

# Periodic review 2004

## December 2004

# Newsletter

## Setting water and sewerage price limits for 2005-10: Final determinations

The Office of Water Services (Ofwat) is a non-ministerial government department led by Philip Fletcher, the Director General of Water Services. We are responsible for the economic regulation of the water and sewerage industry in England and Wales.

We set price limits that enable well-managed companies to maintain current levels of service and to deliver essential improvements. We have just announced our final determinations for water prices that will affect your water bills for the five years from April 2005.

### Effect on customers' bills

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

### Benefits

- All current essential services safeguarded for customers and the environment – this requires a bigger programme to maintain pipes, sewers and treatment works for the future.
- Safe and more reliable supplies of drinking water – achieved through further improvement projects in water quality and security of supply.
- Further protect the environment – achieved through a major programme of work to deliver tighter standards at over 1,000 sewage treatment works, and improve over 2,000 overflows from the sewerage system. This will improve our rivers and coastal waters, and includes 379 investigations to inform decisions on future environmental protection.
- More than 95% of companies' and ministerial proposals included in price limits. Some

proposals not included as yet, where we consider they are not fully justified.

- A programme of nearly £1 billion to safeguard homes against the risk of sewer flooding. This would resolve or mitigate every known high-risk problem of internal flooding from overloaded sewers where companies' plans said action is needed by 2010. By then, the proportion of properties at risk would reduce to 0.01% of households.

### Effect on companies

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

Please see the tables overleaf for details of each company's price limit and the resulting average bills. There is wide variation between the companies and not all customers' bills would be the same. The actual amount charged to customers is part of a range of charges decided by each company and approved by Ofwat.

For more information on the final decisions on price limits and for a summary of key information relating to your water company, please go to our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk) or call us on 0121 625 1361. You can also send an e-mail to [enquiries@ofwat.gsi.gov.uk](mailto:enquiries@ofwat.gsi.gov.uk) or write to us at: Ofwat, Centre City Tower, 7 Hill Street, Birmingham B5 4UA.



## Average expected household bills (£)

Water and sewerage companies	2004-05			2009-10			Change <sup>1</sup>			
	Water	Sewerage	Total	Water	Sewerage	Total	Water	Sewerage	Total <sup>1</sup>	%
Anglian	122	172	<b>294</b>	140	173	<b>313</b>	18	1	<b>20</b>	7
Hartlepool (water only)	94	-	<b>94</b>	108	-	<b>108</b>	14	-	<b>14</b>	15
Dŵr Cymru	123	163	<b>286</b>	153	199	<b>352</b>	30	36	<b>65</b>	23
Northumbrian	100	132	<b>232</b>	114	146	<b>260</b>	14	14	<b>28</b>	12
Essex & Suffolk (water only)	132	-	<b>132</b>	153	-	<b>153</b>	21	-	<b>21</b>	16
Severn Trent	116	105	<b>221</b>	133	132	<b>265</b>	16	27	<b>43</b>	20
South West	126	231	<b>357</b>	179	265	<b>444</b>	53	34	<b>87</b>	25
Southern	91	168	<b>259</b>	110	214	<b>324</b>	19	46	<b>65</b>	25
Thames	113	98	<b>210</b>	156	104	<b>261</b>	44	7	<b>50</b>	24
United Utilities	133	136	<b>269</b>	147	175	<b>322</b>	14	39	<b>53</b>	20
Wessex	126	151	<b>276</b>	170	177	<b>347</b>	44	26	<b>70</b>	25
Yorkshire	117	126	<b>243</b>	133	155	<b>288</b>	17	28	<b>45</b>	18
<b>WaSC average (weighted)</b>	<b>118</b>	<b>132</b>	<b>250</b>	<b>142</b>	<b>155</b>	<b>297</b>	<b>24</b>	<b>23</b>	<b>47</b>	<b>19</b>

### Water only companies

Bournemouth & W Hampshire	107	-	<b>107</b>	122	-	<b>122</b>	15	-	<b>15</b>	14
Bristol	108	-	<b>108</b>	122	-	<b>122</b>	14	-	<b>14</b>	13
Cambridge	91	-	<b>91</b>	101	-	<b>101</b>	10	-	<b>10</b>	11
Cholderton	136	-	<b>136</b>	166	-	<b>166</b>	30	-	<b>30</b>	22
Dee Valley	107	-	<b>107</b>	106	-	<b>106</b>	-1	-	<b>-1</b>	-1
Folkestone & Dover	143	-	<b>143</b>	176	-	<b>176</b>	33	-	<b>33</b>	23
Mid Kent	131	-	<b>131</b>	151	-	<b>151</b>	19	-	<b>19</b>	15
Portsmouth	77	-	<b>77</b>	80	-	<b>80</b>	4	-	<b>4</b>	5
South East	129	-	<b>129</b>	151	-	<b>151</b>	21	-	<b>21</b>	16
South Staffordshire	91	-	<b>91</b>	106	-	<b>106</b>	15	-	<b>15</b>	17
Sutton & East Surrey	127	-	<b>127</b>	143	-	<b>143</b>	16	-	<b>16</b>	13
Tending Hundred	162	-	<b>162</b>	158	-	<b>158</b>	-4	-	<b>-4</b>	-2
Three Valleys	118	-	<b>118</b>	138	-	<b>138</b>	20	-	<b>20</b>	17
<b>WoC average (weighted)</b>	<b>113</b>	<b>-</b>	<b>113</b>	<b>129</b>	<b>-</b>	<b>129</b>	<b>16</b>	<b>-</b>	<b>16</b>	<b>14</b>

<b>Industry average (weighted)</b>	<b>117</b>	<b>132</b>	<b>249</b>	<b>140</b>	<b>155</b>	<b>295</b>	<b>23</b>	<b>23</b>	<b>46</b>	<b>18</b>
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<sup>1</sup>Change totals may not add up due to rounding.

## Final price limits for 2005-06 to 2009-10 (%)

Water and sewerage companies	2005-06	2006-07	2007-08	2008-09	2009-10	Average
Anglian	3.8	0.0	2.8	2.7	2.7	2.4
Dŵr Cymru	14.2	3.6	4.1	3.3	2.2	5.4
Northumbrian	6.5	3.7	3.2	1.0	0.6	3.0
Severn Trent	11.8	4.8	2.0	1.7	2.3	4.5
South West	12.5	9.8	9.8	1.7	1.4	6.9
Southern	12.6	3.9	3.5	5.8	2.6	5.6
Thames	14.9	2.1	1.2	1.3	1.5	4.1
United Utilities	5.0	6.4	4.4	3.5	3.0	4.5
Wessex	8.9	4.9	5.6	4.0	2.9	5.2
Yorkshire	5.5	4.9	3.6	3.6	2.1	3.9
<b>WaSC average (weighted)</b>	<b>9.4</b>	<b>4.0</b>	<b>3.4</b>	<b>2.7</b>	<b>2.2</b>	<b>4.3</b>

### Water only companies

Bournemouth & W Hampshire	15.9	2.2	1.6	-0.6	-2.4	3.1
Bristol	13.8	2.8	1.5	0.7	-2.3	3.2
Cambridge	11.8	1.6	0.3	-0.8	-0.3	2.4
Cholderton	7.0	7.0	5.6	0.0	0.1	3.9
Dee Valley	5.7	-1.4	0.2	0.6	-0.7	0.8
Folkestone & Dover	8.3	7.3	4.0	1.9	2.6	4.8
Mid Kent	9.0	0.5	1.9	2.6	2.7	3.3
Portsmouth	-0.7	-0.6	1.5	2.5	1.0	0.7
South East	15.8	2.3	2.2	0.5	-1.6	3.7
South Staffordshire	9.9	2.5	1.7	1	1.3	3.2
Sutton & East Surrey	12.9	2.0	1.1	-1	-1.1	2.7
Tending Hundred	-1.8	-0.7	0.6	-0.3	-0.5	-0.5
Three Valleys	15.3	1.8	1.2	-0.2	0.1	3.5
<b>WoC average (weighted)</b>	<b>12.4</b>	<b>1.9</b>	<b>1.5</b>	<b>0.4</b>	<b>-0.3</b>	<b>3.1</b>

<b>Industry average (weighted)</b>	<b>9.6</b>	<b>3.9</b>	<b>3.2</b>	<b>2.5</b>	<b>2.0</b>	<b>4.2</b>
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All figures exclude inflation.

More information on the price limits and future water bills is available on our website [www.ofwat.gov.uk](http://www.ofwat.gov.uk)



This table shows average water and sewerage bills for each company. Figures for both services are added together to give a total bill. For customers taking services from two different companies, the relevant figures in the table need to be added together. The percentage increase in bills can be seen at the end of each row in the table.

This table shows the final price limits Ofwat has set for each water and sewerage company. There is a higher increase in the first one to two years for each company which reflects the build-up of company costs. These price limits are significantly less than the companies asked for in business plans submitted to us in April this year. They govern the range of charges companies can make to customers.