



Drinking Water Inspectorate

Room B148B
Romney House
43 Marsham Street
London SW1P 3PY
Direct Line: 0171-276 8213
Enquiries : 0171-276 8808/8666
Facsimile : 0171-276 8405

Office of Water Services

Centre City Tower, 7 Hill Street,
Birmingham B5 4UA
Switchboard: 0121 625 1300
Direct Tel: 0121 625 1313
Direct Fax: 0121 625 1382

4 March 1998

DWI Information Letter 5/98

To: Board Level Contacts of Water and Sewerage Companies and Water Companies in England and Wales

RD 6/98

To Regulatory Directors of all Water and Sewerage companies and Water only companies

Dear Sir or Madam

S19 DISTRIBUTION SYSTEM UNDERTAKINGS - COLLATION OF INFORMATION REQUIREMENTS.

Purpose

1. At the Pre and Post Renovation Assessment Workshop on 28 November 1997, water companies said they would find it helpful for DWI and Ofwat to set out the information requirements relating to S19 distribution system undertakings expected from companies in the time until price setting in 1999.
2. The purpose of this letter is to set out these information requirements in chronological order, and therefore allow companies to appreciate the integrated approach of DWI and Ofwat in this important area.
3. Copies of this letter are being sent to all usual recipients of DWI Information letters and Ofwat Regulatory Director letters, which includes company Reporters.

.../...



4 March 1998

Page 2

Background

4. At the time of the privatisation of the water and sewerage authorities in England & Wales and the introduction of the Water Supply (Water Quality) Regulations 1989, most companies gave legally binding undertakings to carry out improvements to their water distribution systems to achieve or facilitate compliance with the standards set out in these Regulations. These undertakings were required because the condition of the distribution system gave rise to breaches of the standards for certain parameters. The first set of undertakings required companies to carry out a specified amount of renovation of their distribution systems by 31 December 1994. However, the Secretaries of State agreed it was not practicable for all the necessary improvements to be carried out in that first five year period, and many companies have given a further undertaking to continue with the renovation of the distribution system.
5. The current set of undertakings requires companies to carry out investigations and a specified amount of renovation of their distribution systems by 31 March 2000, the end of the quinquennium for the current price limits set by the Director. When setting price limits for this quinquennium the Director took account of the likely amount of activity that would be required and accepted under the terms of proposed new undertakings, as set out by the Deputy Chief Inspector in letters sent to companies in February 1994.
6. The Annex to this letter draws together the information requirements placed on companies and specified in:
 - (a) the company s19 undertaking for the distribution system which covers the time until 31 March 2000;
 - (b) the letter from Bill Emery to companies dated 1 February 1996;
 - (c) requirements in DWI Information Letters, particularly 4/96, 8/97, 15/97 and 16/97; and
 - (d) the Reporting Requirements for the Main Quality Costings Submission D and other Periodic Review Submissions updating this information.

In addition notice is given of the timetable for the reporting requirements for DWI to assess and confirm the drinking water quality work for inclusion in company draft business plans.

.../...

4 March 1998
Page 3

7. This information is required to:

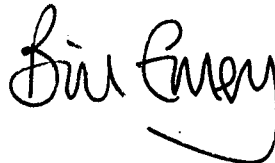
- (a) allow DWI and Ofwat to assess each company's progress with fulfilling the terms of the current undertakings and its progress in delivering measurable improvements; and
- (b) allow companies to estimate the improvements and activity required to complete the renovation of their distribution system in the period after March 2000, so that it can be taken into account when setting prices in 1999 and to allow DWI to assess and report on these proposals.

8. We hope that this letter has clarified uncertainties voiced by some participants in the Workshop. If there are any queries concerning aspects of this letter please contact Milo Purcell (0171-276-8536) at DWI or Rowena Tye (0121-625-1364) at Ofwat.

Yours sincerely



OWEN HYDES
Deputy Chief Inspector
DWI



BILL EMERY
Assistant Director
Ofwat

CHRONOLOGICAL LIST OF REQUIREMENTS

1. 20 February 1998 (Reporters Commentary 27 February 1998) Main Quality Costings Submission D

Companies were required to estimate the renovation required to deal with quality problems present in the distribution system and which have not yet been dealt with. The estimates of the renovation activity required were to be set out in two categories, with and without fluoranthene being included as a cost driver. The detailed descriptions are given in the reporting requirements for cost drivers:

Without fluoranthene - Relining activity (C4 Iron and Manganese, C6 Other PAHs)
Replacement activity (C5 Iron and Manganese, C7 Other PAHs)

Additional work if fluoranthene is included Relining activity - D1
Replacement activity - D2

For the main quality costings submission D, companies were required to submit their own estimates without confirmation by DWI. However, companies should appreciate that the estimates included in company draft business plans in April 1999 will need to have been confirmed as reasonable by DWI. The company Reporter was required to confirm that the company estimate is soundly based, reasonable and auditable, as well as demonstrating an efficient and cost-effective method of meeting the outputs that will be required to fulfil the terms of the undertaking the company will need to give. Companies may be asked to justify their estimates to Ofwat and DWI if the estimates included in the main quality costings differ significantly from those expected.

2. 28 February 1998 1997 data returns for Distribution System undertakings

In DWI Information Letter 16/97, the information required from companies on their progress in 1997 is detailed. This will be used by DWI to:

- assess progress with the requirements of each distribution system undertaking;
- comment on individual company performance in the Chief Inspector's Report for 1997;
- conduct the annual audit of distribution system undertaking work during the autumn of 1998;
- compile the Chief Inspector's report to the Director in July 1998; and
- prepare Tables DWI6 and DWI7 as part of the July Return from the Chief Inspector in July 1998.

3. 31 March 1998

Data relating to Revisions of Annexes to Distribution System Undertakings

This is an annual requirement, which is set out in detail in Section 4 and an Annex to DWI Information Letter 8/97

4. After 31 March 1998

Asset register for the distribution system.

In his letter of 1 February 1996, Bill Emery set out his expectations from companies on the progress with work to deal with deficiencies due to the condition of the distribution system. This programme of renovation is a major part of the quality enhancement programme assumed when price limits were set and paid for by customers in their bills. For the period 1995-96 to 1999-00 it was assumed that companies would need to spend about £1.9bn on renovating the water distribution system to meet the terms of undertakings required from companies by the Secretaries of State.

This letter set out the timescale for providing this information, giving a date of March 1998 for the Reporters to confirm that the companies had such registers. Since then the timetable for the Periodic Review has developed and there are a number of submissions expected from companies during 1998. This request for information falls into the area covered by the Asset Inventory and System Serviceability Submission (Periodic Review Submission H). This request will be incorporated into this submission, and be commented on by Reporters. Companies are due to submit their submissions by 14 August 1998. The Reporting Requirements for this submission will be circulated at the end of March 1998.

Companies will need to confirm the status of their detailed asset register, or suitable geographical information system, showing the status of the water distribution mains. Ofwat may follow up this report with a request for the map of the company supply area, or part of it, showing this information. This company system must show the serviceability of the mains, either satisfactory or questionable in respect of compliance with water quality obligations. This register should also show all the improvements made to the system to meet the terms of undertakings given by the company to the Secretary of State because of the condition of the distribution system. No expenditure on a main deemed to be serviceable should be allocated to quality. Reporters will be asked to validate the reliability and accuracy of the company database and also to comment on the proportional allocation rules used by companies when assigning expenditure to either quality or capital maintenance, and whether these have changed since the company SBP submission in March 1994..

5. 1 July 1998

**Company July Returns with updated information.
DWI report to the Director**

Ofwat will use these reports to assess company progress with meeting the terms of its undertaking and the progress expected from companies by Ofwat set out in Bill Emery's letter of 1 February 1996 and the Annex giving Ofwat expectations of the phasing of activity expected at price setting.

The assessment of the activity will be available from the DWI report to the Director, and continuing progress will be assessed from company July Returns.

Paragraph 25 of the 1 February 1996 letter set out Ofwat's expectations of the progress to be made in delivering outputs from this work carried out on the distribution system. This letter stated that improvements should have been demonstrated to the satisfaction of DWI in defined geographical areas serving at least 20% of the population in zones covered by the undertaking.

In July 1998 an assessment will be made by Ofwat of company performance in meeting this expectation. The population contributing to this 20% total comprises those people receiving satisfactory or improved water quality, made up from the following three components:

- (a) the population in subzones where no investigations are necessary, and no work is required to meet the terms of the undertaking.
- (b) the population in zones/subzones where investigations have been completed and show that an additional renovation programme is not required.
- (c) the population in zones/subzones where improvements programmes have been carried out and been confirmed as satisfactory by DWI. This will include both those improvement programmes where the PPRA methodology has been successfully employed and non-standard schemes, which have been accepted by DWI.

Company progress with demonstrating improvements and dealing with zones/subzones covered by the undertaking will be considered when setting price limits. This progress will be reviewed in 1999 at the time of the Periodic Review.

6. 14 August 1998

**Asset Inventory and System Serviceability
Periodic Review Submission H**

Companies will need to submit information concerning their asset register for distribution mains – as explained in paragraph 4.

7. 30 September 1998
Information requirements for detailed proposals

The DWI will provide guidance on the programme for provision of data, and the format of that data, to support submissions for inclusion in the draft business plans.

8. December 1998
Update of the quality Costings Submission J

This is a summary update of the main quality costings to take into account any additional guidance received from ministers, or progress with the revised Drinking Water Directive.

9. 28 February 1999
1998 data returns for Distribution System Undertakings.

The annual information return to DWI required from companies on their progress in 1998.

10. 31 March 1999
Data relating to Revisions of Annexes to Distribution System Undertakings

This is an annual requirement, which is set out in detail in Section 4 and an Annex to DWI Information letter 8/97.

11. 31 March 1999
Draft undertakings to DWI

To meet a requirement of the current S19 distribution system undertakings. A model format will be available by December 1998. It is intended that a single undertaking will be given to complete all outstanding steps to be taken to achieve or facilitate compliance and will include, where appropriate, interim targets. Companies will be required to demonstrate a level of activity in dealing with the proposed steps to be taken, which will deliver improvements to consumers in the shortest practicable timescale.

12. 7 April 1999
Draft Business Plans- Submission K

Companies will need to submit their plans, including the renovation programmes required to fulfill distribution system undertakings. The renovation activity included in the plans must have been confirmed by DWI.

13. 7 June 1999

**Company July Returns with updated information- Submission L.
DWI report to the Director**

Updated information, on company performance 1998-99.

14. 31 March 2000

Monitoring Plan (AMP3) – Submission N

The Director envisages that this plan will set down the annual profiles of output delivery, activity levels and likely expenditure as well as other factors. This plan will include all the profiles for work in the distribution system to meet the terms of the undertakings given to deal with quality in the distribution system.