

Annual Report of the Director General of **Water Services**

For the period 1 April 1999 to 31 March 2000

To

RT. HON. JOHN PRESCOTT, MP

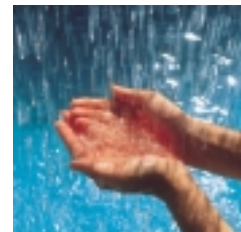
Deputy Prime Minister,

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



Ian Byatt

I C R BYATT

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



Ordered by the House of Commons to be printed 11 May 2000



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Ofwat

Centre City Tower
7 Hill Street
Birmingham B5 4UA
Telephone: 0121 625 1300
Fax: 0121 625 1400
Website – <http://www.open.gov.uk/ofwat/>
e-mail – enquiries@ofwat.gtnet.gov.uk

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Director General's statement

This report deals chiefly with events in the year 1999-2000 and reports to Parliament and all other stakeholders on our performance. I also take this opportunity to reflect on our first decade of regulation.

The achievements of the last ten years stemmed from:

- the privatisation of the companies, putting them under capital market pressures; and
- an incentive-based regulatory regime at arm's length from Ministers.

Ten years ago many felt that a monopoly would inevitably create conflict between private profit and public good. In practice, our methods of price regulation have ensured that the search for high profits has led to lower costs and lower bills. Because we regulate outcomes, rather than expenditure, better quality and better service are being achieved economically, keeping down the costs to customers.

Customers' bills

The costs of the significant investment needed to finance improvements in water and environmental quality – some £50 billion by 2005 – have put great pressure on customers' bills. Despite this, the greater efficiency of the water companies has now enabled us to bring bills down for customers – on average by 12% – this April. This shows customers that regulation works in their interests.

Over the last ten years, average household water and sewerage bills have risen substantially above the rate of inflation. This has enabled the companies to meet EU objectives for drinking water quality and to repair most of the environmental damage of the last 200 years.

Privatisation and regulation have driven the companies to make greater efficiency savings. Without that, the pressure of the environmental



programme to drive up bills would have been much greater. Bills could have risen by as much as another third – that would be another £80 on today's bills in real terms. That is a successful outcome for customers.

Outcomes

Customer service has also improved. We have pressed all companies to adopt the practices of the best. We have monitored, and publicised, comparative performance. Companies that fall behind face scrutiny and penalty. We also continue to make companies drive down leakage to sensible and more justifiable levels – now at a third of its peak.

Environmental and social policies

Quality, environmental and social standards are rightly set by elected politicians in London and, increasingly, Brussels. The economic regulator must ensure that they can be financed, but customers, through their bills, have to pay for this work. They should know how the balances are struck between environmental concerns and potential increases in their bills.

For the 1999 review, as for the 1994 review, we worked closely with Ministers, the Drinking Water Inspectorate and the Environment Agency. I hope that we can build on this joint approach to enhance further the quality of decisions on new standards,

particularly through better information on the benefits of expenditure on water quality and environmental improvements.

Incentives for companies

Price cap regulation gives strong incentives to reduce costs. Companies are now assured that savings can be retained for five years, irrespective of the timing of the price review.

These incentives also relate to capital expenditure. Privatisation has seen a doubling of capital expenditure, including a doubling of expenditure on maintaining the companies' assets.

Companies delivering particularly good service to customers and to the environment have been rewarded in price limits and poor performers have been penalised.

Price limits are tailored to the funding requirements of individual companies. Through specification of outcomes and through incentives, regulation acts as a surrogate for the pressures that each company would face in a competitive market.

Incentives for customers

We started a debate on how customers should pay for water soon after we were established, in the *Paying for water* consultation. Since then, there has been a significant, and welcome, shift towards metering and customers now have a right to a meter at home free of installation charge.

In approving companies' charges schemes, I have sought to align charges more closely with costs and to secure reductions in average prices without damaging incentives to economise in the use of water.

Consultation and transparency

Because consumer choice is limited, the regulator often has to make decisions that affect a range of stakeholders.

Stakeholders have a right to know how these decisions are reached. My judgements have always been based on a published approach and on consultation. I have required companies to provide information about performance and plans. Good, timely information enables all participants to understand both the emerging picture and the outcome.

Transparency is the key to accountability – accountability to customers, to the public, to Parliament and, now, to the National Assembly for Wales. We have increasingly used the Internet to achieve this.

Representing customers

Customer Service Committees (CSCs) are at the heart of regulation. They have their own statutory duties and publish their own annual reports. In 1993, I formed their chairmen into the Ofwat National Customer Council (ONCC) and have treated it as though it were a statutory body.

I have valued the advice of the CSCs and ONCC on a range of issues. In particular I consulted all of the CSCs immediately before deciding on final price limits last November. Without such close contact the regulator would be less well informed on regional issues and on the concerns of individual customers.

I now want to draw up a Memorandum of Understanding with ONCC, in anticipation of the creation of an independent Consumer Council for Water.

The Office

Our particular strength is our policy staff – accounting for about 40% of the annual budget. Their range of skills and experience means that outside consultants only supplement our work.

I used a panel of senior industrialists working closely with my senior staff to help me with the price review.

I will continue to operate such an arrangement to provide me with outside advice.

Our success in regulation is also built on sound methodologies, good processes and an efficient office. We collect information systematically from companies, much of which is scrutinised by independent Reporters. The analysis of each company's performance – published in my annual reports on financial performance, relative efficiency and levels of service to customers – is an important part of making judgements about price limits.

Judgements about price limits are further informed by our own analytic work.

We are constantly working at our own efficiency, too, to ensure that we give value for money. This year we have been able to reduce our licence fee by £500,000.

Ofwat costs each connected household less than 50p a year.

Co-operation with other regulators

I regularly meet other regulators to pursue issues of common concern. We have agreed a policy about the regulation of multi-utilities. Our staff collaborate on operational and financial issues, such as the cost of capital. We produce regular reports on what we are planning to do and what we have achieved.

Looking ahead

The Competition Act has opened up the prospect of market competition and I look forward to a sea-change in this area. We were the first utility regulator to issue guidelines on the application of the Act.

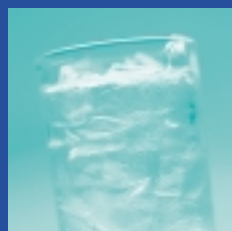
I have wanted to see a lowering of the threshold for inset appointments. I am pleased that the Government has now announced this.

As competition develops, we should see some shift in the emphasis of the work of the office away from regulation towards that of a competition authority. Competition is preferable to regulation, but some elements, in particular the natural monopoly distribution networks, will always require some regulation.

Competition may lead to changes in the structure of the industry. If so, the regulatory arrangements will need to adapt to ensure that any monopoly elements are properly regulated, to the benefit of customers.

As this is my last annual report, I want to record my thanks to all those who have helped me in an arduous task. My first thanks are to my staff, at all levels here in Birmingham, to the members of the CSCs and ONCC and their staff, to my senior industrialists, to officials in other Departments of State, many with sharp minds and long knowledge of the water industry. Last, but by no means least, I thank my critics, who have challenged my thinking and kept me focussed on the interests of customers.



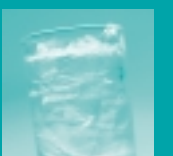


Chapter 1

Ten years on

Ofwat was set up in 1989 and our first annual report was published in 1990. Ten years on is an opportunity to review our achievements in a rapidly evolving regulatory environment.

We asked some of the key members of Ofwat's team to give their perspective on our first decade.



Beryl Brown

Head of Competition Policy



"The industry's view of the potential for competition has undergone a dramatic change.

The potential for market competition is now seen as significant and the companies see this as providing real opportunities for them."

Sue Cox

Head of Service & Performance



"Customer service has come a long way since privatisation. 90% fewer properties are now at risk

of low water pressure, and 50% fewer at risk of flooding from sewers. Companies' handling of customers' letters and calls has improved markedly. Companies are now beginning to rely less on the regulator and are themselves taking the lead in identifying and meeting customers' requirements. Which is of course as it should be."

Roger Dunshea

Director of Operations

"Ofwat's staff is its powerhouse. Over the decade, we have developed an organisation rich in talent, drawn from a broad spectrum of working and ethnic backgrounds. There is a strong ethos of public service underpinned by professional practice brought in from the private sector. We are already well placed to deliver the objectives of Modernising Government."

Bill Emery

Director of Costs & Performance and Chief Engineer

"Our systematic reporting regime, with independent scrutiny by Reporters, has developed to allow fair comparisons between companies. These comparisons allow us to exert real competitive pressures on the companies. This leads to better services at lower costs for customers – which is our objective."

Claire Goodland

Multi-Utilities and Transfer Pricing Manager



"With the advent of multi-utilities, Ofwat has developed regulation policy to ensure that customers of

the water businesses are protected. We have required the multi-utilities to have systems in place that clearly identify the costs of the water business. We have also changed their licences so that the water business is independent of the group and free to manage its activities."

Dawn Harrison

Head of Financial Modelling



"Financial modelling is pivotal to setting prices. We performed over 1,200 modelling runs for the 1999

price review. This was double the number for the 1994 price review, reflecting the more open and transparent process. We keep abreast of state of the art in modelling technology."

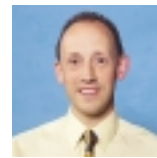
Julia Havard

Head of External Relations

"Our policy is to ensure that information is made public, so that all stakeholders are well informed and influence decisions. We're grasping the opportunities of new technology to deliver this policy. This year our website received nearly 90,000 hits in total, with 11,000 hits in just two weeks on the final determinations."

David Knowles

Capital Maintenance Team Leader



"Ofwat has developed its approach to monitoring company performance on capital maintenance and

capital efficiency. Our emphasis on the importance of serviceability to customers has driven companies to become more customer-focussed when managing their assets. Companies have continued to refine their approaches to asset management and improve the information they keep on their assets. This has enabled them to focus their capital maintenance activity more effectively and has led to a better deal for customers."

Graham La Borde

Head of Finance & Services



"Even with the increasing complexity of regulation and the industry, we have controlled

Ofwat's costs so that they still represent only 0.2% of the industry's turnover and less than 50p per household per annum for those served by the industry. That's value for money."

Keith Mason

Head of Regulatory Accounts & Business Affairs



"There were 39 water companies at privatisation. Now, because of mergers and consolidations,

there are only 26. We work to ensure that customers remain fully protected and that they get real benefit from any merger. The smaller number of companies doesn't make it easier to regulate them. If anything, it's just the opposite."

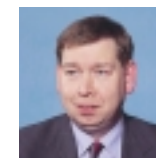
Allan Merry

Legal Adviser

"Ofwat has always sought to follow due process in carrying out its functions. That required transparency about the processes and openness in consulting about (and promulgating) regulatory policy, as well as decisions. We have put out a great deal of information, sometimes despite the reservations of the companies. Our approach has generally been welcomed."

Kevin Mochrie

Senior Press Officer

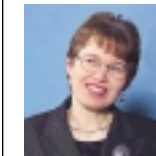


"The fact that all customers want high quality and affordable water and sewerage services means

the industry is always high profile. Ofwat has been the key player in ensuring that customers' views are represented, they are kept informed about developments, and understand how their bills are arrived at."

Fiona Pethick

Reference Team Leader



"Outcomes show that incentive-based regulation delivers a price dividend for customers and a

dividend for the environment. Companies' efficiency savings are shared between customers and investment in improvements to protect the environment."

Carl Poulton

Information Systems Development Manager



"The collection, storage and analysis of regulatory information has really advanced in the

last ten years. Our systems have improved in line with technological advances and our advances in developing the regulatory framework. Ofwat is a leader in the use of information systems to monitor regulatory performance and set price limits."

Clive Ralph

Head of Complaints & Disputes Team



"Ofwat HQ dealt with 749 complaints and disputes last year, an increase of 16% over the previous

year, and an increase of 7% compared with five years ago. This is because of new legislative powers, which allow us to deal with a wider range of customer complaints."

David Rees

Director of Corporate Finance & Economic Affairs

"Finance is at the heart of regulation. The fundamental point is that regulators don't decide in ivory towers what can be financed, markets do. And that's why the price review started and stopped with what the market said."

Mike Saunders

Director of Tariffs & Consumer Affairs

"Efficient and fair pricing must be based on cost-reflective tariffs. The new power to approve charges will help to secure this."

John Simpson

Head of Comparative Efficiency Team



"Ten years ago, judgements on efficiency gains were difficult. There was little

history or comparative work to go on. We now have a much better picture. We can make robust comparisons and look at trends, to set challenging but fair efficiency goals for companies."

Rowena Tye

Head of Quality Enhancement Team



"Since 1989, the complementary roles of Ofwat, the Drinking Water Inspectorate and the Environment

Agency have become clearer. Our joint approach ensures that those who set standards know the effect of environmental improvements on customers' bills. It also means that company performance in meeting the standards required of them – in drinking water quality and in protecting the environment – is reported, and that it is made known to customers."

Roy Wardle

Head of Consumer

Representation Division

"The ten regional Ofwat Customer Service Committees and the Ofwat National Customer Council have become increasingly influential in representing the interests of customers to the regulator, the Government – and in Europe. Customers must continue to have an effective and powerful voice to ensure that the regulatory regime serves their needs in respect of price, service and value for money. We will work to ensure that the proposed Consumer Council for Water builds on what has been achieved."

Will Webster

Head of Water Resource

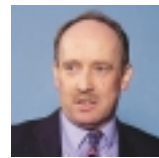
Economics



"Since privatisation, Ofwat has had to deal with the issues of increasing demand, two severe droughts, and the extension of household metering. The hot, dry summer of 1995 led to unacceptable restrictions and we took action against the companies concerned. Increased metering and leakage reduction have resolved this issue for the time being, but there are still regional issues, particularly in the South East, that will continue to challenge the companies and regulator alike."

Charles Whitworth

Head of Tariffs



"Tariffs policy is as much about getting the companies to take responsibility for their charges as it is about Ofwat telling them what to do. As more households are metered, domestic tariffs will undoubtedly become more sophisticated, as they have for industrial customers. It's also a question of balancing charges appropriately, so that the right signals are sent to customers."

Chapter 2

Review of the Ofwat Forward Programme (1999-2000)

In March 1999 we published Ofwat's first Forward Programme following public consultation. This set out our priorities and our work for the year from 1 April 1999. It delivered a broad range of objectives aimed at protecting customers, safeguarding the environment and providing incentives to the companies to improve performance.



The key outcomes for customers are summarised below and covered in more detail in the rest of this report.

Setting new price limits:

On 25 November 1999 the Director published *Final determinations: Future water and sewerage charges 2000-05*. The companies have been more efficient than ever and these savings have enabled us to deliver major benefits to customers – a 12% average reduction in bills and a £15 billion investment programme: to improve drinking water quality and protect the environment; to maintain the industry's infrastructure to deliver services to customers; and to ensure that the supply of water meets essential demands without over-abstraction. As a matter of good project management, Ofwat reviewed its overall approach and management of the determination process. [Go to Chapter 3 →](#)

Extending competition:

The 1998 Competition Act came into force on 1 March 2000. This legislation is designed to prevent anti-competitive behaviour and the abuse of a dominant market position by all enterprises. The Director has strong new powers to enforce the Act with respect to the regulated water companies. This means better services and more competitive pricing for customers. This year, we have developed new policy and guidance to support the Act. [Go to Chapter 4 →](#)

Regulating company performance:

Comparing company performance in public is one of the Director's most powerful methods for generating incentives to greater efficiency and improved services. We monitor and analyse the companies' performance and service to customers. Independent Reporters have examined and tested the company information; we have developed and improved our measures. Our five annual reports on company performance contain more information. [Go to Chapter 5 →](#)

Paying for water and approving charges:

Most of our new work this year was driven by the Water Industry Act 1999. For the first time, the companies had to obtain the Director's approval of their charges schemes. These new powers further protect customers' interests. [Go to Chapter 6 →](#)

Working with customer representatives and customer protection:

Ofwat continues to work closely with the Customer Service Committees (CSCs) and the Ofwat National Customer Council (ONCC). The CSCs have throughout the year made a major contribution as the independent voice of the customer; influencing the outcome of the price review and the approval of charges schemes. They have received over 12,000 complaints, obtained compensation and refunds amounting to £0.5 million, and audited the companies' customer services.

Ofwat HQ dealt with 749 complaints and disputes in the year. We obtained compensation and rebates for customers amounting to £286,340.

[Go to Chapter 7 →](#)

Cost effective regulation:

We deliver value for money by scrutinising our expenditure, evaluating and learning from outputs, and developing our main resource: staff. We have now achieved Investors in People status. This year, we have reduced costs further despite the additional work associated with the Competition Act 1998 and the Water Industry Act 1999. [Go to Chapter 8 →](#)

Open and effective regulation:

We achieved most of our Customer Charter standards this year – and more than last year. We are committed to joined-up government, working with other departments and regulators to deliver successful outcomes for customers. During the year, a good deal of joint working was carried out on the Utilities Bill, price reviews, the Competition Act and monitoring the Millennium Bug. The Director and fellow

regulators meet regularly to consult on cross-industry issues. We pride ourselves on being open and transparent. We have consulted widely and kept in close contact with all stakeholders to explain our work, to understand their views and to explain how we have taken representations into account in making our decisions. We have published a wealth of information about our work and about the companies, and all of our new publications are available on our website (<http://www.open.gov.uk/ofwat/>). [Go to Chapter 9 →](#)





Chapter 3

The 1999 Periodic Review and the Review of the Review

*"Customers can only gain from an efficient industry."
(Annual Report 1989)*

"Comparisons between appointed companies can help to promote efficiency and achieve low prices to consumers." (Prospectus 1989)

"Regulation should ensure that improvements in quality and increases in prices continue to be examined jointly so that customers do not have unwelcome surprises when they receive their bills." (Annual Report 1989)

"Achievements of environmental standards are closely linked to the planning of investment ... essential if sustainable environmental improvement is to take place at price levels which are acceptable to customers." (Annual Report 1989)

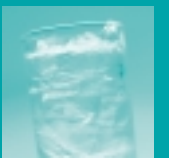
1999 SAW THE CULMINATION OF THREE YEARS' WORK ON THE PERIODIC REVIEW, SETTING PRICE LIMITS FOR THE NEXT FIVE YEARS (2000-05).



THE DIRECTOR ACHIEVED HIS OBJECTIVES: TO BRING DOWN AND KEEP DOWN PRICES FOR CUSTOMERS, WHILE ENABLING THE COMPANIES TO DELIVER THE BIGGEST EVER PROGRAMME OF ENVIRONMENTAL AND WATER QUALITY IMPROVEMENTS.



THE REVIEW WAS MANAGED IN AN OPEN AND TRANSPARENT WAY. AFTERWARDS, OFWAT REVIEWED ITS OVERALL APPROACH AND THE MANAGEMENT OF THE PROCESS.



DELIVERING THE PERIODIC REVIEW

Ofwat established a process which delivered 27 separate determinations in a confidential environment and on time. A phased process allowed timely debate on the issues and enabled stakeholders to make informed contributions to decision-making.

At the start, in the planning phase, we had consulted on the approach, methodology, information needs and broad ranges for price limits. We had also set out the framework and exposed the issues.

The decision-making phase started in 1998 and continued in 1999. Draft decisions were published on 27 July 1999. The final stage of external comment on the draft determinations led to the announcement of the final determinations on 25 November 1999. Companies had two months to decide whether to accept them or to request a re-determination by the Competition Commission. The companies then submitted their charges schemes for the Director's approval (see Chapter 6). The new price limits took effect from 1 April 2000.

Company Business Plans

Each company submitted a Business Plan in April 1999 setting out its board's proposals for the next five years.

The Director considered the arguments and evidence presented in the Plans, as well as the findings of studies commissioned by the companies and Ofwat. He asked the CSCs for their views.

We placed public versions of the Plans in the Ofwat library and one-page summaries on the Ofwat website. This allowed all interested parties to get involved. A reference copy of the non-confidential elements of the Business Plans was placed in the Ofwat library in April 2000 (except for those companies seeking re-determination by the Competition Commission – these will be placed in the library when the Commission references are complete).

The draft determination

Ofwat published *Draft determinations: Future water and sewerage charges 2000-05*, on 27 July 1999. This set out draft price limits, infrastructure charge limits and minimum required outputs for the five years 2000-05. It gave companies and other stakeholders a final opportunity to comment on Ofwat's proposals.

Consulting on the draft determinations

In response to the draft determinations, the Director received representations from companies, customers and customer groups, the CSCs, environmental groups, MPs, local government organisations and other interested parties.

The Director met with the companies to listen to their final representations and met with each CSC to listen to their views.

To encourage stakeholders to put forward their views, Ofwat held a series of seminars between July and September 1999 for:

- *business customers*
- *consumer groups and*
- *environmental groups.*

Presentations were also made to City institutions, to inform and gain feedback on the critical issues.



Briefing the City.



Announcing draft determinations to the press.

Decisions on quality and the environment

The water quality and environmental improvement programme was widely debated over the three years and required decisions about the setting of new standards and the timing of implementation. This process has involved Ministers, as the standard setters, and, for the first time, the National Assembly for Wales. The quality regulators – the Drinking Water Inspectorate (DWI) and the Environment Agency (EA) – advised on the water quality programme and on the environmental programme respectively. Other statutory bodies such as English Nature and the Countryside Council for Wales also gave advice. Customers, the companies and groups representing environmental interests were all involved in the quality debate.

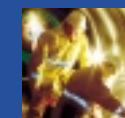
The Secretary of State for the Environment, Transport and the Regions, and the Secretary of State for Wales gave guidance on the environmental and quality objectives to be achieved by the water industry in 2000-05 in *Raising the quality* (September 1998). The Environment Minister supplemented the guidance in March and November 1999. The Director took full account of this guidance (for England) and of advice from the First Secretary of the National Assembly for Wales in setting price limits.

The final determination

On 25 November 1999 the Director announced his final decisions on price limits in *Final determinations: Future water and sewerage charges 2000-05*. He explained the reasoning behind his decisions and set out the assumptions he had made.

- *At privatisation the expectation was that average price limits for the first five years would increase at just under 5.5% and 4% for the second five years.*
- *In practice, price limits for 1995-96 to 1999-2000 rose at 1.4% on average.*
- *The average price limit for 2000-01 to 2004-05 is -2.1%, with a one-off reduction in prices of 12.3% in 2000-01.*

Price limits will allow the companies to invest over £15 billion in the next five years – equivalent to £8.5 million a day – to improve water quality and to protect the environment.



OUTCOMES FOR CUSTOMERS AND THE ENVIRONMENT FROM THE PRICE REVIEW

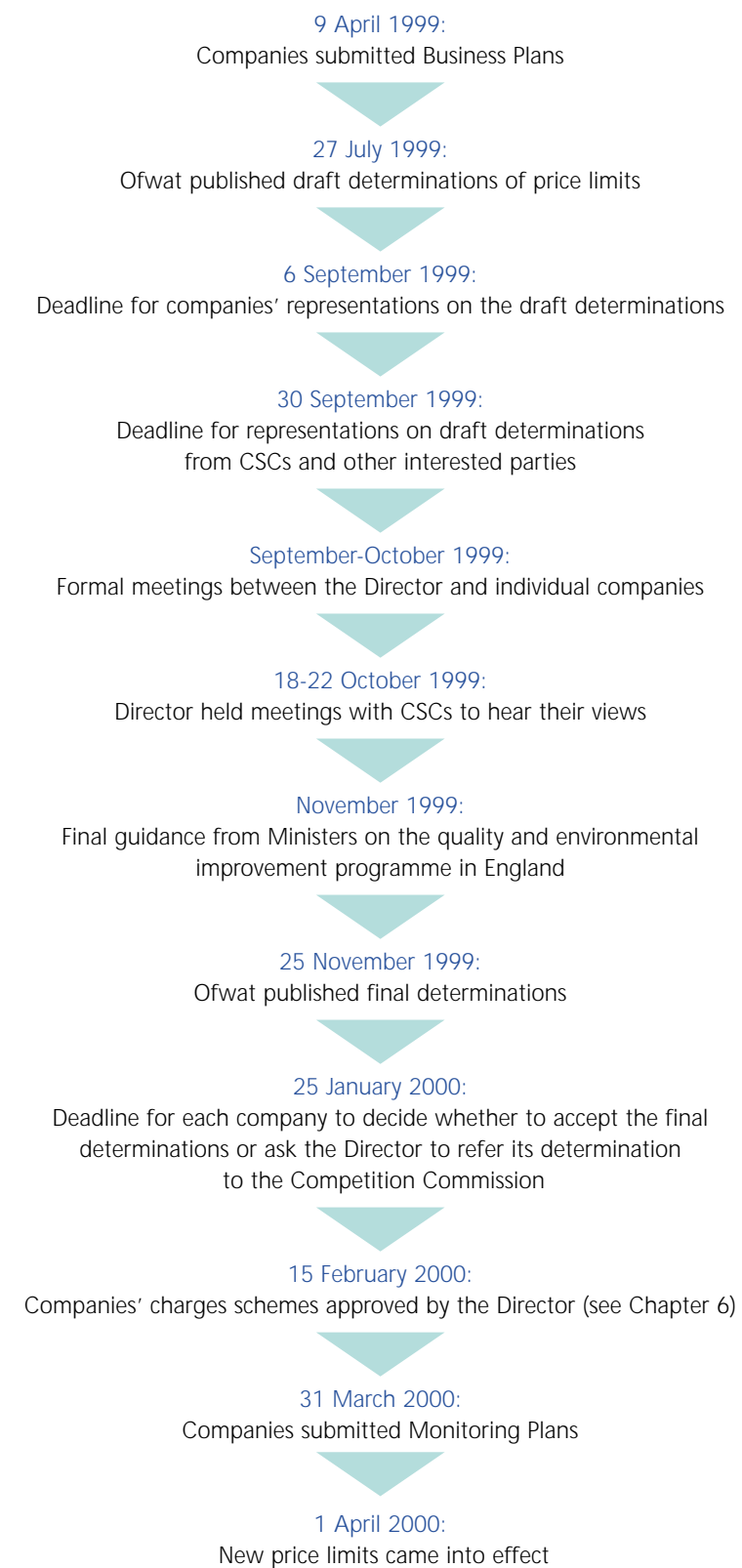
Final determinations – outcomes for customers

- Average water prices came down from April 2000. The average annual household bill could fall by £30 over the next five years. That is from around £248 to £218.
- Removal of the risk of sewer flooding for 4,500 properties in England and Wales.
- Removal of low-pressure problems for 2,000 properties.
- Further reductions to leakage levels.
- Improvements at 531 water treatment works, sufficient to serve 15 million consumers, to meet new standards in the EU Drinking Water Directive.
- Modification to water treatment works, providing water sufficient for 30 million consumers, to reduce the risk from cryptosporidiosis.
- Installation of treatment at water sources, sufficient to supply 17 million consumers, to reduce lead dissolved in company pipes and household plumbing; plus replacement of 1.25 million of the companies' lead communication pipes.
- Improvements at water treatment works, sufficient to serve 8 million consumers, to overcome exceptional problems of deteriorating raw water quality.
- Rehabilitation of 22,000km of water and distribution mains to reduce problems associated with discoloration.

Final determinations – outcomes for the environment

- Improvements at sites discharging estuarial and coastal waters, with a population equivalent of 8 million, to reduce the environmental impact of sewage effluents on the marine environment and to improve bathing water quality.
- Enhancements to nearly 1,800 sewage treatment works.
- Improvements to nearly 4,500 intermittent discharges from the sewerage system.
- Provision for nearly 3,700km of rivers to be protected or improved.
- Meeting higher standards for dealing with over 1 million tonnes of sewage sludge on agricultural land; to reduce the risk of pollution from discharges of sewage in wet weather and to protect some bathing waters and shellfish harvesting areas.

KEY DATES FOR THE PERIODIC REVIEW IN THE YEAR



LATER STAGES IN THE REVIEW

Competition Commission references

The package presented by the Director to companies was realistic and achievable. He applied fair and consistent policies, developed in an open and transparent manner over several years. The Director also took into account the individual circumstances of each company.

All companies accepted the package, except Sutton & East Surrey Water and Mid Kent Water. These two companies asked the Director formally to refer the price limits to the Competition Commission, which he did on 7 February 2000. The Commission will examine the evidence and reach a decision within six months. Meanwhile, the Director's price limits will apply.

Licence Condition B amendments

As part of the final determination package, the Director proposed licence changes to allow companies to apply to increase prices above the limits set. This could occur if specified changes in operating expenditure reduce a company's revenue by more than 1%. These changes were accepted by all companies except Sutton & East Surrey Water and Mid Kent Water.

The licence changes also apply to three matters which the Director has not taken into account in price limits. These Notified Items all relate to provisions in the Water Industry Act 1999 (see Chapter 6). The first two relate to potential loss of revenue arising from uncertainty about:

- the number of household customers opting for a meter free of installation charge;
- any change to the level of bad debt and collection charges because companies can no longer disconnect domestic customers for non-payment of charges.

The third relates to additional operating costs to implement the new scheme which protects vulnerable

customers, who pay on measured tariffs, from high water bills.

Monitoring Plans

Once price limits were set Ofwat asked all companies to submit a Monitoring Plan for the next five years by the end of March 2000. The Plans set out the companies' commitments to deliver water quality and environmental improvements, and standards of service consistent with the Director's price limits, together with company plans for maintaining the serviceability of their assets to customers. The information in the Monitoring Plans supersedes information included in earlier submissions. The Plans are in the Ofwat library.

Ofwat will examine each company's Monitoring Plan. Should any Plan not commit to achieving minimum outputs, the Director may judge this company to be at risk of not discharging its functions and take appropriate regulatory action. Ofwat will monitor companies' progress against their Plans through the annual returns, Principal Statements, charges schemes and reports from the quality regulators.

Ofwat expects the companies to inform customers about the impact of the Plans on prices and services.

Some unfinished business

Ministers asked the EA, other regulators and officials, together with the relevant companies, to look again at the value for money of some proposed initiatives. These initiatives mainly concern the cost of expensive schemes identified to meet river quality improvements, together with a major water transfer proposal by Wessex Water to deal with environmental problems in the Hampshire Avon catchments.

We have set out our expectations for this case-by-case reappraisal in Appendix E of *Final determinations: Future water and sewerage charges 2000-05* (November 1999).

Final decisions on whether or not to proceed with the initiatives will rest with Ministers, after full consultation.

Folkestone & Dover Water Services/Mid Kent Water bulk supply

During the price review process, the Director was required to determine the price of a bulk supply of 2 megalitres of water a day (444,000 gallons) from Mid Kent Water to Folkestone & Dover Water under Section 40 of the Water Industry Act 1991.

In deciding the terms of supply, the Director followed ministerial guidance such that:

- recipient companies maintain the incentive to seek bulk supply as a solution to supply/demand issues;
- donor companies' customers are not disadvantaged.

The Director provided terms for a ten-year arrangement starting on 1 April 1999.

Incentive regulation

Companies have become much more efficient under incentive regulation. In this review, half of the benefits of efficiency savings have been passed on to customers in the form of lower bills, with the balance invested in environmental improvements.

We have developed additional incentives:

- *to increase efficiency by enabling companies to keep all of their efficiency savings for five years;*
- *to encourage companies to improve service to customers and to the environment, by adjusting price limits so that companies that perform well gain and those that perform badly lose.*

MANAGEMENT OF THE REVIEW

Throughout the process we consulted widely. A policy of consultation, consistency, openness and transparency was an essential way to achieve the best decisions and widest acceptance of the outcome.

We involved all stakeholders – customers and customer representatives, companies, environmental and consumer groups, the Government, the City, the media and other interested parties.

An executive project group, supported by a group of team leaders, directed policy development, planning and monitoring.

The Director took account of the views of the CSCs and ONCC, his panel of senior industrialists and his financial advisers, Singer and Friedlander. He consulted the financial markets about the financial viability of his methods.

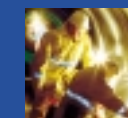
Senior industrialists

Ofwat's advisory panel of senior industrialists met on ten occasions during the year (for membership, see Appendix 6).

The panel gave the Director helpful and constructive advice. The focus has been on four main areas of the Periodic Review: efficiency; incentives; the cost of capital; and other financial issues.

Work of the Reporters

The independent Reporters audited and challenged the company information submissions and the company Business Plans. They checked that companies complied with Ofwat's reporting requirements and guidelines, and ensured that all assumptions were either exposed by the companies or highlighted in their own reports to us. This scrutiny by Reporters enables Ofwat to make informed comparisons between companies.



Collecting information and making it public

The company information submissions are placed in the Ofwat library.

Timetable for placing company information into the public domain

Information returns from companies	Submission date	Public domain release date
C Capital maintenance	14 November 1997	May 1998
D Main quality costing	20 February 1998	May 1998
E Supply/demand balance	1 June 1998	November 1998
F July Return 1998	1 July 1998	December 1998
G Cost base	5 June 1998	November 1998
H Asset inventory and system performance	14 August 1998	November 1998
I Customer consultation and strategic options	3 August 1998	November 1998
J Update of quality costing	10 December 1998	April 2000
K Business Plan	9 April 1999	April 2000
L July Return 1999	7 June 1999	December 1999
M Monitoring Plans	31 March 2000	March 2000

Role of the CSCs

The CSCs, as part of Ofwat and as the statutory representatives of water customers, played a special role in the price review. CSC Chairmen were involved in planning the review and had regular access to the Director throughout the process.

THE REVIEW OF THE REVIEW

The Periodic Review was a large and complex project. It posed intellectual and managerial challenges and involved most of Ofwat's staff over three years.

As a matter of good project management, Ofwat reviewed its overall approach and its management of the process.

The review aimed to identify what had gone well and what we could have done differently. The lessons learned will inform Ofwat's thinking for the next price review in 2004.

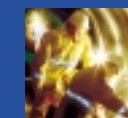
The review involved all of Ofwat's key stakeholders: its staff, customers and CSCs, the companies and their Reporters, environmental and consumer groups, other government departments, the City and the media.

The review was, in large part, conducted by an independent market research firm. This ensured that stakeholders' views on the process were properly documented. Cost-effectiveness of the price review was also considered.

We will publish a summary of the review in June 2000.

An internal review of the price review information was also carried out to inform Ofwat's thinking on data collection in future reviews. Key outcomes will be made public in the summary of the review.

The review was wide ranging. Major issues were the overall length of the Periodic Review; the extent of the material placed in the public domain; the quality and quantity of Ofwat's consultation documents and information submissions; how well the Director's objectives for the Periodic Review were met; and the quality of Ofwat's communication with the other major stakeholders.





Chapter 4

Extending competition and handling mergers

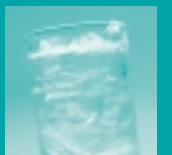
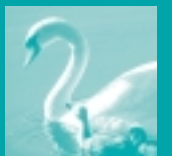
"My objective will be to achieve through regulation the same balance as would otherwise be achieved by competitive markets, aided by my ability to compare the performance of 39 separate appointed companies." (Prospectus 1989)

"I would generally wish to see a single new appointment for merged or jointly managed companies with a new price limit (K) for that company. This would ensure that all of the cost savings could be taken into account and passed on to customers as lower charges." (Annual Report 1989)

THE PAST YEAR HAS SEEN SEVERAL IMPORTANT DEVELOPMENTS IN MARKET COMPETITION.



WHEN COMPANIES PROPOSE TO MERGE, IT IS OUR JOB TO MAKE SURE THAT CUSTOMERS' INTERESTS ARE PROTECTED.



DEVELOPMENTS IN PROMOTING EFFECTIVE COMPETITION

The past year has seen several important developments in market competition.

- *The Competition Act 1998 has significantly strengthened the Director's competition powers.*
- *We have published a guideline on how the Competition Act will be applied in the water and sewerage industry.*
- *Significant progress has been made in developing a coherent framework for common carriage.*
- *The Director has granted a greenfield inset appointment that could see new household customers benefiting from competition for the first time.*

Competition Act 1998

The Competition Act 1998 came into effect on 1 March 2000. It strengthens the Director's general competition powers and is modelled on Articles 81 and 82 of the EC Treaty. The Director has concurrent powers with the Director General of Fair Trading to enforce the Act in the water and sewerage sectors.

- The Act prohibits anti-competitive agreements and abuses of a dominant market position.
- Predatory or excessive prices and contract terms that restrict customers' ability to seek competitive offers may infringe the Act.
- In addition, a water company may be abusing a dominant position if they overcharge for connection

work or insist that they complete mains requisition work themselves.

- The Act will be the catalyst for more common carriage and there are also implications for abstraction licences.

Ofwat's guideline

In January 2000, Ofwat published a guideline on how it will apply the Act to the water and sewerage sectors. Ofwat was the first utility regulator to publish a guideline in its final form. This followed consultation in July 1999. Ofwat has also held seminars to explain the implications of the Competition Act to the companies, business customers, analysts and journalists.

Beryl Brown, Head of Competition Policy

"Attitudes towards competition in the water industry are changing dramatically. The Competition Act 1998 has been introduced and companies have begun work on access codes for common carriage. The time is now ripe for market competition in the water industry to flourish."

Common carriage

The Competition Act opens up the scope for market competition through common carriage, when one company supplies water or sewerage services to its customers by using another company's network. In November 1999, Ofwat provided guidance (MD 154) on a number of important issues that companies should consider when developing their terms and conditions for common carriage. The Director asked the companies to have in place by 1 March 2000 a statement of principles governing access to their networks. The companies have done so. MD 158 (January 2000) stressed that specific legislation is not necessary for common carriage.

To help Ofwat develop its policy on and approach towards common carriage, the Common Carriage Consultative Working Group has been formed. This

comprises Ofwat staff, Professor Stephen Littlechild (Director General of Electricity Supply 1989-98), Professor David Newbery (Director, Department of Applied Economics, Cambridge University), Roger Corbett (Chairman of the ONCC Competition Group), and Kyran Hanks (Director, Government and Regulatory Affairs, Enron).

Ofwat will investigate cases where a company unreasonably refuses to share its infrastructure, or offers unreasonable terms. Such conduct might be an abuse of a dominant position and thus infringe the Competition Act.

Inset appointments

Building on the guidance published in February 1999, *Inset appointments: Guidance for applicants*, Ofwat held discussions with potential inset applicants and customers throughout the year. Some customers have, after considering competitive alternatives, made a positive choice to remain with their existing suppliers. Ofwat has also been able to tell customers about other competitive opportunities.

Abstraction licences

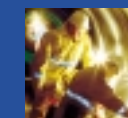
Ofwat supports greater flexibility in the abstraction licensing regime. Ofwat contributed to a study commissioned by the Department of the Environment, Transport and the Regions, which included a consideration of possible trading in abstraction licensing. The report is due to be published shortly. The Director also initiated discussions with the EA on how to administer the current regime more flexibly. A government consultation paper on possible reforms to the abstraction licensing regime will also be published at the same time.

Review of competition

In the March 1999 Budget statement, the Chancellor announced a review of competition in the water

industry. We welcomed this and have contributed to the development of the Department of the Environment, Transport and the Regions' consultation paper. The Director recommended to Ministers that the inset appointment threshold for large users should be lowered from 250 megalitres of water a year to 100. The Government announced on 13 April 2000, as part of its review of competition, that it has decided to lower the threshold. The Assembly is considering acting similarly.

- *In October 1999, the Director changed Hartlepool Water's licence to include nine greenfield sites at Wynyard South near Wolviston in Northumbrian Water's area. The developers plan to build houses as well as a hotel and leisure complex. For the first time, new household customers can see the benefits of competition.*
- *In May 1999, Albion Water (the first new licensed water supplier since privatisation) took up its appointment as the supplier for Shotton Paper on Deeside.*
- *The Director has appointed Hartlepool Water to supply water to Kodak in Harrow in place of the existing supplier, Three Valleys Water (19 April 2000). This is the first inset appointment in the South East.*
- *Ofwat published proposals that would allow Northumbrian Water to replace Hartlepool Water as the water supplier for a greenfield site that is to be developed for industrial purposes at Tofts Farm, near Wolviston in Teeside.*



COMPANY MERGERS

Ofwat has been concerned to protect customers' interests following mergers.

Keith Mason, Head of Regulatory Accounts & Business Affairs

"The first thing we want to know when a merger is proposed is: What's in it for customers?"

Ofwat policy on mergers has developed in response to the Competition Act 1998.

Parliament has indicated that it does not want to see mergers without tangible benefits. We have always argued that reducing the number of independent water and sewerage companies harms the public interest because it reduces our ability to compare company performance. In some cases, this harm may be remedied by price cuts.

The development of market competition could now be an alternative remedy. This, too, would lead to lower bills and better service for customers. There may be a case for the Competition Commission to approve mergers if the companies involved are willing to deliver competition and, more importantly, to lose the market share in their own area.

Merger activity this year

There has been one merger this year. In December 1999 UFACEX UK Holdings plc, a subsidiary of Union Electrica Fenosa SA, announced that it had acquired the entire share capital of Cambridge Water plc. Union Electrica Fenosa SA, based in Madrid, generates and distributes electricity in Spain. The Competition Commission is not required to examine this take-over as UFACEX UK Holdings plc does not currently operate any water enterprises in England and Wales.

The Director is satisfied that there will be no deterioration in the quality of services provided to Cambridge Water plc's customers. Union Electrica Fenosa's experience in delivering utility services in

competitive markets will allow it to develop the water supply business as the industry opens up to competition.

Developments from previous mergers

The Director believes that, when companies are under the same ownership and control, customers' interests are best protected by replacing their separate licence with a single one.

During the year we settled the licence arrangements to protect customers' interests in respect of two mergers (reported last year):

- *Anglian Water plc's take-over of Hartlepool Water plc;*
- *the acquisition of Wessex Water by Azurix Europe plc (formerly Enron Water (Europe) plc).*

In February 2000, we published proposals to alter Yorkshire Water's licence to include the area currently served by York Waterworks, while cancelling the latter's licence from 1 April.

We published plans to simplify licence arrangements in February 2000 for Northumbrian Water and for Essex & Suffolk Water. The proposal alters Northumbrian Water's licence as a water supplier to include the area currently served by Essex & Suffolk Water plc. This simplifies the situation that has existed since 1996, when Northumbrian Water became part of what is now the Suez Lyonnaise des Eaux Group, which already owned Essex & Suffolk Water. It will ensure that the Director receives sufficient information to continue to compare the performance of the two areas, and that the ring-fencing provisions (in Essex & Suffolk's licence) are preserved.

The new licence arrangements for both Yorkshire Water and Northumbrian Water were effective from 1 April 2000.

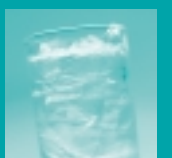
Chapter 5 Regulating company performance

"I shall compare the performance of the companies and use the examples of the best to set standards for the others to introduce an element of comparative competition. Such comparisons will cover differences in operating cost, capital cost, levels of service and customer care." (Annual Report 1989)

"My objective will be to achieve, through regulation, the same outcome as would normally arise from a competitive market." (Annual Report 1989)

"I propose to use the conditions in the licences to ensure that information is validated by independent professionals." (Annual Report 1989)

WE USE COMPARATIVE COMPETITION AS OUR MAIN VEHICLE FOR IMPROVING COMPANY PERFORMANCE. IT ENCOURAGES COMPANIES TO PROVIDE A BETTER SERVICE AT LOWER COST. COMPARATIVE COMPETITION STIMULATES THE BEHAVIOUR THAT MARKET COMPETITION MIGHT PRODUCE.



REGULATORY INFORMATION COLLECTION

We collect a range of detailed information from the companies throughout the year to enable us to compare their performance and to set them challenging but fair efficiency goals:

- the Principal Statement;
- the annual charges schemes;
- the annual return.

All of the companies make an annual return each year to the Director. These returns set out the companies' regulated activities, service to customers, expenditure and performance. They include the regulatory accounts. Reporting guidelines set out the information that companies are required to submit. The returns are available for purchase on CD-ROM and can be inspected in the Ofwat library. The submission date was brought forward from early July to early June in 1999.

REPORTERS

Each company must employ a named individual as Reporter. The Reporter reports to the Director on the accuracy and reliability of regulatory information, and on underlying company assumptions.



Irene Millward,
Reporters' Co-ordinator

"Good regulatory decisions are based on good quality comparable information. We have developed a sound process to ensure the quality of the regulatory information which the companies submit to us. We do this by using Reporters to examine and test that information."

The Director needs succinct reports that address his key concerns and issues not covered by the company in its submission. To achieve this, this year we have:

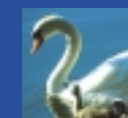
- held workshops to maintain Reporter awareness of regulatory developments;
- provided specific guidance for each information submission;
- assessed audit plans for compliance with guidance and protocol, and set audit ceiling costs;
- assessed and provided feedback on performance (we do this annually) – where improvement is necessary we intervene;
- employed KPMG and Babbie Group to review the Reporter process – they confirmed that the Director should feel confident in relying on the Reporters' evaluation of company regulatory information.



Left to right are: James Davies, Roger Sawdon, David Arnell, John Brindley, John Wild, Ian Cartwright-Taylor, John Holmes, Bill Emery (Ofwat's Director of Costs & Performance and Chief Engineer), Jon Bateman and Jeremy Long.

We recognised the achievements of those Reporters whose work had made the most significant contributions to the regulatory process. During the Periodic Review we presented awards to Reporters and their teams for the major submissions:

- Roger Sawdon and his team from W S Atkins, reporting on South West Water Services Ltd Main Quality Costings (Submission D, February 1998), 1998 July Return (Submission F) and Update of the Costs of Quality (Submission J, December 1998);
- John Brindley and his team from W S Atkins, reporting on Southern Water Services Ltd Supply & Demand Balance (Submission E, June 1998) and Business Plan (Submission K, April 1999);
- David Arnell and his team from Binnie Black & Veatch, reporting on Northumbrian Water Ltd Cost Base (Submission G, June 1998) and 1999 July Return (Submission L);
- John Holmes and his team from Montgomery Watson, reporting on Folkestone & Dover Water Services Ltd 1998 July Return (Submission F);
- James Davies and his team from Halcrow Management Sciences, reporting on North West Water Ltd Asset Inventory & System Performance (Submission H, August 1998);
- Jeremy Long and his team from Binnie Black & Veatch, reporting on Anglian Water Services Ltd Customer Consultation & Strategic Options (Submission I, August 1998);
- Jon Bateman and his team from Halcrow Management Sciences, reporting on South Staffordshire Water plc Update of the Costs of Quality (Submission J, December 1998);
- Ian Cartwright-Taylor and his team from W S Atkins, reporting on Mid Kent Water plc Business Plan (Submission K, April 1999);
- John Wild and his team from Binnie Black & Veatch, reporting on Bournemouth & West Hampshire Water plc 1999 July Return.



MONITORING PERFORMANCE

All water companies are obliged by law to meet a range of quality standards on time. When setting price limits, we assume that companies will improve their assets to meet these quality standards for drinking water and environmental water – for example, in rivers, estuaries and coastal waters.

The DWI and the EA are responsible for monitoring and enforcing the relevant standards.

Since 1995, a joint regulatory approach has developed. Both quality regulators provide information on company performance each year to the Director. The Director assesses whether the companies are delivering the improvements he expects. If there are shortfalls, the Director adjusts prices at the next review to ensure that companies do not gain financially from being late, or from failing to deliver.

Rowena Tye,
Head of Quality Enhancements Team

"Since privatisation, there has been, and continues to be, a massive programme to maintain equipment and pipes already in place, and to improve these assets. This £30 billion of capital expenditure since 1990 has led to the percentage of tests passing standards for drinking water rising from a high 99% in 1990 to 99.78% in 1998. The quality of both river and bathing waters has also improved substantially. Public awareness of the quality of water, both natural and drinking water, has also increased during the last ten years."

Defining standards of service indicators

Measures of service need to co-evolve with the industry.

As companies' performance has improved across the industry, existing comparative assessments risk

drawing distinctions on performance that customers do not perceive as significant and of encouraging companies to invest in areas that are not real priorities. We have therefore defined standards in all areas where performance is measured, except for flooding from sewers (as the weather causes significant variation) and water pressure (where performance is improving rapidly). This means that companies are clear about the minimum standards needed, and what is a good standard.

Ofwat is also working with the industry to develop means of measuring quality of service: for example, on handling telephone calls. The work of the CSCs in carrying out random audits continues to be important, and Ofwat has worked with them to secure greater consistency of assessments.

Monitoring serviceability

We have monitored company performance in delivering serviceability to customers, including mains bursts, interruptions to supply, low pressure, sewer collapses and flooding. Serviceability has been maintained and in some cases improved. In their annual returns, companies have also been reporting substantial efficiencies in their capital programmes. We have taken account of these in the 1999 price review, enabling future prices to reflect both past efficiency and the scope for future efficiency.

International comparators

We believe the water industry in England and Wales to be among the best in the world. Ofwat keeps abreast of international developments.

Since 1998 we have sought to extend the boundaries of our work and consider how water and sewerage services are provided overseas. Our latest report (August 1999) looks at Sydney Water and Western Australia.

MULTI-UTILITY REGULATION AND TRANSFER PRICING

During 1998-99, Ofwat visited eight water companies, including the multi-utilities, to ensure that they are trading at arm's length with other group companies. Where companies failed to demonstrate arm's length trading, Ofwat made a downward adjustment to the water companies' base operating costs at the Periodic Review. This adjustment was based on the principle that any services provided by group companies which were not arm's length, should not earn any profit, and so should essentially be viewed as services provided in-house. In addition to these adjustments Ofwat also published companies' compliance with RAG 5.02 – the guideline for arm's length trading – in the 1998-99 report on financial performance and capital expenditure.

Strengthening ring fencing

Ofwat strengthened the ring fence of seven more water companies this year, which are subsidiaries of larger groups. These are Bournemouth & West Hampshire Water plc; Essex & Suffolk Water plc; Folkestone & Dover Water Services Ltd; North Surrey Water Ltd; South East Water plc; Tendring Hundred Water Services Ltd and Three Valleys Water plc. This ensures that customers are adequately protected from cross-subsidising other services received from or provided by other companies within the group.

PUBLISHING THE FIVE ANNUAL REPORTS

The results of our monitoring are published in five annual reports that provide and interpret this information for customers and other stakeholders. The reports are free of charge and are all available on the Ofwat website:

■ The *1999-2000 Report on tariff structure and charges* (May 1999) sets out Ofwat's tariffs policy and the level of company's charges in comparative tables. The document invited comment on the process for the approval of charges schemes under the new Water Industry Act 1999. It also included for the first time companies' estimates of long run marginal cost. The 2000-01 tariff report was published on 8 May 2000.

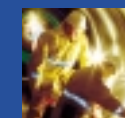
■ The *1998-99 Report on the financial performance and expenditure of the water companies in England and Wales* (September 1999) set out the levels of capital investment in the water industry. For the first time, this report included an analysis of companies' operating expenditure. The report showed that companies continue to reduce costs and increase efficiency. The benefits were passed to customers in the price review.

■ The *1998-99 Report on levels of service for the water industry in England and Wales* (September 1999) included Ofwat's assessment of overall standards of service over three years. This assessment affected price limits for some companies. This provided companies with further incentive to improve service and a disincentive to reduce service standards through cost cutting.

■ The *1998-99 Report on leakage and water efficiency* (December 1999) set out new leakage targets for 1999-2000 and showed how the companies had performed against 1998-99 targets.

John Simpson,
Head of Comparative Efficiency Team

"We have put in place a clear and consistent framework for companies to report on what happens to the water they put into supply. We now have leakage estimates that are reliable enough to monitor companies against annual targets. As a result, companies are moving closer to levels of leakage that are sustainable in the long term."



- The 1998-99 Report on water and sewerage service unit costs and relative efficiency (March 2000) included for the first time the assessment of companies' efficiency which Ofwat had used to set price limits.

From now onwards we will publish the levels of service and financial performance reports earlier (in July). This is to ensure that information is put into the public domain on a more timely basis to coincide with companies' announcements of full-year results to the City.

Improving levels of service

- Introduction of overall performance adjustment which rewards good service to customers and penalises poor performance.
- Properties at risk of low pressure: 1.85% (around 419,000) in 1990-91, now 0.17% (38,500).
- Properties subject to unplanned supply interruptions, of 12 hours or more: 0.42% in 1990-91 and 0.05% in 1998-99. The lowest ever recorded level.
- Population subject to hosepipe bans: 41% in 1990-91 and 3% in 1998-99.
- In 1998-99, 0.02% of properties experienced sewer flooding. Properties at risk fell from 0.13% in 1990-91 to 0.07% in 1998-99.
- Responses to billing contacts within five working days increased from 69% in 1990-91 to 97.5% in 1998-99.
- Nearly 99% of written complaints responded to in 10 days in 1998-99, compared with almost 69% in 1990-91.

INFORMING REMUNERATION COMMITTEES

The Director wrote to the Remuneration Committee of each company enclosing his annual reports on levels of service and unit costs and relative efficiency. In doing so, he encourages them to be transparent in any links between services delivered to customers and decisions on directors' pay. This is in accordance with Ministers' wishes as expressed in the White Paper, *A fair deal for consumers*.

BALANCING SUPPLY/DEMAND

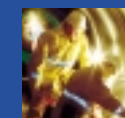
Water companies must be able to deal with normal variances in climatic conditions and still deliver the services that customers expect. Ofwat will investigate failures and take regulatory action as appropriate, as it did for Yorkshire Water Services Ltd in 1995 and Mid Kent Water plc in 1999. However, in exceptional circumstances, such as the 1995-96 drought, some service restrictions may be appropriate, particularly for unmeasured customers.

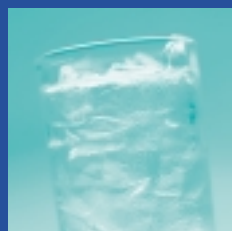
Mid Kent Water's failure to supply piped water to 3,000 customers last summer were thoroughly investigated by Ofwat (see opposite).

Regulatory action and dealing with failures

- All but two companies met leakage target levels set by the Director for 1998-99 – Bournemouth & West Hampshire Water is required to report quarterly to Ofwat about its progress after narrowly missing its target. A significant error was found in South East Water's leakage data. Ofwat investigated and required the company to report quarterly on leakage reductions.
- In Autumn 1998 we wrote to 13 companies about aspects of their performance. As a result, most companies reported improvements. The performance of three companies in answering telephone calls from customers was unacceptable. As a consequence, Northumbrian Water and York Waterworks have been required to produce quarterly reports. North West Water has to provide a monthly report. The performance of all three companies has now improved.

- An Ofwat inquiry was carried out following Mid Kent Water's failure to maintain a piped water supply to 3,000 of its customers. Management failures were found to be at the root of the problem and a number of learning points emerged. In particular the interruption, which lasted as long as four days for some customers, was not the result of a lack of resources or unprecedented demand. Both internal communication and the level of information provided to customers were found to be inadequate. The company accepted that better contingency planning is required and has implemented an action plan intended to address these issues. Everybody living in the affected areas received compensation of £50 from the company. Households who had been directly affected were awarded an extra £50.





Chapter 6

Paying for water and approving charges schemes

"I propose to stimulate a public debate on methods of charging for water and on the structure of water tariffs." (Annual Report 1989)

"The debate also needs to cover the structure of water charges especially the relationship between standing charges and other fixed charges, and elements in the tariff which relate to the volume of water used." (Annual Report 1989)

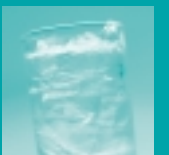
OFWAT CONTINUES TO PROTECT CUSTOMERS' INTERESTS IN RESPECT OF THE CHARGES THEY PAY FOR WATER AND SEWERAGE SERVICES.



UNDER THE WATER INDUSTRY ACT 1999, FOR THE FIRST TIME, THE DIRECTOR APPROVED COMPANIES' CHARGES SCHEMES FOR THE YEAR BEGINNING 1 APRIL 2000.



THE PRINCIPLES OUTLINED IN *PAYING FOR WATER: THE WAY AHEAD – THE DIRECTOR GENERAL'S CONCLUSIONS* (DECEMBER 1991) CONTINUE TO GUIDE OFWAT'S APPROACH TO CHARGING ISSUES.



WATER INDUSTRY ACT 1999

The Water Industry Act 1999 received Royal Assent on 30 June 1999. For England and Wales, the Act provides new entitlements for water consumers, particularly household customers. It prohibits the disconnection of the water supply to homes for reasons of non-payment. It gives many consumers new rights to choose the basis on which they are charged for water and sewerage services. It allows for rateable value to continue to be used as a basis of unmeasured charging after 31 March 2000. It allows for the Secretary of State to make regulations concerning particular charges to be applied to particular groups. For the first time, each company had to obtain the Director's approval for its charges scheme.

30 June 1999:

Act became law. Ban on disconnection for non-payment of charges took effect.

22 December 1999:

Regulations made: the Water Industry (Charges) (Vulnerable Groups) Regulations 1999; and the Water Industry (Prescribed Conditions) Regulations 1999.

1 April 2000:

Remaining provisions of the Act and the Regulations took effect.

Approval of charges schemes

Once price limits are set, each company has to decide individual charges. These are published in annual charges schemes.

For the first time, the Director approved companies' schemes this year. The Director consulted customers, companies and others, then set out the approach he would follow in approving these schemes. The Director has taken account of guidance from the Secretary of State. He has also ensured that the schemes implemented the new legal entitlements under the 1999 Act.

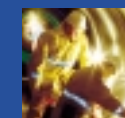
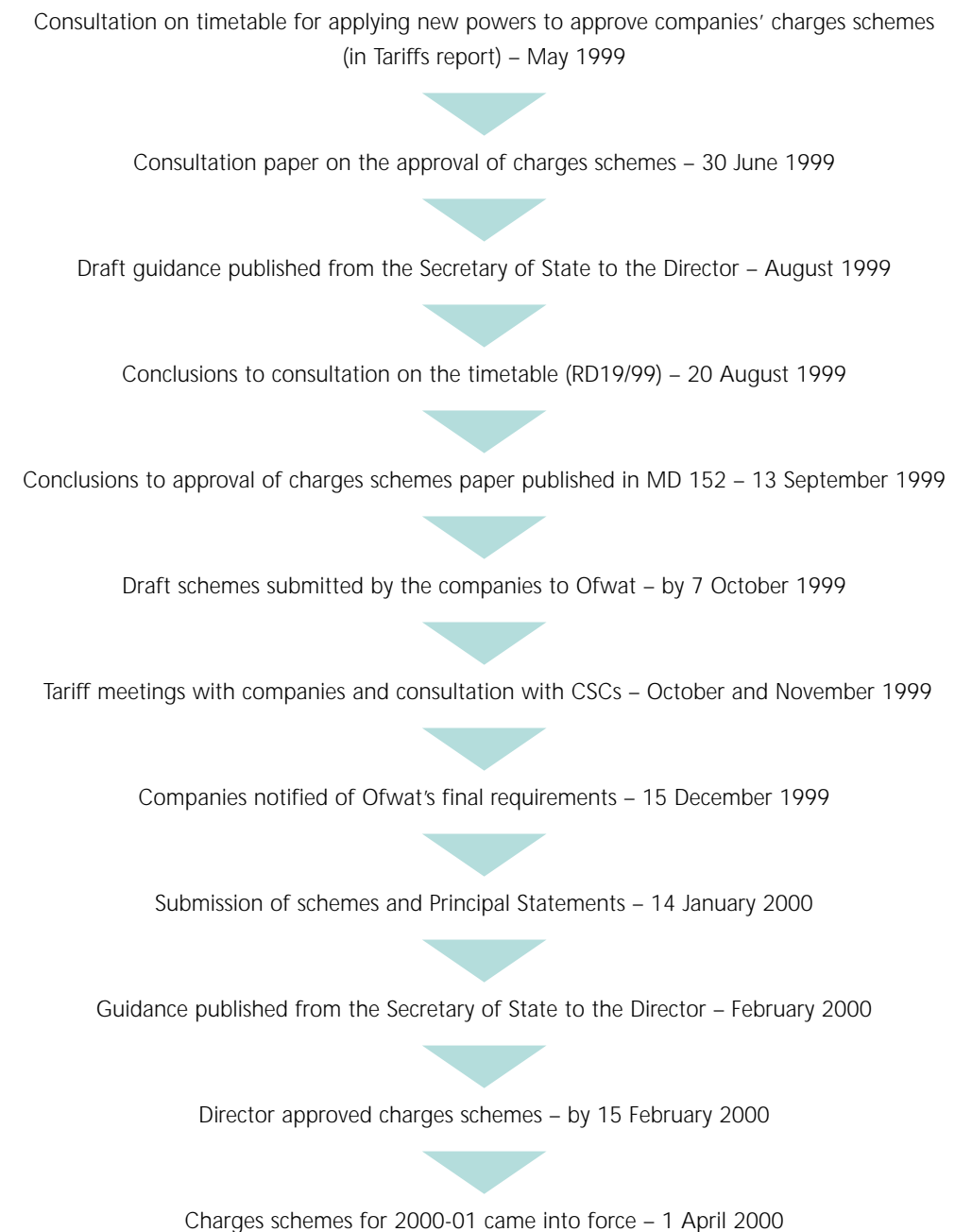
In the context of the first year reduction in charges underlying the new price limits, the Director applied six key principles in approving charges schemes for 2000-01.

- **Charges should reflect costs.** This has meant, for example, that the reduction in water charges is not always the same as the reduction in sewerage charges. In November the Director set out the price splits that the companies would be expected to follow. The charges schemes reflect this requirement.

- **Reducing standing charges for metered customers.** These should generally be greater than reductions in volumetric charges. This encourages sensible use of water. Companies have a duty to promote the efficient use of water by all of their customers. Ofwat has ensured that the companies maintain these incentives, and standing charges have been reduced by 15-20% this year.

- **Companies should set the levels of measured and unmeasured charges to ensure a fair balance of charges between them.** Any difference should be no greater than the extra cost of metering (estimated as £30 this year).

KEY DATES IN THE APPROVAL OF CHARGES SCHEMES TIMETABLE



- Companies should set a fair balance between measured sewerage charges and trade effluent charges. Differences in bills should reflect only differences in volume and strength of discharge.

- Companies should offer rebates for customers whose properties do not drain surface water to the companies' sewers. Five more of the water and sewerage companies offered rebates for the first time this year (bringing the total to seven). Following pressure from Ofwat, the remaining three companies have now committed to introduce rebates by next year.

- Companies should set charges for large users, with reference to the long run marginal cost of supply (LRMC). Where there was scope for reductions in the final determinations, Ofwat required the companies to justify proposed changes in large user volumetric rates by reference to robust estimates of LRMC – that is, the continuing costs of meeting increases in demand.

Companies must have a charging strategy in place for managing possible increases in demand – the LRMC. Tariff structures need to be developed so that those customers placing additional demands on companies should face tariffs that reflect additional costs.

Details of Ofwat's approach, together with information on companies' charges and tariffs, are contained in Ofwat's *2000–01 Report on tariff structure and charges* (May 2000).

Other changes introduced by the 1999 Act

The 1999 Act makes a number of significant changes to water charging arrangements. These came into effect on 1 April 2000.

Optional meters

All household customers are now entitled to have a meter fitted free of installation charge. Previously, only 13 companies offered this option. This entitlement is subject to the installation being practical and not

unreasonably expensive. The Director has powers to determine any disputes about practicalities or expense. The Director set out, in MD 152, the approach that he will adopt in determining such disputes, by defining in broad terms those expenses he would consider reasonable and those he would not. Ofwat has ensured that companies have followed this approach in their charges schemes.

Where it is impractical or too expensive to install a meter, the Director has required companies to offer customers the option of an assessed charge. This will deal with any major unfairness for customers who cannot be charged according to what they use, and takes account of the Secretary of State's draft guidance on this matter.

The 1999 Act requires companies to set out in their charges schemes their timescales for installing meters. The Director has agreed timescales ranging from three to six months for the first year, but expects all companies to have a timescale of three months or less next year. Where companies do not meet these timescales, they must compensate customers.

Tariffs for vulnerable groups

The 1999 Act enabled the Secretary of State and the National Assembly for Wales to make regulations protecting customers who might face hardship as a result of being charged by meter. For companies in England, these come into effect on 1 April 2000. Similar provisions are being offered to customers in Wales. Ofwat played an active role in advising the Department of the Environment, Transport and the Regions on the regulations and ensuring that they were made in time for companies to incorporate them into their charges schemes for 2000-01.

It is important that companies administer applications for assistance effectively. Ofwat has insisted on companies setting out their administrative arrangements for handling applications, including checking their validity.

Limits on compulsory metering

New regulations, made under the 1999 Act, prohibit compulsory metering of existing households, except in certain prescribed circumstances (such as use of sprinklers or swimming pools). Ofwat has ensured that companies' charges schemes comply with these.

Companies can apply to the Secretary of State for the right to meter compulsorily in water scarce areas. A number of companies are expected to do so in order to implement their strategies to balance supply and demand. Ofwat will provide advice in the event of such an application.

FURTHER CHANGES AFFECTING BUSINESS CUSTOMERS

Trade effluent charges

In August 1999, the Director wrote to the companies (MD 150). In the context of continuing investments in wastewater treatment, he outlined best practice guidance on how to introduce any increases in charges resulting from new levels of treatment.

- Companies should give their customers appropriate price signals in advance of commissioning new treatment facilities.
- Companies should also undertake surveys to gauge the impact on demand of increasing charges for these services.
- If companies do not follow best practice, they should offer some form of transitional relief (for example, capped charges for up to two years).

The Director has asked the CSCs to report to him regularly on company performance.

Timing and methods of payment

Charges schemes must include companies' arrangements for the timing and methods of payment of bills by customers. Ofwat has insisted on minimum requirements, with particular reference to the needs of customers who face difficulties in budgeting for essential household bills. These requirements build on the guidance Ofwat issued to companies, in 1991, on handling debt.

Key requirements are that:

- all customers should have the option of spreading payment throughout the year;
- there should be provision for weekly or fortnightly payments;
- there should be provision to make payments in cash, free of charge, at reasonably accessible locations;
- companies should commit themselves to using the Direct Payment Scheme in appropriate cases; and
- companies should offer a range of payment methods reflecting the needs of different groups of customers.

All companies' charges schemes meet these requirements from 1 April.



Tariff basket changes

This year Ofwat amended the companies' licences to remove customers using more than 250 million litres of water a year from the tariff basket. This change came into effect on 1 April 2000. Large user customers are part of a competitive market that does not require the same degree of regulation as other groups of customers. Taking large users out of the tariff basket now means that companies cannot recoup from other customers lost revenue arising from reductions in tariffs to large users.

Special agreements

Some customers pay a non-standard charge for their water supply or sewerage or trade effluent service. These charges should reflect the costs the customer imposes. Ofwat has placed a special agreements register in the public domain again this year.

Chapter 7

Customer protection and working with customer representatives

"A good understanding of the customers' viewpoint will be critical to Ofwat's success in protecting the customers' interest." (Annual Report 1989)

"I intend that the CSCs will play a major role in ensuring that the interests of the consumers get high priority. They should be effective and streamlined bodies." (Prospectus 1989)

CLOSE WORKING RELATIONSHIPS BETWEEN THE REGULATOR, THE TEN CSCS AND THE ONCC ARE ESSENTIAL TO ENSURE THAT WATER INDUSTRY REGULATION SERVES THE NEEDS OF CUSTOMERS. THE INTEGRATION WITHIN OFWAT OF CUSTOMER REPRESENTATION AND ECONOMIC REGULATION WORKS WELL.

THIS YEAR, FOR THE FIRST TIME, THE DIRECTOR AND CUSTOMER REPRESENTATIVES PUBLISHED COMPLEMENTARY FORWARD PROGRAMMES. THIS REINFORCES THEIR OPEN AND TRANSPARENT WAY OF WORKING.

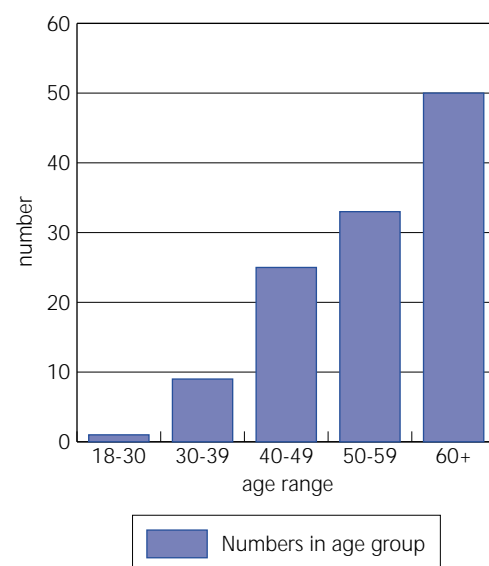


CUSTOMER REPRESENTATION

The Director works closely with the CSCs and ONCC to achieve benefits for customers. Regular meetings are held to discuss policy affecting customers and the Director continues to support their work by providing resources and accommodation.

Reviewing company performance is a crucial part of the work of the CSCs. They produce reports which allow the Director to make more accurate, informed decisions about the service provided by companies to their customers. This in turn affects the price limits which the Director sets.

The CSCs received over 12,000 complaints in 1999-2000. They obtained compensation and refunds for customers amounting to £0.5 million.



Review of CSC appointments

Membership of the ten CSCs is reviewed annually. Of the 35 members whose appointments expired in April 2000, 20 were re-appointed and 14 new appointments were made.

At 31 March 2000 the total membership of the CSCs was 118. There were 47 (40 per cent) women and 9 (8 per cent) from ethnic minority groups. The members' age profile is shown above.

Advertising and recruitment

CSC membership vacancies are advertised in local newspapers. The Cabinet Office Public Appointments Unit (PAU) is also contacted and a number of candidates on their lists approached. Of the 14 new appointments, 10 came from newspaper advertising, 2 from the PAU and 2 from other sources.

Details of CSC Chairmen's appointments are set out in Table 1 opposite. There were no reviews and/or changes in appointments during the year.

All CSC appointments are announced. All membership details are available on the Ofwat website.

Table 1: CSC Chairmen as at 31 March 2000

CSC	Chairman	First appointed	Current appointment started	Appointment ends	Monthly time (days) commitment	Remuneration £
Central	Clive Wilkinson	26.2.90	26.2.97	25.2.01	6	13,859
Eastern	Roger Corbett	1.4.94	1.4.94	31.3.01	6	13,859
North West	Maurice Terry	26.2.97	26.2.97	25.2.01	8	18,482
Northumbria	Jim Gardner	26.2.90	1.4.97	31.3.01	8	18,482
Southern	John Beishon	1.10.96	1.10.96	30.9.00	7	16,154
South West	Jessica Thomas	1.4.93	1.4.97	31.3.01	8	18,482
Thames	Herman Scopes	19.4.97	19.4.97	31.3.01	7	16,154
Wales	Raymond Roberts	26.2.90	26.2.97	25.2.01	8	18,482
Wessex	Sheila Reiter	1.8.95	1.8.98	31.3.01	12*	27,723
Yorkshire	Eric Wilson	26.2.94	26.2.94	25.2.01	8	18,482

* includes four days as ONCC Chairman

Membership application form and leaflet

Applications are welcome from all sections of the community. A keen interest in consumer affairs is essential but knowledge of the water industry is not. Training is provided on appointment.

A membership application form and leaflet (*A water watchdog role for you?*) are available from CSC offices and from Ofwat HQ in Birmingham.

Training

On appointment, all new members have the opportunity to attend a two-day residential course, *Background to the water industry in England and Wales*, and a one-day course, *Understanding water company accounts and the K factor*. The benefits of this and other training are evaluated. A training plan is produced annually for the year ahead.

CSC members' expenses

CSC members are unpaid, but travel, other out of pocket expenses (including childcare costs) and loss of earnings may be claimed.

CSC members receive the same motor mileage rates as Ofwat staff, which are tied to the Inland Revenue fixed profit car scheme rates. These have not been increased for four years in succession.

CSC membership database

We have developed a new in-house membership database during the year. This will enable us to process applications for membership and the review of members' appointments more efficiently. It also streamlines the production of statistics required on public appointments by the Cabinet Office and other bodies.



Honours

Heather March, member of the CSC for Wales, and Anne Mayes, member of the South West CSC, were awarded MBEs in the Queen's New Year's Honours 2000. This takes to eight the number of MBEs awarded to CSC members for services to water customers.

Annual reports

The work and achievements of the CSCs and ONCC are described in their annual report, *Representing water customers 1999-2000*, which will be published in June 2000.

REFORM OF REGULATION

During the year we engaged in discussions about the Utilities Bill and the implications on the way we regulate the water industry.

The Utilities Bill was introduced in the House of Commons on 19 January 2000. It implemented the policies in the Government's White Paper, *A fair deal for consumers: modernising the framework for utility regulation* (July 1998). It also confirmed the Secretary of State for Trade and Industry's July 1999 announcement that the office of the Director General of Water Services would continue, but that the Director would work with a legally-constituted advisory panel, appointed by the Secretary of State, and would seek its advice on specified matters.

The White Paper proposed changes in the arrangements for consumer representation, greater regulatory transparency and more joint working between sector regulators. Those objectives reflected much of the good practice already established between the sector regulators. Following consultation,

the Government proposed the establishment of independent customer representation through a Consumer Council for Water, replacing the CSCs and ONCC.

When the Bill was published, the Director expressed reservations about its prescriptive nature. He was concerned that it did not effectively translate the Government's policy into legislation. He was particularly concerned that the relationship between the regulator and the new Consumer Council for Water was clumsy and untidy.

The Director was concerned that many of the provisions in the Bill would either:

- increase regulatory risk, with potentially adverse effects on the cost of capital; or
- increase the cost of operating Ofwat, or the costs imposed on the licensed companies by more prescriptive regulation.

He advocated an urgent review to address those two issues.

The Director and ONCC began work on a draft Memorandum of Understanding between the Director and the Consumer Council for Water, which would be required by the Bill, building on the close working relationship that has been built up over the last ten years between regulator and customer watchdog.

The Director was also not persuaded that the case for appointments by the Secretary of State to the proposed advisory panel had been properly made. He is currently advised by a panel of senior industrialists, who provided valuable help to him in preparing for his final determinations. He believes that this model can be developed to provide his successor with well-informed business and other outside advice. If appointments were made by the Secretary of State, public perception of regulatory independence might be compromised.

On 2 March 2000, the Government announced that it would remove the provisions relating to water from the Utilities Bill and that it would instead progress water issues through a new Water Bill. Ofwat looks forward to working closely with the Department of the Environment, Transport and the Regions in the drafting of the new Bill.

This change in programme is an opportunity to improve the proposals and to simplify the drafting.

The Director will argue that any clauses which are brought from the Utilities Bill should take account of concerns about the relationship between the regulator and the proposed Consumer Council for Water. These include:

- retaining his responsibility to collect and publish statistics about the companies' levels of service and performance standards;
- handling complaints where the Director has dispute resolution powers;
- handling disputes between the Consumer Council for Water and a water company about the provision of information.

The proposed new Consumer Council for Water and other proposals are unlikely now to be implemented before April 2002.

In the meantime it is business as usual for the regulator. Customers' interests will continue to be effectively protected, as they are now, by the Director, the CSCs and ONCC.

CUSTOMER PROTECTION

Complaints

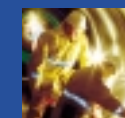
Ofwat HQ dealt with 749 complaints and disputes in 1999-2000. This is an increase of 108 (16%) over last year. We obtained compensation and rebates amounting to £286,340.

The Director dealt with 26 cases alleging breaches of statutory duty or licence requirements. He concluded that no company was in breach of statutory or licence requirements.

The Director considered 29 complaints which the CSC had been unable to resolve with the companies. He supported the CSC's recommendation in ten cases. In five cases he was unable to support the CSC. The companies accepted his recommendation in all but two of these. Fourteen cases are ongoing.

Following the Director's intervention, Wessex Water paid a business customer £150,000 because, although the customer had paid full sewerage charges, a volume of water recorded on the customer's meter had leaked away and not been returned to the public sewer.

The Director dealt with 38 complaints about the CSCs' investigations. He did not uphold any of the complaints but in four cases he obtained increased compensation for the complainant. Four cases are ongoing.



Water connection charge disputes

The Director settled 37 disputes. Of these, 33 determinations were in favour of the customer. Companies were required to make refunds ranging from 3% to 85% of the original charge and averaged 32%.

Following consultation with developers, and the water industry, the Director introduced a time limit for the consideration of connection charge disputes. From 1 April 1999 the Director will only consider disputes which are referred within two years of the connection being made.

The Director reviewed all companies' connection charges schemes. He has raised concerns about the level of charges with some companies and ensured that all companies provide appropriate advice about his power to determine disputes.

Sewer appeals

The Director received nine appeals and 32 enquiries during the year. Five appeals were resolved informally. Two determinations were issued, upholding the appeal.

Trade effluent

Of the ten cases brought forward from last year, seven formal determinations were issued. Four new cases have been received and it is anticipated that six of the seven outstanding cases will be resolved without the need for formal determination.

Street works

Companies are increasingly starting work in private streets without approaching the street managers (the landowners) and this is leading to more approaches to Ofwat. Seventeen complaints have been made to Ofwat, but none have required formal arbitration.

Pipelaying in private land

Seventy-six informal complaints were resolved, usually by the company agreeing additional compensation payments, or by doing further reinstatement.

Additional quantifiable compensation amounting to £28,000 was obtained for landowners. There were two formal determinations, resulting in awards of £2,500. New codes of practice have now been approved, which are expected to result in better communication between companies and landowners.

Guaranteed Standards Scheme (GSS)

The Director settled 13 disputes under the GSS and in five cases concluded that the customers were entitled to payments. In one other case, a company accepted his recommendation to pay compensation.

Review of the Guaranteed Standards Scheme

The GSS provides for statutory levels of compensation where a company fails to deliver a minimum standard of service to its customers. Earlier this year the Director published a consultation paper proposing a number of revisions to the existing scheme. In September he wrote to Ministers with his formal recommendations. The key changes proposed are: increasing the level of payment from £10 to £20; making the companies pay automatically (at the moment customers have to claim a payment for certain service failures); and tightening up some of the existing standards, for example reducing the time for companies to respond to written complaints to ten working days. The new regulations will come into effect by the summer.

Customer satisfaction surveys

Ofwat has been discussing with the industry the best way to monitor routinely general customer satisfaction with the services provided by companies. Ofwat is currently consulting the companies on a proposal that they should report the results annually to Ofwat.

Customers with special needs

Ofwat, together with the CSCs, continues to monitor companies' policies and practices in providing services to customers with special needs. This work feeds into the overall performance assessment for each company. Company activity is generally satisfactory. In

October 1999, key sections of the Disability Discrimination Act were implemented and Ofwat is convening a conference of interested parties to discuss the requirements of the Act and promote good practice.

Water resale

In 1999 the Director undertook a consultation on a proposed approach to limiting the maximum amount which may be charged by a person reselling water or sewerage services. (For example, where the owner of a mobile home park purchases water and sewerage services from an undertaker and resells those services to his tenants.) The proposals were based on the principle that resellers should be able to recover only the costs of those services plus any costs associated with billing and maintaining meters.

The Director's proposals received broad support and a draft Maximum Resale Price Order has now been published (April 2000).

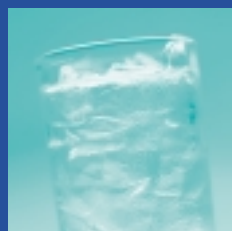
The efficient use of water

Ofwat has continued to monitor how each company fulfils its duty to promote the efficient use of water by its customers. Industry activity has increased significantly since 1996-97, and companies are generally meeting the commitments laid out in their initial water efficiency plans. In the light of experience, Ofwat has required the companies to review aspects of their plans and to submit the results in June 2000. There are concerns about:

- the lack of robust data on the cost-effectiveness of company activity; and
- the need for the wider dissemination of good practice.

Ofwat is addressing these concerns.





Chapter 8

Open and effective regulation – Ofwat management

"I have a highly skilled and motivated staff. I want to ensure that their capabilities are given a structure in which they can be used to the full." (Annual Report 1990)

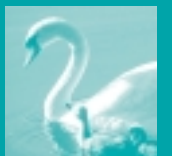
OFWAT'S RESOURCES ARE COMMITTED ANNUALLY TO SUPPORT THE DIRECTOR IN DELIVERING HIS STATUTORY DUTIES AND FORWARD PROGRAMME OBJECTIVES.



WE CONTINUE TO INVEST IN OUR STAFF AND ACHIEVED INVESTORS IN PEOPLE STATUS.



WE HAVE CONTINUED TO CONTROL OUR COSTS THIS YEAR.



INVESTOR IN PEOPLE



STAFF DEVELOPMENT

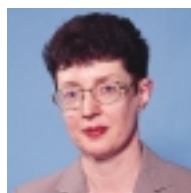
During the year, Ofwat has recruited new staff in preparation for the Competition Act 1998 and the Water Industry Act 1999.



The Director receives Ofwat's Investors in People certificate from Environment Minister Chris Mullin MP.

In October, Ofwat achieved Investors in People accreditation. The achievement was marked by a presentation by Environment Minister Chris Mullin MP in December.

Over £200,000 was spent on training and development during the year, to help staff achieve their potential and to develop their talents. We sponsored a graduate trainee scheme and have so far sponsored eight staff places on a post-graduate course on utility regulation at Warwick University.



Liz Davidson, Head of Human Resources

"We have a strong record in recruiting excellent staff from a diverse range of backgrounds. Over the years, we have invested in developing the talents of staff."

Ofwat recruits on merit through fair and open competition. This ensures opportunity for employment, regardless of race, sex, physical disability or marital status. There have been two permitted exceptions to fair and open competition. Both were short-term appointments made by fair and open competition and subsequently required permanently.

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 to internal audit by a senior manager, to ensure that Ofwat's recruitment policy is being properly followed.

Table 2: Recruitment undertaken

Level	Number appointed	Proportion of women (%)	Proportion from ethnic minorities (%)
Head of team/function	3	67	0
Middle management	16	63	13
Clerical and secretarial	16	100	19
Total	35	80	15

Ofwat has a total of 209 staff, of whom:

- 60% are women;
- 16% are from ethnic minority groups;
- 7 are members of the Senior Civil Service (six men and one woman);
- 11% are employed on fixed-term and casual contracts;
- 12% work part-time;
- 24% work in the CSCs.

Below is a summary of the remuneration of the Director and members of the Senior Civil Service in Ofwat (salaries as at 31 March 2000).

The salary of the Director is £112,463.

Table 3: Salaries for members of the Senior Civil Service

£90,000 - £94,999	1
£75,000 - £79,999	1
£70,000 - £74,999	2
£60,000 - £64,999	1
£55,000 - £59,999	1
£50,000 - £54,999	1

Table 4: Estimated running costs outturn for 1999-2000 (by activity group)

Activities	Estimated running costs (£)
Regulatory action	5,906
External Relations and Legal Services	1,104
Finance, Human Resources, Services and Operations	958
Customer Service Committees and Consumer Representation	2,242
IT Services and Information Management	660
TOTAL	10,870

Organisational structure

In November 1999, the office restructured its management team to respond to the Competition Act 1998 and the Water Industry Act 1999.

FINANCE

During the year, the office spent £10.9 million. Table 4 below summarises the main areas of expenditure. We maintain sound financial management to ensure that Ofwat can fulfil objectives within budget. The Periodic Review and the Competition Act generated particular cost pressures. At the end of the year we had met our financial targets.

Efficiency savings

As companies are required to manage efficiently, Ofwat also has an objective to control costs and provide value for money. In March 2000 companies were notified that licence fees for 2000-01 would be reduced by £500,000. This fall in the charges to companies was delivered through economies achieved in the financial year 1998-99. We will continue to keep within our licence fee ceiling and manage an efficient office.



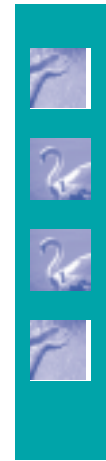


Table 5: Estimated running costs outturn for 1999-2000 (by expenditure group)

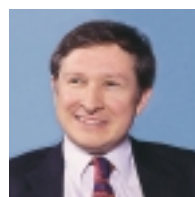
Expenditure group	Estimated running costs (£)
Permanent staff	6,453
Agency and secondees	141
Consultancy	913
Accommodation	1,352
Other costs such as training, travel, stationery and telecoms	2,011
TOTAL	10,870

The office remains on target to convert its accounts in line with the Government's Resource Accounts and Budgeting initiative.

Ofwat's expenditure is entirely covered through licence fees paid by the water companies directly to the regulator.

SUPPORT SERVICES

We have continued to implement best practice in support services, notably this year by promoting effective security management and adopting more 'green' practices.



John Thompson,
Services Manager

"We have developed active and professional facilities management to manage change and to ensure that staff are well equipped to deliver our objectives. Effective property management, better use of space and value for money procurement, have all contributed to our improving performance."

INFORMATION SYSTEMS

The past year has laid a solid foundation for the future following previous years' investment in a new IT infrastructure and applications. These systems passed the ultimate test of the Periodic Review.

Information technology strategy

The IT strategy concentrated on keeping the system available during the Periodic Review. We are now developing an Ofwat Intranet and connecting to the Government Secure Intranet. We are working to improve the security of our system.

Millennium Bug

In 1998, Ministers asked the Director to take the lead in monitoring Year 2000 preparations of the industry, to ensure that no disruption took place to customer services. Ofwat chaired a 'Year 2000' group, along with the Department of the Environment, Transport and the Regions, Action 2000, DWI, EA, the Health & Safety Executive, and the Scottish and Northern Ireland Offices.

Ofwat supervised two independent assessments by leading engineering consultants which verified that the industry had taken all necessary action. Ofwat issued regular updates and a leaflet to keep customers informed. These steps reassured customers that services would continue as normal and that contingency plans were in place. As the date changed to 2000, it was business as usual for Ofwat, and the water companies reported no incidents of service failure.

Chapter 9 Open and effective regulation – communication

"In order to involve customers, I shall aim to operate an open system. I shall stimulate debate and explain the reasons lying behind my decisions." (Annual Report 1989)

WE HAVE SUCCESSFULLY DEVELOPED AN OPEN COMMUNICATION NETWORK, INCLUDING ALL KEY STAKEHOLDERS.



CUSTOMER CHARTER

Ofwat's continued commitment to the charter standards was demonstrated by our meeting most of our standards this year – and more than last year – even though the

price review generated more enquiries than in previous years. Table 6 sets out this year's performance against the standards.

Table 6: Performance against the Ofwat Charter standards

	Performance standards	Achievement against standard
Replying to written enquiries (headquarters)	Reply within ten working days (unless the item is particularly complicated). Our target is 95%.	Achieved
Replying to phone enquiries (headquarters)	Reply within two working days (by phone). Our target is 97%. Reply within ten working days (in writing). Our target is 95%.	Achieved Achieved
Enquiries to the CSCs (written and phone)	Answer within one working day. Our target is 95%.	Achieved
Customer Service Committees – keeping appointments	Keep appointments to within ten minutes. If the original person cannot keep the appointment, you will be seen by someone else.	Achieved
Returning your messages	If you ask us to, we will return calls left on our answering machines within one hour of the office re-opening – Ofwat – CSCs	Achieved Not achieved ¹
Requests under the Code of Practice on Access to Government Information	We will reply within 20 working days.	Achieved
Requests under the Environment Information Regulations	We will reply within 40 working days.	Achieved
Complaints to CSCs about your local water company	CSCs will start action on your complaint within five working days. Our target is 97%.	Achieved
	We will aim to settle your complaint within 20 working days. Our target is 70%.	Achieved
	We aim to clear up 85% of complaints within 40 working days.	Achieved
Complaints handled by the Director and disputes and appeals	We will respond to enquiries within five working days.	Achieved
	We will decide formal disputes or appeals within 60 working days. Our target is 70%.	Achieved
Internal review procedure	We will acknowledge your complaint within two working days. We will tell you about the outcome within 20 working days.	Achieved Achieved
Complaining about the Customer Service Committees	We will tell you within ten working days whether we will investigate the matter. We aim to deal with 80% of complaints within 40 working days.	Achieved Not achieved ²

¹ In 1,002 out of 1,006 cases, calls were returned within one hour of the office re-opening.

² We dealt with 53% of complaints within 40 working days.

OTHER STAKEHOLDERS

Joined up government

Ofwat is committed to working closely with other government departments and regulators to develop effective policies that benefit customers.

Regulators face similar issues. The utility regulators meet regularly to pursue issues of common interest such as competition and Millennium compliance. In November 1999, the regulators published a statement setting out details of a number of areas of joint working. Working groups have also been established to collaborate on issues of common concern. Ofwat has taken the lead in the groups on multi-utilities, service delivery standards and the cost of capital and is represented on the other joint working groups.

Ofwat helped colleagues at the Office of the Rail Regulator to set up and manage Reporters. We have also advised the Water Industry Commissioner for Scotland.

Ofwat staff have met regularly with the Department of the Environment, Transport and the Regions, the DWI and the EA to discuss a range of issues including the price review and the new Water Industry Act 1999.

Preparing to implement the Competition Act 1998 has also involved considerable joint working, particularly with the Office of Fair Trading (OFT). Ofwat and the OFT jointly consulted on draft guidelines setting out how the Act will be implemented in the water and sewerage industry. Final guidelines were issued and a series of seminars and briefings held to help explain our approach to stakeholders.

Millennium Bug

Ensuring that customers were kept informed about the industry's progress in dealing with the Millennium Bug involved contact and liaison with a wide range of groups, notably:

- Cabinet Office,
- Action 2000, and
- the water companies.

Ofwat participated in Action 2000's National Infrastructure Forum, issued regular press releases and published a myth-busting leaflet to ensure that public confidence in the industry was maintained. This proved successful, with little concern being voiced by customers.

Parliamentary affairs and the Assembly

We briefed MPs and, since May 1999, Members of the National Assembly for Wales throughout the price setting process. Written briefings were provided at the draft and final determinations to all Members.

The Director and members of Ofwat's senior management team appeared before the Environment Sub-Committee of the Environment, Transport and Regional Affairs Select Committee on 27 July 1999. This was also the day the Director announced his draft determinations of price limits. The Director also briefed the Associate Parliamentary Water Group on his final determinations of future price limits at the House of Commons on 25 November 1999.

Ofwat's Director of Costs & Performance and Chief Engineer briefed the Secretary to the Local Government and Environment Committee and the First Secretary of the National Assembly for Wales in Cardiff at the draft and final determinations.



The Parliamentary Officer dealt with more than 100 letters from MPs and Assembly Members during the year, many of which were connected with the price review. She also briefed Members on other subjects including the Millennium Bug and the development of competition.

Environmental and consumer groups

Ofwat is keen to involve stakeholder groups in its decision-making. Throughout the year officials met environmental and customer representatives to discuss a range of issues. During the price review process, Ofwat hosted special meetings to explain its proposals to them and to find out about their concerns.



Meeting with environmentalists after the draft determinations.

Business customers

Quarterly meetings are held to ensure that business customers' views are sought and that they are kept informed. Topics discussed included the Periodic Review, companies' long run marginal cost estimates, and competition issues.

The City

Effective communication with finance providers and City commentators is an essential part of good economic regulation. Our policy of encouraging communication with City institutions is particularly important during price reviews. Throughout the Periodic Review, Ofwat took great care to communicate draft policies to City institutions and obtain their views on the regulation of the companies in which they are investing.

During the year, Ofwat adopted a strategy of City-wide communication.

We talked with:

- *City analysts,*
- *institutional shareholders,*
- *credit rating agencies, and*
- *banks and bondholders.*

This involved, in particular, briefing analysts and institutional shareholders on both the draft and final determinations.

Shareholder briefings were led by David Rees, Director of Corporate Finance and Economic Affairs, at various presentations organised by Credit Lyonnais Securities Europe, Dresdner Kleinwort Benson and West LB Panmure. Consultations were also held in May with the three principal credit rating agencies, Standard & Poor's, Moody's and Fitch IBCA.

We held other one-to-one meetings with institutional investors, analysts and bankers. These aimed to obtain City views on financial issues, including the cost of capital, as they affected the methodology and wider aspects of the Periodic Review.

Overseas visitors

Ofwat's reputation as a global leader in utility regulation continues to grow. The overseas demand to hear more about utility regulation continued in 1999 with 31 separate visits to Ofwat taking place. Visitors from as far afield as Africa, Australia, South America and South East Asia, included the Minister of Public Utilities, Mauritius; Minister for Privatisation, Turkey; officials from the Thai Ministry of Interior; Office of Utility Regulation, Jamaica; and Willem Alexander, Prince of Orange, who visited Thames CSC.

INFORMATION SERVICES

The media/press conferences

The Periodic Review has been the major focus of attention. We held press conferences for both the draft and final determinations. Each of these days saw some 20 press releases issued and the Director, supported by other senior staff, took part in TV and radio interviews spanning regional and national media. Interest in competition rose as the year progressed and we held a series of media briefings and seminars seeking views and explaining our decisions.

Sixty-five press releases were issued by Ofwat this year, with a further 92 for the CSCs. We saw a large increase in media calls handled this year: more than 5,000, compared with 3,000 last year. The number of media interviews also increased to just under 150. We contributed articles to a range of consumer, technical, financial and parliamentary publications.

Publications

Ofwat continues to make a wide range of publications freely available (for full details see Appendix 4). Principal among them this year were the publications setting out the draft and final determinations and accompanying Information Notes. These were also produced in Welsh.

We reviewed and simplified the pricing of our publications. Most publications are now free and are on our website. We have scrapped invoicing in favour of pre-payment for publications that are still priced. These are mainly consultants' reports and technical manuals.

Website

Ofwat's website is increasing in popularity, reflecting the general growth in Internet usage. The scale of the increase in people accessing the site – a 143% increase year on year, from 37,000 hits in 1998-99 to nearly 90,000 this year – highlights its increasing importance as a way of communicating. Ofwat places documents on the website as they are published. In line with government policy, Ofwat will continue to develop and improve its website.

Open Government

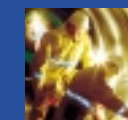
We answered all six requests for information under the *Open Government Code of Practice on Access to Government Information* within the target time. One appeal for an internal review of a decision not to release information was unsuccessful.

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

The Freedom of Information Bill

This Bill was introduced into the House of Commons on 18 November 1999. It gave effect to the Government's commitment to 'open government', following public consultation on a draft Bill. When enacted, it will replace the 1994 Code of Practice on Open Government. As a non-ministerial government department, Ofwat will be fully subject to its provisions.

The proposed new duty on public authorities to provide, on request, non-exempt information is unlikely to require from Ofwat practices and procedures significantly different from those currently followed under the Code of Practice. Conclusions will be required, as they are now, about whether the information in question is exempt from disclosure. If it



is, further decisions will have to be made about whether to exercise discretion in favour of that disclosure, if the public interest in so doing is greater than that in maintaining the exemption.

All of these decisions will be subject to internal review by people not previously involved in the process. Written audit trails will ensure that those decisions can be properly explained, if they have to be considered further by the proposed Information Commissioner or the Information Tribunal.

Library and information services

The library is the Public Enquiry Unit and our publication sales and distribution point. This year we answered 14,000 enquiries and issued around 28,500 publications.

We answered over 700 written enquiries (an increase of 22% compared with last year), 62% of which were by e-mail, and 275 outside visitors used the library.

Ofwat's public enquiry unit can be contacted via e-mail at enquiries@ofwat.gtnet.gov.uk

We published the companies' 1999 annual returns on CD-ROM. We continued to update the special agreements register every six months. The register was first published in April 1998. Although anonymised to respect commercial relationships, the register provides details of individual agreements for water supply, sewerage and effluent treatment.

Conferences and seminars

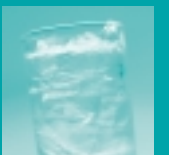
Senior staff, including the Director, accepted invitations from various conference organisers and organisations to speak at conferences and seminars. Staff also attended seminars, workshops and lectures covering a broad range of topics.

A survey of those who contacted the public enquiry unit this year showed that nearly 98% of respondents said they were satisfied with the service they received. 99% found the service and our replies 'helpful'. Only 2% rated our response times as slower than expected.

Chapter 10

Summary of the Ofwat Forward Programme 2000-01

The year ahead will see Ofwat and the CSCs fully committed to new initiatives and a busy programme of work.



Following stakeholder consultation Ofwat published its work programme for the year ahead in April 2000. Our key work will be as follows.

■ **Extending competition across the industry:**

We will establish a process for, and deal with complaints about, anti-competitive practices under the Competition Act 1998.

■ **New price limits:** New price limits come into force on 1 April 2000.

■ **The Water Bill:** We will work closely with the Department of the Environment, Transport and the Regions to develop the new Bill to safeguard customer protection.

■ **Regulating company performance:** We will collect, analyse and publish information on company service, leakage, efficiency and financial expenditure. If companies are failing we will act.

■ **Approving water and sewerage charges:** Ofwat will assess the impact of the new legislation and approve charges schemes for 2001.

■ **Working with customer representatives:** The CSCs provide a valuable source of advice to the Director on what matters to customers. The CSCs will be fully involved in the coming year, advising on a broad range of issues including competition, tariffs, service levels and vulnerable groups.

■ **Resources:** We aim to achieve increased effectiveness with fewer resources. The budget for the year is estimated at £11.4 million – £0.5 million less than last year.

■ **Information:** We will continue to develop information technology, particularly our website, and to improve our communications with stakeholders.

The *Ofwat Forward Programme 2000-01* is available free of charge from the Ofwat library and is on the Ofwat website. We will report back on our performance next year in the 2000-01 Annual Report.

Ian Byatt
Director General of
Water Services



David Rees
Director of Corporate Finance
and Economic Affairs
Adviser to the Director on corporate
finance matters, including Periodic
Reviews. Responsible for policy advice
on competition issues and the balance
between the supply and demand for
water and sewerage services.

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.



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

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.



Roger Dunshea
Director of Operations
Manages the financial, human
resources and information
technology support to the
office.

Allan Merry
Legal Adviser
Gives legal advice on all aspects
of the work of the Director
and the CSCs.



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.

Appendix 1:

Ofwat Customer Service Committees (as at 31 March 2000)

Central CSC

First Floor
Chanelle House
86 New Street
Birmingham B2 4BA

Telephone: 0121 644 5252
Lo-call: 0845 7023953
Fax: 0121 644 5256
e-mail: clcsc@ofwat.gtnet.gov.uk

Office hours: 8.45-16.45 Mon-Fri

Responsible for customers of:
Severn Trent Water Ltd
South Staffordshire Water plc

Chairman
Mr Clive Wilkinson
Regional Manager and Secretary
Mr Will Dawson

Northumbria CSC

Eighth Floor
Northgate House
St Augustine's Way
Darlington DL1 1XA

Telephone: 01325 464222
Lo-call: 0845 7089367
Fax: 01325 369269
e-mail: nbcsc@ofwat.gtnet.gov.uk

Office hours: 8.45-17.00 Mon-Fri

Responsible for customers of:
Northumbrian Water Ltd
Hartlepool Water plc

Chairman
Mr Jim Gardner CVO CBE DL
Regional Manager and Secretary
Mrs Elizabeth Bond

South West CSC

First Floor
Broadwalk House
Southernhay West
Exeter EX1 1TS

Telephone: 01392 428028
Lo-call: 0845 7959059
Fax: 01392 428010
e-mail: swcsc@ofwat.gtnet.gov.uk

Office hours: 8.30-16.30 Mon-Fri

Responsible for customers of:
South West Water Ltd

Chairwoman
Mrs Jessica Thomas
Regional Manager and Secretary
Mrs Gillian Johnston

Eastern CSC

Ground Floor
Carlyle House
Carlyle Road
Cambridge CB4 3DN

Telephone: 01223 323889
Lo-call: 0845 7959369
Fax: 01223 323930
e-mail: encsc@ofwat.gtnet.gov.uk

Office hours: 9.00-17.00 Mon-Fri

Responsible for customers of:
Anglian Water Services Ltd
Cambridge Water plc
Essex & Suffolk Water plc
Tendring Hundred Water Services Ltd

Chairman
Dr Roger Corbett
Regional Manager and Secretary
Mrs Marisa Johnson

North West CSC

Suite 902, 9th Floor
Bridgewater House
Whitworth Street
Manchester M1 6LT

Telephone: 0161 236 6112
Lo-call: 0845 7056316
Fax: 0161 228 6117
e-mail: nwcsc@ofwat.gtnet.gov.uk

Office hours: 9.00-17.00 Mon-Fri

Responsible for customers of:
North West Water Ltd

Chairman
Mr Maurice Terry
Acting Regional Manager and Secretary
Mr Andrew White

Southern CSC

Third Floor
15-17 Ridgmount Street
London WC1E 7AH

Telephone: 0207 636 3656
Lo-call: 0845 7581658
Fax: 0207 637 4813
e-mail: snscsc@ofwat.gtnet.gov.uk

Office hours: 9.00-17.30 Mon-Thurs
9.00-17.15 Fri

Address from late May 2000:
Fourth Floor (South)
High Holborn House
52-54 High Holborn
London WC1V 6RL

Telephone: Not available yet
Lo-call: 0845 7581658
Fax: Not available yet
e-mail: snscsc@ofwat.gtnet.gov.uk

Responsible for customers of:
Southern Water Services Ltd
Portsmouth Water plc
Mid Kent Water plc
Folkestone & Dover Water Services Ltd
South East Water plc

Chairman
Dr John Beishon
Regional Manager and Secretary
Ms Karen Gibbs

Thames CSC

Second Floor
15-17 Ridgmount Street
London WC1E 7AH

Telephone: 0207 636 3656
Lo-call: 0845 7581658
Fax: 0207 636 3665
e-mail: tmcsc@ofwat.gtnet.gov.uk

Office hours: 9.00-17.30 Mon-Thurs
9.00-17.15 Fri

Address from late May 2000:
Fourth Floor (South)
High Holborn House
52-54 High Holborn
London WC1V 6RL

Telephone: Not available
Lo-call: 0845 7581658
Fax: Not available
e-mail: tmcsc@ofwat.gtnet.gov.uk

Responsible for customers of:
Thames Water Utilities Ltd
Three Valleys Water plc
North Surrey Water Ltd
Sutton & East Surrey Water plc

Chairman
Mr Herman Scopes
Regional Manager and Secretary
Mr Andrew Milne

CSC for Wales

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

Telephone: 02920 239852
Lo-call: 0845 7078267
Fax: 02920 239847
e-mail: wlscsc@ofwat.gtnet.gov.uk

Office hours: 8.30-16.30 Mon-Fri

Responsible for customers of:
Dŵr Cymru Cyfyngedig
Dee Valley Water plc

Chairman
Archdeacon Raymond Roberts CB
Regional Manager and Secretary
Mr Clive Sterl

Wessex CSC

2 The Hide Market
West Street
St Philips
Bristol BS2 0BH

Telephone: 0117 955 7001
Lo-call: 0845 7078268
Fax: 0117 955 7037
e-mail: wxcsc@ofwat.gtnet.gov.uk

Office hours: 8.30-16.30 Mon-Fri

Responsible for customers of:
Wessex Water Services Ltd
Bournemouth & West Hampshire Water plc
Bristol Water plc
Cholderton & District Water Company Ltd

Chairman
Mrs Sheila Reiter
Regional Manager and Secretary
Ms Jenny Suggate

Yorkshire CSC

Eighth Floor
Northgate House
St Augustine's Way
Darlington DL1 1XA

Telephone: 01325 469777
Lo-call: 0845 7089368
Fax: 01325 369269
e-mail: ykcsc@ofwat.gtnet.gov.uk

Office hours: 8.45-17.00 Mon-Fri

Responsible for customers of:
Yorkshire Water Services Ltd
York Waterworks Ltd

Chairman
Mr Eric Wilson
Regional Manager and Secretary
Mr John Tushingham

Appendix 2: Letters to the companies from 1 April 1999

To Managing Directors

MD 149	The Notified Item for household optional metering and a proposed modification to licence condition B	27.07.99
MD 150	Investment on quality and trade effluent charging	03.08.99
MD 151	The 1999 Periodic Review: final determinations	08.09.99
MD 152	Approval of companies' charges schemes in 2000-01	13.09.99
MD 153	Compensation for customers: review of the Guaranteed Standards Scheme	28.09.99
MD 154	Development of common carriage	12.11.99
MD 155	Monitoring Plan 2000-05	30.11.99

2000

MD 156	Annual monitoring of company performance	21.01.00
MD 157	Licence modification – condition B	20.01.00
MD 158	Common carriage	28.01.00
MD 159	LRMC and the regulatory framework	11.02.00

To Regulatory Directors

RD 14/99	Interest rates for requisitions and infrastructure charges – six monthly review	15.04.99
RD 15/99	Regulatory accounts for 1998-99 Reporting requirements Rag 3.04	21.04.99
RD 16/99	Making public the July Returns 1999	16.07.99
RD 17/99	Comparisons with overseas water enterprises	09.08.99
RD 18/99	Notification of significant events affecting customers	09.08.99
RD 19/99	The timetable for the approval of water companies' charges schemes for 2000-01	20.08.99
RD 20/99	Periodic Review 1999: draft determinations quality enhancement programme – proposals requiring reappraisal	09.09.99
RD 21/99	Approval of companies' charges schemes in 2000-01	30.09.99
RD 22/99	Notified Item for household optional metering and proposed modification to licence condition B	15.10.99
RD 23/99	Interest rates for requisitions and infrastructure charges – six monthly review	05.11.99
RD 24/99	1998-99 report on leakage and water efficiency	09.12.99
RD 25/99	2000-01 Principal Statement	15.12.99

2000

RD 01/00	Active annual monitoring of company performance	04.01.00
RD 02/00	Software requirements for the June return information capture system, the reporting requirements manual and principal statements information capture system	07.01.00
RD 03/00	Regulations to protect vulnerable customers	07.01.00
RD 04/00	Guaranteed Standards Scheme – regulations	28.01.00
RD 05/00	Revisions to RAG 5 – transfer pricing in the water industry	28.01.00
RD 06/00	Reporters and auditors joint workshop 14	29.02.00
RD 07/00	Information requirements for Notified Items for bad debt and the administrative costs of provision for vulnerable customers	09.03.00
RD 08/00	Notified Items for meter optants	13.03.00
RD 09/00	Approval of charges schemes 2000-01: review of the process	17.03.00

Appendix 3: Press notices issued April 1999 to March 2000

28/99	Ofwat consults on powers to approve companies' charges schemes	20.05.99
29/99	Water industry is prepared for the year 2000 with six months to go	10.06.99
30/99	Water disconnections fall for seventh year running	17.06.99
31/99	Ofwat's working to deliver a better deal for customers	23.06.99
32/99	Customers can reap benefits of competition now says Ian Byatt	30.06.99
33/99	Ofwat seeks customers' views on approval criteria for companies' charging schemes	30.06.99
34/99	No room for complacency even though water's in the blue	12.07.99
35/99	Ofwat will use new Competition Act powers to benefit customers	20.07.99
36/99	Levels of water leakage continue to fall	23.07.99
37/99	Water prices to fall by 14% now – and stay down	27.07.99
38/99	Anglian Water prices to fall now – and stay down	27.07.99
39/99	Northumbrian Water prices to fall now – and stay down	27.07.99
40/99	North West Water prices to fall now – and stay down	27.07.99
41/99	Severn Trent Water prices to fall now – and stay down	27.07.99
42/99	Southern Water prices to fall now – and stay down	27.07.99
43/99	South West Water prices to fall now – and stay down	27.07.99
44/99	Thames Water prices to fall now – and stay down	27.07.99
45/99	Welsh Water prices to fall now – and stay down	27.07.99
46/99	Wessex Water prices to fall now – and stay down	27.07.99
47/99	Yorkshire Water prices to fall now – and stay down	27.07.99
48/99	Single licence for Anglian and Hartlepool Water	03.08.99
49/99	Ofwat sets up an enquiry into Mid Kent Water's performance	05.08.99
50/99	Water's millennium status is Blue	12.08.99
51/99	Ofwat publishes proposals which could see residential customers benefiting from competition for the first time	01.09.99
52/99	Water industry investment continues at record levels as companies become more efficient	07.09.99
53/99	Arm's length regulation works best for utility customers, says Ian Byatt	13.09.99
54/99	Customer service standards in the water industry continue to rise	14.09.99
55/99	Ofwat publishes proposals to allow water company to supply new development in another's area	22.09.99
56/99	Ofwat moves to raise minimum standards of customer service and customer compensation	29.09.99
57/99	Ofwat raises ring-fence to strengthen water companies' independence	01.10.99
58/99	Utility regulators publish statement on joint working	08.10.99
59/99	Report confirms water industry is ready for the year 2000	12.10.99
60/99	Water industry has assured customers in England and Wales that it is prepared for the year 2000 and beyond	13.10.99
61/99	Poor management to blame for failures in Mid Kent Water supply says new Ofwat report	19.10.99

Appendix 3:

Press notices issued April 1999 to March 2000

62/99	Water regulator sets out the prospects for competition	29.10.99
63/99	Ofwat publishes proposals to allow Hartlepool Water to supply water to Kodak	10.11.99
64/99	Ofwat tells companies to develop access codes for common carriage	12.11.99
65/99	Review brings 12% cut in prices and biggest ever programme of spending on environmental improvements	25.11.99
66/99	Review brings 11% cut in prices and major programme of spending on environmental improvements	25.11.99
67/99	Review brings 19% cut in Northumbrian Water prices and major programme of spending on environmental improvements	25.11.99
68/99	North West Water customers to get 4% cut in prices and biggest programme of spending on environmental improvements	25.11.99
69/99	Review brings 16% cut in Severn Trent prices and major programme of spending on environmental improvements	25.11.99
70/99	Review brings 10% cut in South West Water prices and extensive programme of spending on environmental improvements	25.11.99
71/99	Review brings cut in prices and major programme of spending on environmental improvements	25.11.99
72/99	Review brings 13% cut in prices and major programme of spending on environmental improvements	25.11.99
73/99	Review brings 13% cut in Welsh Water prices and major programme of spending on environmental improvements	25.11.99
74/99	Review brings 8% cut in Wessex Water prices and major programme of spending on environmental improvements	25.11.99
75/99	Review brings 13% cut in Yorkshire Water prices and major programme of spending on environmental improvements	25.11.99
76/99	Ofwat consults on proposals to change water company licences	25.11.99
77/99	Ofwat continues to demand reduction in levels of leakage	08.12.99
78/99	Ofwat gains Investors in People status	14.12.99
79/99	10 days to the new millennium and the water industry is well prepared for the date change says Ofwat	21.12.99
80/99	Ofwat makes public information on water companies' activities for 1998-99	22.12.99
81/99	Ofwat amends seven water companies' licences to further strengthen customer protection	23.12.99
2000		
01/00	Details need to be clarified if the Utility Bill is to benefit water customers, says Ian Byatt	26.01.00
02/00	Ofwat ready for new era in competition law	31.01.00
03/00	Ofwat publishes plans to simplify licence arrangements in Essex & Suffolk	03.02.00
04/00	Companies' appeals against price limits are referred to the Competition Commission	07.02.00
05/00	Ofwat consults on its work programme for the year ahead	10.02.00
06/00	Customers to benefit from a single licence for Yorkshire Water and York Waterworks	16.02.00
07/00	The water industry prepares to bring the benefits of competition to customers in England and Wales	01.03.00
08/00	Household customers get lower water bills	02.03.00
09/00	Ofwat gives customers the facts about water	08.03.00
10/00	Ofwat publishes benchmark costs to help water and sewerage companies to improve their performance	15.03.00
11/00	Ofwat publishes proposals to safeguard the customers of Cambridge Water	17.03.00

Appendix 4:

Publications available from Ofwat

The following is a list of current publications available from Ofwat produced in 1999-2000. 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: <http://www.open.gov.uk/ofwat/>

1999 PERIODIC REVIEW

Draft determinations: future water and sewerage charges 2000-05 (July 1999). Also available in Welsh

Final determinations: future water and sewerage charges 2000-05 (November 1999). Also available in Welsh

PR 99 Information requirement N: Monitoring plan for 2000-05 (covering quality, service, serviceability and prices (public domain)) (November 1999)

CONSULTATION PAPERS

Approval of companies' charges schemes in 2000-2001: a consultation paper (June 1999)

Competition Act 1998: application in the water and sewerage sectors. Formal consultation draft (July 1999)

Ofwat forward programme 2000-01: draft for consultation (February 2000)

Transfer pricing in the water industry. Regulatory accounting guideline 5.03 [draft] (revised January 2000)

REPORTS

1999-2000 report on tariff structure and charges (May 1999). Published annually

1998-99 report on financial performance and expenditure of the water companies in England and Wales (September 1999). Published annually

1998-99 report on levels of service for the water industry in England and Wales (September 1999). Published annually

1998-99 report on leakage and water efficiency (December 1999). Published annually

Report on company performance in 1998-99 (December 1999). Published annually

1998-99 report on water and sewerage service unit costs and relative efficiency (March 2000). Published annually

MISCELLANEOUS REPORTS

Second millennium compliance study: report to the Director General of Water Services and the Scottish Office. Prepared for Ofwat by Halcrow Gilbert. £5.00 (June 1999)

Water and sewerage industries general efficiency and potential for improvement: an update by Europe Economics and Professor Nick Crafts for Ofwat. £5.00 (May 1999) [published July 1999].

Comparing the performance of England and Wales water and sewerage companies with Sydney Water [and] Water Corporation Western Australia (August 1999)

Proposed revisions to the Guaranteed Standards Scheme: application to the Secretary of State for the Environment, Transport and the Regions, and the Welsh Assembly Secretary for the Environment and Local Government (September 1999)

Third millennium compliance study: report to the Director General of the Office of Water Services and the Scottish Executive. Analysed responses. Prepared by Halcrow Gilbert for Ofwat. £5.00 (October 1999)

Statement by Oftel, Ofgem, Ofwat, ORR and Ofreg on joint working (October 1999)

Report on the investigation into the Mid Kent Water supply interruptions in the Kemsing-Plaxtol area (October 1999)

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

The current state of market competition (January 2000)

Competition Act 1998: application in the water and sewerage sectors (January 2000)

ANNUAL RETURN INFORMATION

July return 1999 CD-ROM [£62.50+VAT; total £73.44] (December 1999)

June return reporting requirements and definitions manual 2000. £50.00 (February 2000)

INFORMATION NOTES

10. *Market competition in the water and sewerage industry* (revised April 1999 and January 2000)

38. *The 1999 Periodic Review* (revised January 2000)

43. *Ofwat and the millennium bug* (June 1999)

44. *The role of the Competition Commission in the price review* (December 1999)

Appendix 4:

Publications available from Ofwat

LEAFLETS

Customer Service Committees: a water watchdog role for you? A guide to the functions of the CSCs and their members (revised April 1999)

Water services and the millennium bug (October 1999)

Water and sewerage bills 2000-01 (March 2000)

Water and you: this guide illustrates the costs of everyday use of water and sewerage based on an average bill for 2000-01 (March 2000)

OFWAT NATIONAL CUSTOMER COUNCIL (ONCC)

New consumer councils: an unfair deal for consumers? [ONCC occasional paper] (July 1999)

Representing water customers: the 1998-99 annual report of the Ofwat National Customer Council and the ten regional Ofwat Customer Service Committees (July 1999)

Response of the Ofwat National Customer Council to Government consultation on draft legislation on freedom of information (July 1999)

Water Industry Act 1999: draft guidance to the Director General of Water Services under Section 4: A consultation paper. Response of the Ofwat National Customer Council (September 1999)

Cut your water & sewerage bills: advice for business customers. Ofwat National Customer Council [leaflet] (September 1999)

ONCC response to DTI consultation on the regulatory, environmental and equal treatment appraisals (A fair deal for consumers: modernising the framework for utility regulation) (November 1999)

Joint response of the Ofwat National Customer Council and the ten regional Customer Service Committees to DETR consultation on Water Industry Act 1999 regulations (November 1999)

Charging for water abstraction: the customers' interest in encouraging competition. The view from the Ofwat National Customer Council by J R Corbett [ONCC occasional paper] (December 1999)

Ofwat National Customer Council (ONCC) and the ten regional Customer Service Committees (CSCs): draft forward plan 2000-01 (February 2000)

ONCC BRIEFING NOTES

7. *Review of utility regulation: consumer representation in the water industry* (July 1999)

8. *Briefing for MEPs: the EU and water customers* (July 1999)

9. *Proposal for a directive establishing a framework for action on water policy* (December 1999)

DEAR MANAGING DIRECTOR/REGULATORY DIRECTOR 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 2000 - March 2001 £210) see Appendix 2.

SPEECHES

Speeches made by the Director General of Water Services, Ian Byatt, 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: <http://www.open.gov.uk/ofwat/>

Appendix 5:

Independent Reporters and Auditors

Water and sewerage companies	Auditors	Reporters
Anglian Water Services Ltd	Price Waterhouse Coopers	Binnie Black & Veatch
Dŵr Cymru Cyfyngedig	Price Waterhouse Coopers	Halcrow Management Sciences
Northumbrian Water Ltd	Arthur Andersen & Co SC	Binnie Black & Veatch
North West Water Ltd	KPMG	Halcrow Management Sciences
Severn Trent Water Ltd	Price Waterhouse Coopers	Halcrow Management Sciences
Southern Water Services Ltd	Price Waterhouse Coopers	W S Atkins
South West Water Ltd	Price Waterhouse Coopers	W S Atkins
Thames Water Utilities Ltd	Price Waterhouse Coopers	W S Atkins
Wessex Water Services Ltd	Arthur Andersen & Co SC	Halcrow Management Sciences
Yorkshire Water Services Ltd	Ernst & Young	Strategic Management Consultants

Water only companies	Auditors	Reporters
Bournemouth & West Hampshire Water plc	Price Waterhouse Coopers	Binnie Black & Veatch
Bristol Water plc	Price Waterhouse Coopers	W S Atkins
Cambridge Water plc	Binder Hamlyn	Pick Everard
Dee Valley Water plc	Saffery Champness	Montgomery Watson
Cholderton & District Water Company Ltd	B Johnson Esq	*
Essex & Suffolk Water plc	Arthur Andersen & Co SC	Halcrow Management Sciences
Folkestone & Dover Water Services Ltd	Price Waterhouse Coopers	Montgomery Watson
Hartlepool Water plc	Price Waterhouse Coopers	Halcrow Management Sciences
Mid Kent Water plc	Arthur Andersen & Co SC	W S Atkins
North Surrey Water Ltd	Price Waterhouse Coopers	W S Atkins
Portsmouth Water plc	Grant Thornton	RKL Arup
South East Water plc	Price Waterhouse Coopers	Halcrow Management Sciences
South Staffordshire Water plc	Arthur Andersen & Co SC	Halcrow Management Sciences
Sutton & East Surrey Water plc	KPMG	Binnie Black & Veatch
Tendring Hundred Water Services Ltd	Price Waterhouse Coopers	Montgomery Watson
Three Valleys Water plc	Price Waterhouse Coopers	W S Atkins
York Waterworks Ltd	Garbutt & Elliott	Halcrow Management Sciences

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

Appendix 6: Senior industrialists (as at March 2000)

Jeffrey Herbert:

Chairman and Chief Executive, Charter plc (international engineering group); Deputy Chairman, Vickers plc (engineering); Chairman, Howden Group South Africa Limited; non-executive Director, M&G Recovery Investment Trust plc.

Roger Sainsbury:

President of the Institution of Civil Engineers. Previously director of a number of companies in the John Mowlem group (construction, facilities management and environmental services).

Cob Stenham:

Deputy Chairman of TeleWest Communications plc (cable TV and telephony services); non-executive Director of: Standard Chartered plc (banking and financial services); Unigate plc (food manufacturer); The Rank Group plc (leisure and media); Rothmans International BV (tobacco). Previously Chairman of Arjo Wiggins Appleton plc (paper manufacturer).

Allen Sykes:

A former Managing Director of Consolidated Goldfields, now Chairman of TEG Environmental plc and a non-executive Director of Willis Corroon Group plc. His main background is mining, energy and natural resources.

Sir Alan Thomas:

Chairman of Firth Holdings plc (steel processing, logistics management outsourcing); Deputy Chairman, University of Westminster; non-executive Director of PowerGen plc. Previously Head of the MOD's Defence Sales Organisation and President and Chief Executive of Raytheon Europe (electronics and aerospace).

Terms of reference

Senior industrialists 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;
- review of the conduct of the Periodic Review in 1999;
- the implementation of the Competition Act 1998;
- corporate activity in the water and sewerage sector.

Appendix 7: The water and sewerage companies

Anglian Water Services Ltd

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

Dŵr Cymru Cyfyngedig (Welsh Water)

Plas-y-Ffynnon
Cambrian Way
Brecon
Powys
LD3 7HP
Telephone: 01874 623181

North West Water Ltd

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

Northumbrian Water Ltd

Abbey Road
Pity Me
Durham
DH1 5FJ
Telephone: 0191 383 2222

Severn Trent Water Ltd

2297 Coventry Road
Sheldon
Birmingham
B26 3PU
Telephone: 0121 722 4000

South West Water Ltd

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

Southern Water Services Ltd

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

Thames Water Utilities Ltd

Gainsborough House
Manor Farm Road
Reading
RG2 0JN
Telephone: 0845 9200 800

Wessex Water Services Ltd

Wessex House
Passage Street
Bristol
BS2 0JQ
Telephone: 0117 929 0611

Yorkshire Water Services Ltd

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

Appendix 8: The water only companies

Albion Water (Shotton) Ltd

42-46 Weymouth Street
London W1N 3LQ
Telephone: 0171 487 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

Essex & Suffolk Water plc (now replaced by Northumbrian Water)

Hall Street
Chelmsford
Essex CM2 0HH
Telephone: 01245 491234

Folkestone & Dover Water Services Ltd

Cherry Garden Lane
Folkestone
Kent CT19 4QB
Telephone: 01303 298800

Hartlepool Water plc (now replaced by Anglian Water)

3 Lancaster Road
Hartlepool TS24 8LW
Telephone: 01429 868555

Mid Kent Water plc

High Street
Snodland
Kent ME6 5AH
Telephone: 01634 240313

North Surrey Water Ltd

Millis House
The Causeway
Staines
Middlesex TW18 3BX
Telephone: 01784 455464

Portsmouth Water plc

PO Box 8
West Street
Havant
Hants PO9 1LG
Telephone: 01705 499888

South East Water plc

3 Church Road
Haywards Heath
West Sussex RH16 3NY
Telephone: 01444 413200

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

York Waterworks Ltd (now replaced by Yorkshire Water)

Lendal Tower
York YO1 7DL
Telephone: 01904 622171