90% agreed that we should hold the workshops again next year. Outcomes contributed to our final workplans for the coming year and were included in The 'Ofwat forward programme 2001-02' published on 27 March 2001.

This year we have also held workshops:

- >> *for Reporters and auditors to review events of the past year and to raise awareness of regulatory developments (workshops in November and May)*
- >> *for CSCs* - *on complaint handling;*
 - *on a range of Ofwat policies as part of the CSC members' conference;*
 - *we also set up a working group with CSCs to develop audit guidelines.*

Conferences and seminars

Ofwat staff have spoken at 35 conferences and seminars, and participated in a further 29, as part of our efforts to ensure that our policies are communicated and that our decisions, and the reasons behind them, are fully explained to stakeholders.

Customer charter

We aim to achieve our charter standards this year. Table nine sets out our performance. This year we met most of our targets. Where we fail we work hard to put things right.

Table 9: Performance against the Ofwat Customer Charter standards

	<i>Performance Standards</i>	<i>Achievement against standard</i>
Replying to written enquiries (headquarters)	<i>Reply within 10 working days (unless the item is particularly complicated). >> Our target is 95%.</i>	>> Achieved
Replying to phone enquiries (headquarters)	<i>Reply within 2 working days (by phone). >> Our target is 97%. Reply within 10 working days (in writing). >> Our target is 95%.</i>	>> Achieved >> Achieved
Enquiries to the Customer Service Committees (written and phone)	<i>Answer within 1 working day. >> Our target is 95%.</i>	>> Achieved
Keeping appointments	<i>Keep appointments to within 10 minutes. If the original person cannot keep the appointment, you will be seen by someone else.</i>	>> Achieved
Returning your messages	<i>If you ask us to, we will return calls left on our answering machines within one hour of re-opening.</i>	>> Achieved
	<i>>> Ofwat - >> CSCs -</i>	>> Achieved >> Achieved
Requests under the Code of Practice on Access to Government Information	<i>We will reply within 20 working days.</i>	>> No requests
Requests under the Environment Information Regulations	<i>We will reply within 40 working days.</i>	>> No requests
Complaints to CSCs about your local water company	<i>CSCs will start action on your complaint within 5 working days. >> Our target is 97%. We will aim to settle your complaint within 20 working days. >> Our target is 70%. We aim to clear up 85% of complaints within 40 working days.</i>	>> Achieved >> Achieved >> Achieved
Complaints handled by the Director and disputes and appeals	<i>We will respond to enquiries within 5 working days. We will decide formal disputes or appeals within 60 working days. >> Our target is 80%.</i>	>> Not achieved ¹
Internal review procedure	<i>We will acknowledge your complaint within 2 working days. We will tell you about the outcome within 20 working days.</i>	>> Achieved >> Not achieved ²
Complaining about the Customer Service Committees	<i>We will tell you within 10 working days whether we will investigate the matter. We aim to deal with 80% of complaints within 40 working days.</i>	>> Achieved >> Not achieved ³

¹ 72% of complaints within the Director's jurisdiction were settled within 60 days.

² Cases we consider under the internal review procedure are sometimes very long and complicated and involve a number of different parties. These cases may take more than 20 days, but we keep in contact with the customer.

³ We dealt with 63% of complaints within 40 working days.

Website

The general growth in Internet popularity has been reflected in access to Ofwat's website. While the level of hits is still growing, the rate of increase has slowed. There were 83,800 hits in 2000 compared with 79,000 in 1999. We aim to ensure that all our new documents are available on the website on publication day.

Working with government

We are committed to working closely with other government departments and regulators to help us develop effective policies by communicating well, working together on common issues, reducing duplication and sharing best practice.

Ofwat staff regularly meet DETR, the DWI and EA and others, to discuss a range of issues.

Westminster

The Director and senior staff have appeared before select committees of the House of Commons.

>> *We appeared before the Environmental Audit Committee, July 2001 and February 2001, as witnesses to its Inquiry into 'Water prices and the environment'.*

>> *The Environment Sub-Committee in January 2001 called us as witnesses to the Committee's pre-legislative scrutiny of the draft Water Bill.*

>> *Ofwat gave evidence to the Public Accounts Committee in February 2001 following the National Audit Office's publication of 'Office of Water Services: Leakage and water efficiency'.*

As in previous years, we have responded to letters from elected representatives and provided information in response to parliamentary questions. Ofwat made presentations to the Associate Parliamentary Water Group on the impact of price limits on water bills; and on restructuring, in light of the Kelda and Glas proposals.

National Assembly for Wales

In April 2000 we accepted an invitation from Dr Dai Lloyd AM to make a presentation to Assembly Members describing the work of Ofwat. We were delighted with the numbers of Members attending this presentation.

Following the Nomura bid for Hyder, Ofwat appeared before a joint meeting of the Economic Development Committee and the Environment, Planning and Transport Committee to describe our response to the bid and to answer Assembly Members' questions. Following the Glas Cymru proposal to buy Dŵr Cymru, we attended a further joint meeting of the Assembly Committees, as well as providing a briefing to the Environment, Planning and Transport Committee.

Directors General Group

Regulators face a range of similar issues.

The regulators of the utilities and other sectors meet regularly to discuss issues of common interest such as industry structures and competition. In July 2000 the regulators published a joint statement reporting on work undertaken and planned in a number of areas. Ofwat has taken the lead in joint working groups on service delivery standards and the cost of capital and is represented on the other groups.

Heads of communications from the regulators' offices set up a group this year to work together to co-ordinate activities and to share best practice and latest ideas on issues of common interest.

The media

The Director, and other senior staff, took part in TV and radio interviews spanning regional and national media. The media's main interest included the restructuring proposals by Kelda, WPD's and Nomura's bids for Hyder, and the Glas Cymru proposals for Dŵr Cymru. The new models being proposed brought increased interest from international media.

We also held a number of briefings to explain Ofwat's policies and decisions.

We issued 57 press releases this year, with a further 76 for the CSCs and seven for the ONCC. We have handled more media calls this year - at around 6,000 compared with over 5,000 in 1999. We also contributed articles to consumer, technical, financial and business publications.

Most of Ofwat publications are now free and available on our website. Those that are still priced are mainly consultants' reports or technical manuals (see appendix four).

Library and information services

The Library acts as the Public Enquiry Unit and also as our publication sales and distribution point. This year we answered 11,400 enquiries and issued over 13,000 publications.

We answered 760 written enquiries of which 643 were by e-mail (an increase of 45% over last year). 338 visitors used the library - an increase of 25%.

Ofwat's public enquiry unit can be contacted via e-mail (enquiries@ofwat.gsi.gov.uk).

Open Government

We did not receive any requests for information under the 'Open Government Code of Practice on Access to Government Information' this year.

The Library houses and maintains the Director's Register. This is freely available for consultation by the public, with a small charge made for copies of extracts. Determinations made by the Director under the Water Industry Act 1991 are also available for inspection.

The 2000 June Returns were published on CD-Rom and the Special Agreements Register, first published in April 1998, continued to be updated every six months.

Information Asset Register

We have created Ofwat's Information Asset Register (IAR) this year. The IAR is a list of the government's information sources and contains records of mainly unpublished information. It is co-ordinated by the Cabinet Office and can be accessed through departmental websites and Inforoute on the Cabinet Office website.

Ofwat's senior management team



Philip Fletcher
Director General of Water Services



Mike Saunders
Director of Consumer Affairs

Advises the Director on tariffs and companies' charges schemes, competition, and on customer issues, including standards of service. Responsible for decisions on disputes and complaints on behalf of the Director.



Bill Emery
Director of Costs & Performance and Chief Engineer

Adviser to the Director on water industry costs and efficiency, particularly comparative competition, operating expenditure, capital investment, quality programmes, leakage and the work of the Reporters.



Keith Mason
Director of Regulatory Finance

Adviser to the Director on corporate finance matters, Responsible for policy advice on mergers and restructuring, financial and accounting issues, and transfer pricing.



Roger Dunshea
Director of Operations

Manages the financial, human resources and information technology support to the office.



Julia Havard
Head of External Relations

Responsible for integrating presentation and communications into policy work. Manages press and publicity, the library, enquiries and parliamentary work.



Roy Wardle
Head of Consumer Representation Division

Responsible for maintaining and supporting the CSCs in carrying out their statutory duties; Secretary to ONCC; preparations for new Consumer Council for Water.



Allan Merry
Legal Adviser

Gives legal advice on all aspects of the work of the Director and the CSCs.

Appendices

Appendix 1:

OFWAT CUSTOMER SERVICE COMMITTEES (AS AT 31 MARCH 2001)

Customers of Severn Trent Water and South Staffordshire Water

Ofwat Central CSC

First Floor, Chanelle House,
86 New Street,
Birmingham B2 4BA

Tel: 0121 644 5252
Fax: 0121 644 5256
Lo-call: 0845 702 3953
e-mail: clcsc@ofwat.gsi.gov.uk

Customers of Anglian Water, Cambridge Water, Essex & Suffolk Water, and Tendring Hundred

Eastern CSC

Carlyle House, Carlyle Road,
Cambridge CB4 3DN

Tel: 01223 323889
Fax: 01223 323930
Lo-call: 0845 795 9369
e-mail: encsc@ofwat.gsi.gov.uk

Customers of Northumbrian Water and Hartlepool Water

Ofwat Northumbria CSC

Eighth Floor, Northgate House,
St Augustines Way,
Darlington DL1 1XA

Tel: 01325 464222
Fax: 01325 369269
Lo-call: 0845 708 9367
e-mail: nbcsc@ofwat.gsi.gov.uk

Customers of North West Water

Ofwat North West CSC

Suite 902, Ninth Floor,
Bridgewater House, Whitworth
Street, Manchester M1 6LT

Tel: 0161 236 6112
Fax: 0161 228 6117
Lo-call: 0845 705 6316
e-mail: nwcsc@ofwat.gsi.gov.uk

Customers of South West Water

Ofwat South West CSC

First Floor, Broadwalk House,
Southernhay West, Exeter EX1 1TS

Tel: 01392 428028
Fax: 01392 428010
Lo-call: 0845 795 9059
e-mail: swcsc@ofwat.gsi.gov.uk

Customers of Southern Water Services, Portsmouth Water, Mid Kent Water, Folkestone & Dover Water Services, South East Water

Ofwat Southern CSC

Fourth Floor (South), High Holborn
House, 52/54 High Holborn,
London WC1V 6RL

Tel: 020 7831 4790
Fax: 020 7831 7253
Lo-call: 0845 758 1658
e-mail: snscsc@ofwat.gsi.gov.uk

Customers of Thames Water, Three Valleys Water, and Sutton & East Surrey Water

Ofwat Thames CSC

Fourth Floor (South),
High Holborn House,
52/54 High Holborn,
London WC1V 6RL

Tel: 020 7831 4790
Fax: 020 7831 4850
Lo-call: 0845 758 1658
e-mail: tmcsc@ofwat.gsi.gov.uk

Customers of Dee Valley Water and Dŵr Cymru Welsh Water

Ofwat CSC for Wales

Room 140, Caradog House,
1-6 St Andrews Place,
Cardiff CF10 3BE

Tel: 029 2023 9852
Fax: 029 2023 9847
Lo-call: 0845 7078267
e-mail: wlcsc@ofwat.gsi.gov.uk

Customers of Wessex Water, Bournemouth & West Hampshire Water, Bristol Water, Cholderton & District Water and Thames Water (at Tidworth)

Ofwat Wessex CSC

2 The Hide Market,
West Street, St Phillips,
Bristol BS2 0BH

Tel: 0117 955 7001
Fax: 0117 955 7037
Lo-call: 0845 707 8268
e-mail: wxcsc@ofwat.gsi.gov.uk

Customers of Yorkshire Water

Ofwat Yorkshire CSC

Eighth Floor, Northgate House,
St Augustines Way,
Darlington DL1 1XA

Tel: 01325 469777
Fax: 01325 369269
Lo-call: 0845 708 9368
e-mail: ykcsc@ofwat.gsi.gov.uk

Appendix 2:

LETTERS TO THE COMPANIES (FROM 1 APRIL 2000)

To Managing Directors		
2000		
MD 161	Maintaining serviceability to customers	12.04.00
MD 162	Common carriage - statements of principles	12.04.00
MD 163	Pricing issues for common carriage	30.06.00
MD 164	The Review of the 1999 Periodic Review - The outcome	31.07.00
MD 165	Approval of companies charges schemes in 2000-2001	15.09.00
2001		
MD 166	The regulatory framework	31.01.01
MD 167	Modification of conditions of appointment: proposal about condition B, Part IV (interim determinations) and other possibilities	31.01.01
To Regulatory Directors		
2000		
RD 10/00	Revisions to RAG 5 - transfer pricing in the water industry	06.04.00
RD 11/00	Regulatory Accounts for 1999-2000 Reporting requirements - Rag 3.04	06.04.00
RD 12/00	Interest rates for requisitions and infrastructure charges - six monthly review	07.04.00
RD 13/00	Reporting of water disconnections 1999-2000 and related matters	27.04.00
RD 14/00	Notified items for meter optants	03.05.00
RD 15/00	Approval of charges schemes 2001-02: Process and timetable	13.06.00
RD 16/00	Information requirements for notified items for bad debt and the administrative costs of provision for vulnerable customers - conclusions	22.06.00
RD 17/00	Annual Return 2001-05	31.07.00
RD 18/00	Market research: Protection of vulnerable customers	01.08.00
RD 19/00	Lowering of inset appointment threshold to 100ml per year - tariff basket and principal statements	17.08.00
RD 20/00	Timetable and process for submission of draft charges schemes and draft principal statements for 2001-02	08.09.00
RD 21/00	Comparisons with overseas enterprises	11.09.00
RD 22/00	Review of the June Return Information Capture System (ICS) and the Electronic Reporting Requirements Manual (ERRM)	03.11.00
RD 23/00	Interest rates for requisitions and infrastructure charges - six monthly review	07.11.00
RD 24/00	Review of the June Return Information Capture System (ICS) and the Electronic Reporting Requirements Manual (ERRM)	30.11.00
RD 25/00	Reporters and auditors joint workshop 15	04.12.00
RD 26/00	The household sewerage/trade effluent differential: confirmation of adjustments to Ofwat methodology	04.12.00
RD 27/00	2001-02 Principal Statement	13.12.00
2001		
RD 01/01	Guidelines for services to disabled or elderly customers	12.03.01
RD 02/01	Reporters and auditors joint workshop 16	21.03.01

Appendix 3:

PRESS NOTICES ISSUED (APRIL 2000 TO MARCH 2001)

2000		
12/00	Single licence for Essex & Suffolk	04.04.00
13/00	Single licence for Yorkshire and York	04.04.00
14/00	Ofwat publishes its Forward Programme for 2000-2001	06.04.00
15/00	Companies urged to maintain progress on common carriage	12.04.00
16/00	Have your say on Ofwat's decision making progress	14.04.00
17/00	Ofwat gives go-ahead for Hartlepool Water to move into a rival's area to supply Kodak	19.04.00
18/00	Ofwat consults on maximum resale price draft order	27.04.00
19/00	Ofwat issues joint consultation paper with Ofgem following bid by Nomura for Hyder	28.04.00
20/00	New Ofwat report shows that customers are getting lower bills	08.05.00
21/00	New forms of utility will need to thrive in the same regulatory regime, says Ian Byatt	11.05.00
22/00	Ofwat consults on the level of information it collects from water and sewerage companies	23.05.00
23/00	Ofwat amends licence to benefit customers of Cambridge Water and to safeguard their interests	24.05.00
24/00	Independent advisers appointed to Ofwat policy committee	02.06.00
25/00	Ofwat issues joint consultation paper with Ofgem following bid by Western Power Distribution for Hyder	06.06.00
26/00	Ofwat seeks views on new forms of ownership for water companies	06.06.00
27/00	All water customers should be treated equally	14.06.00
28/00	Further competition could bring even greater benefits to water customers in England and Wales says Ian Byatt	15.06.00
29/00	Yorkshire Water's plans for a switch to not-for-profit basis must take into account customer's interests, says Ofwat	20.06.00
30/00	Ofwat seeks customers views on approval of companies' charges schemes	29.06.00
31/00	Northumbrian Water to supply new business park in place of Hartlepool Water	07.07.00
32/00	Water leakage falls by a further seven per cent	19.07.00
33/00	Ofwat publishes plans to simplify licence arrangements in North Surrey	20.07.00
34/00	Competition is bringing benefits to water customers says Ofwat	24.07.00
35/00	Kelda's proposals to restructure Yorkshire Water are not acceptable, says Sir Ian Byatt	25.07.00
36/00	Customer service levels in the water industry are improving all the time	27.07.00
37/00	Water watchdog Chairman re-appointed for Southern region	27.07.00
38/00	Regulators publish statement on joint working	31.07.00
39/00	Water industry investment continues at high levels as companies become more efficient	31.07.00
40/00	Ofwat announces competition commission decisions following companies' appeals against price limits	08.08.00
41/00	Ofwat amends water companies' licences	16.08.00
42/00	More customers can chose their water company from today	17.08.00
43/00	Water industry in England and Wales takes a step forward towards greater competition	07.09.00

Appendix 3:

PRESS NOTICES ISSUED (APRIL 2000 TO MARCH 2001)

44/00	Competition commission reports published	13.09.00
45/00	Single licence for Three Valleys and North Surrey Water	19.09.00
46/00	Ofwat report shows water leakage continues to fall	28.09.00
47/00	Ofwat issues consultation paper following bid by RWE for Thames Water	29.09.00
48/00	Have your say on Ofwat's decision making process	03.10.00
49/00	Three companies ask Ofwat to re-examine their financial price limits because of special changes to their financial position	16.10.00
50/00	Ofwat welcomes publication of draft water bill	06.11.00
51/00	Ofwat consults on the way ahead	09.11.00
52/00	Ofwat consults on Glas Cymru's proposals for Welsh Water/Dŵr Cymru	10.11.00
53/00	Ofwat publishes its provisional response to three companies' requests to re-examine price limits because of special changes	15.11.00
54/00	Ofwat seeks views on protecting customers with special needs	24.11.00
55/00	Ofwat issues proposed licence modifications for Thames Water Utilities Ltd	01.12.00
56/00	Water companies continue to be more efficient says Ofwat	14.12.00
57/00	Ofwat decides on three companies' requests to re-examine price limits because of special changes	19.12.00
58/00	Ofwat makes public information on water companies' activities for 1999-2000	20.12.00
2001		
01/01	Ofwat statement on Glas Cymru proposal for Welsh Water/Dŵr Cymru	31.01.01
02/01	Changes to water watchdog team announced	13.02.01
03/01	Swansea man joins water watchdog team	13.02.01
04/01	Ex Birmingham City Council Chief joins water watchdog team	26.02.01
05/01	Ofwat amends Dee Valley Water's licence	05.03.01
06/06	Ofwat proposes changes to Dŵr Cymru's licence	07.03.01
07/01	Ofwat guides companies on protecting customers with special needs	13.03.01
08/01	Ofwat issues consultation paper following bid by Swan Capital Investments for Mid Kent Holdings plc	19.03.01
09/01	Ofwat publishes its forward programme for 2001-02	27.03.01
10/01	Average water and sewerage bills rises are below inflation	29.03.01

Appendix 4:

PUBLICATIONS AVAILABLE FROM OFWAT

The is a list of publications available from Ofwat produced in 2000-01. They are free of charge from Ofwat's Library & Information Services unless otherwise indicated. A complete list of current and past publications can be obtained from Ofwat's Library and Information Services, (telephone 0121 625 1373). It can also be found on our website (www.ofwat.gov.uk)

Consultation papers

Having your say: a consultation paper on how Ofwat involves stakeholders in the process of its decision making. (April 2000)

Proposed takeover of Hyder plc by St David Capital plc: a joint consultation paper by the Directors General of Ofwat and Ofgem. (April 2000)

Annual return 2001-05: a consultation paper on monitoring companies' performance. (May 2000)

The proposed takeover of Hyder plc by Western Power Distribution Limited: a joint consultation paper by the Directors General of Ofwat and Ofgem. (June 2000)

New ownership structures in the water industry: a consultation paper by the Director General of Water Services. (June 2000)

The proposed restructuring of the Kelda Group: a consultation paper by the Director General of Water Services. (June 2000)

Approval of companies' charges schemes in 2001-2002: a consultation paper. (June 2000)

The proposed takeover of Thames Water plc by RWE AG: a consultation paper by the Office of Water Services. (September 2000)

The role of regulatory accounts: a joint consultation paper by the Director General of Electricity & Gas Supply, Director General of Telecommunications, Director General of Water Services, Director General of Electricity & Gas Supply (Northern Ireland), Rail Regulator and Civil Aviation Authority. (October 2000)

Ofwat forward programme 2001-02: draft for consultation. (November 2000)

The proposed acquisition of Dŵr Cymru Cyfyngedig by Glas Cymru Cyfyngedig: a consultation paper by Ofwat. (November 2000). Also available in Welsh

Services for disabled or elderly customers: guidance to companies. (November 2000)

The proposed acquisition of Mid Kent Holdings Plc by Swan Capital Investments: a consultation by Ofwat. (March 2001)

Reports

Tariff structure and charges: 2000-01 report. (May 2000). Published annually

Financial performance and expenditure of the water companies in England and Wales: 1999-2000 report. (July 2000). Published annually

Levels of service for the water industry in England and Wales: 1999-2000 report. (July 2000). Published annually

Leakage and the efficient use of water: 1999-2000 report. (September 2000). Published annually

Report on company performance in 1999-2000. (November 2000). Published annually

Water and sewerage service unit costs and relative efficiency: 1999-2000 report. (December 2000). Published annually

Appendix 4:

PUBLICATIONS AVAILABLE FROM OFWAT

Miscellaneous reports

Comparing the performance of the water companies in England and Wales in 1998-99 with water enterprises in other industrialised countries (A1) Sydney Water (A2) other water companies (B) Netherlands (C) United States of America. (September 2000)

Current state of market competition. Rev ed. (July 2000)

Having your say: Ofwat's code of practice on consultations. (October 2000)

Maximum resale price: draft order. (April 2000)

Ofwat forward programme 2001-02. (March 2001)

Ofwat's response to the Environment Sub-Committee's inquiry into the draft water bill and response to Department of the Environment, Transport and the Regions' consultation. (January 2001)

Patterns of demand for water in England and Wales 1989-1999. (September 2000)

The proposed acquisition of Dŵr Cymru Cyfyngedig by Glas Cymru Cyfyngedig: a position paper by Ofwat. (January 2001)

The proposed restructuring of the Kelda Group: a preliminary assessment by the Director General of Water Services. (July 2000)

Protection for vulnerable customers report: prepared for Ofwat by DVL Smith Ltd. (August 2000)

Response to the Government's consultation paper, Competition in the Water Industry. (June 2000)

Service delivery agreement 2000-2003. (November 2000)

Services for disabled or elderly customers: guidance to companies. (March 2001)

Services for disabled or elderly customers: response to the consultation. (March 2001)

Special agreements register. October 2000 update. £5.00 + VAT [total £5.88] (October 2000)

A statement by CAA, Ofel, Ofgem, Ofwat, ORR, Ofreg NI, and Water Industry Commissioner for Scotland. (July 2000)

Transfer pricing in the water industry. Regulatory accounting guideline RAG 5.03 (revised March 2000)

Annual return information

June return 2000 CD-ROM. [£62.50+VAT; total £73.44] (December 2000)

June return reporting requirements and definitions manual 2001 CD-ROM. [£50.00+VAT; total £58.75] (December 2000)

Information notes

45. *Competition Act 1998 (May 2000)*

46. *Opting for a meter (June 2000)*

Leaflets

Water and regulation: facts and figures (August 2000)

Customer Service Committees: a water watchdog role for you? A guide to the functions of the CSCs and their members (October 2000)

Protecting the interests of water customers (revised March 2001)

Water and sewerage bills 2001-02 (March 2001)

Water and you: the costs of everyday use of water and sewerage services in England and Wales based on an average bill for 2001-02 (March 2001)

A guide to water resale: Are you paying too much for water and sewerage services? (March 2001)

MD/RD Letters

These are copies of letters sent to the Managing Directors or Regulatory Directors of all appointed water companies (August 1989 to date). Individual copies are available free of charge (annual subscription April 2001 - March 2002 £215); see Appendix 2.

Speeches

Speeches made by the Director General of Water Services, Philip Fletcher, are available free of charge. A list is available from Library and Information Services.

Recent MD letters, RD letters and speeches can be found on our website (www.ofwat.gov.uk).

Appendix 5:

INDEPENDENT REPORTERS AND AUDITORS

Water and sewerage companies

Anglian Water Services Ltd

Dŵr Cymru Cyfyngedig

Northumbrian Water Ltd

United Utilities Water plc

Severn Trent Water Ltd

Southern Water Services Ltd

South West Water Ltd

Thames Water Utilities Ltd

Wessex Water Services Ltd

Yorkshire Water Services Ltd

Auditors

Price Waterhouse Coopers

Price Waterhouse Coopers

Arthur Andersen & Co SC

KPMG

Price Waterhouse Coopers

Price Waterhouse Coopers

Price Waterhouse Coopers

Price Waterhouse Coopers

Arthur Andersen & Co SC

Ernst & Young

Reporters

W S Atkins

Halcrow Management Sciences

Binnie Black & Veatch

Halcrow Management Sciences

Halcrow Management Sciences

W S Atkins

W S Atkins

W S Atkins

Halcrow Management Sciences

Strategic Management Consultants

Water only Companies

Bournemouth & West Hampshire Water plc

Bristol Water plc

Cambridge Water plc

Dee Valley Water plc

Cholderton & District Water Company Ltd

Folkestone & Dover Water Services Ltd

Mid Kent Water plc

Portsmouth Water plc

South East Water plc

South Staffordshire Water plc

Sutton & East Surrey Water plc

Tendring Hundred Water

Three Valleys Water plc

Auditors

Price Waterhouse Coopers

Price Waterhouse Coopers

Binder Hamlyn

Saffrey Champness

B Johnson Esq

RSM Robson Rhodes

Arthur Andersen & Co SC

Grant Thornton

Price Waterhouse Coopers

Arthur Andersen & Co SC

KPMG

RSM Robson Rhodes

Price Waterhouse Coopers

Reporters

Halcrow Management Sciences

W S Atkins

Pick Everard

Montgomery Watson

*

Montgomery Watson

Monson Engineering Ltd

RKL Arup

Strategic Management Consultants

Halcrow Management Sciences

RKL Arup

Montgomery Watson Services Ltd

W S Atkins

* Cholderton & District Water Company is an exceptionally small company and does not provide information.

Appendix 6:

THE REGULATORY POLICY COMMITTEE (AS AT MARCH 2001)

Terms of reference

Regulatory Policy Committee Members will assist the Director on the following issues:

- > consideration of the structure of incentives which will encourage companies to reduce costs while improving services to customers;
- > the quality of the business planning processes used by companies to make projections of the expenditure necessary for them to comply with legal obligations and to provide service to customers;
- > the implementation of the Competition Act 1998; and
- > corporate activity in the water and sewerage sector.

Roger Sainsbury:

Former President of the Institution of Civil Engineers. Previously Director John Mowlem and Co plc and a number of companies in the Mowlem group.

Cob Stenham:

Chairman of Telewest Communications plc (cable TV and media content); non-executive Director of: Standard Chartered plc (banking and financial services); non-executive Chairman of Ifonline Group plc; Whatsonwhen plc; non-executive Director of Jarrold & Sons Ltd; Altnamara Shipping plc; Advisory Director for Hawkpoint Partners and Advisory Director of Proudfoot Consulting plc.

Peter Lehmann:

Chairman of the Energy Saving Trust; Member of the D.T.I. Energy Advisory Panel; Chair of the Standards Committee of the Benefits Agency; Advisor to Continental gas and electricity companies; Member of the Board of Race for Opportunity; Trustee of Project FullEmploy and of the Board of management of the Language National Training Organisation. Previously the Commercial Director and a member of the Board of Centrica.

Appendix 7:

THE WATER AND SEWERAGE COMPANIES

Anglian Water Services Ltd

Anglian House
Ambury Road
Huntingdon
Cambridgeshire
PE18 6NZ
Telephone: 01480 323000

South West Water Ltd

Peninsula House
Rydon Lane
Exeter
EX2 7HR
Telephone: 01392 446688

Dŵr Cymru Cyfyngedig (Welsh Water)

Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY
Telephone: 01874 623181

Southern Water Services Ltd

Southern House
Yeoman Road
Worthing
Sussex
BN13 3NX
Telephone: 01903 264444

North West Water Ltd

Dawson House
Great Sankey
Warrington
WA5 3LW
Telephone: 01925 234000

(From April 4 2001, North West Water will be known as United Utilities Water)

Thames Water Utilities Ltd

Reading Bridge House
C/o Blake House
Manor Farm Road
Reading
RG2 0JN
Telephone: 0845 9200 800

Northumbrian Water Ltd

Abbey Road
Pity Me
Durham
DH1 5FJ
Telephone: 0191 3832222

Wessex Water Services Ltd

Claverton Down Road
Claverton Down
Bath
BA2 7WW
Telephone: 01225 526000

Severn Trent Water Ltd

2297 Coventry Road
Sheldon
Birmingham
B26 3PU
Telephone: 0121 7224000

Yorkshire Water Services Ltd

Western House
Western Way
Halifax Road
Bradford
BD6 2LZ
Telephone: 01274 691111

Appendix 8:

THE WATER-ONLY COMPANIES

Albion Water Ltd
42-46 Weymouth Street
London W1N 3LQ
Telephone: 020 7487 3404

Bournemouth & West Hampshire Water plc
George Jessell House
Francis Avenue
Bournemouth BH11 8NB
Telephone: 01202 591111

Bristol Water plc
PO Box 218
Bridgwater Road
Bristol BS99 7AU
Telephone: 0117 966 5881

Cambridge Water plc
41 Rustat Road
Cambridge CB1 3QS
Telephone: 01223 403000

Cholderton & District Water Company Ltd
Estate Office
Cholderton
Salisbury
Wiltshire SP4 0DR
Telephone: 01980 629203

Dee Valley Water plc
Packsaddle
Wrexham Road
Rhostyllen
Wrexham
North Wales LL14 4EH
Telephone: 01978 846946

Folkestone & Dover Water Services Ltd
Cheery Garden Lane
Folkestone
Kent CT19 4QB
Telephone: 01303 298800

Mid Kent Water plc
High Street
Snodland
Kent ME6 5AH
Telephone: 01634 240313

North Surrey Water Ltd
(Now replaced by Three Valleys Water)
Millis House
The Causeway
Staines
Middlesex TW18 3BX
Telephone: 01784 455464

Portsmouth Water plc
PO Box 8
West Street
Havant
Hants PO9 1LG
Telephone: 023 9249 9888

South East Water plc
3 Church Road
Haywards Heath
West Sussex RH16 3NY
Telephone: 0845 3010845

South Staffordshire Water plc
Green Lane
Walsall
West Midlands WS2 7PD
Telephone: 01922 638282

Sutton & East Surrey Water plc
London Road
Redhill
Surrey RH1 1LJ
Telephone: 01737 772000

Tendring Hundred Water Services Ltd
Mill Hill
Manningtree
Essex CO11 2AZ
Telephone: 01206 399200

Three Valleys Water plc
PO Box 48
Bishop's Rise
Hatfield
Herts AL10 9HL
Telephone: 01707 268111

Appendix 9:

OFWAT STRUCTURE

