

RD 32/02

**TO THE REGULATORY DIRECTORS OF ALL
WATER ONLY COMPANIES AND ALL WATER
AND SEWERAGE COMPANIES**

2 December 2002

Dear Regulatory Director

2003-04 PRINCIPAL STATEMENT

This letter contains guidance on how to complete the 2003-04 principal statement, special agreement and large user information capture systems.

We are sending separate letters to Regulatory Directors on Ofwat's requirements for the content of final charges schemes for 2003-04.

Arrangements for Receipt

We expect to receive your charges scheme, principal statement, special agreement and large user information capture systems for 2003-04 by no later than **5pm on Tuesday 14 January 2003**.

Please submit your completed information capture systems both on the enclosed diskette and in hard copy. When printing the principal statement please do **not** print blank charges. Please provide four hard copies (unbound) of your submission addressed to me.

Your Auditor's Report and Reporter's Report need to reach us by no later than **5pm on Tuesday 21 January 2003**.

Retail Price Index

As last year, this letter is being issued before the All Items Retail Price Index (RPI) for November 2002 is known. You will therefore need to input this value into the principal statement information capture system yourself.

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The All Items RPI for November 2002 will be released on Tuesday 17 December at 9.30am. To find the value of the index please look on the following web page:

http://www.statistics.gov.uk/press_Release/CurrentReleases.asp

Alternatively you can listen to a recorded message giving the value of the index by telephoning 020 7533 5866.

Please make sure that you use the **All Items** RPI for November 2002. A further RD letter will be issued following the release of this information to confirm the value of the index.

Please enter the value for the November 2002 All Items RPI to one decimal place in cell K27 of the principal statement information capture system. This cell is directly below the value for November 2001 All Items RPI of 173.6. The spreadsheet will automatically calculate the annual increase to 2 decimal places.

It is important that you carry out this procedure correctly. Any mistake could delay the approval of your charges scheme and agreement of your principal statement.

Measured/Unmeasured Tariff Differential

The tariff differential should be calculated using the average unmeasured forecast 2003-04 water delivered figures as submitted in Table 3 of your additional information.

Where applicable, volumetric charges for different charging areas must be weighted together.

A number of companies have asked to vary the way that average volumetric and standing charges are weighted. We have been flexible in allowing companies to do this if they have good reasons. However, when we agree to companies varying the calculations used in the differential, they must continue to do this in future years; we will not allow companies to revert back. If companies wish to use weights or other figures that have not been independently scrutinised before, we will require that reporters scrutinise the information.

Last year we calculated the official maximum level of the differential as £32.19. This was then rounded to the nearest pound. Indicative calculations for 2003-04 are that it will rise to £33. Applying a split of two-thirds for water to one-third for sewerage with appropriate rounding gives separate service limits of £22.00 for water and £11.00 for sewerage.

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Parts of the calculation depend on the value of November 2002 all items RPI. We will confirm the maximum level of the differential for 2003-04 at the same time as confirming the value of November's RPI.

Vulnerable group tariff for 2003-04

- **Level of Tariff**

You must set the level of the vulnerable group tariff at the forecast average household bill for 2003-04 (to the nearest pound), unless we have agreed otherwise.

- **Average Level of Saving**

In our December 1999 feedback letters we set out average saving assumptions for customers paying on the basis of the vulnerable group tariff. You may now have information on the level of that saving. Consequently, you can use a different level of saving if you provide robust evidence to show that the average level of saving is different to that assumed by Ofwat. Otherwise, you should continue to apply the average saving assumptions set out in our December 1999 feedback letter.

If you use a different level of saving for the vulnerable group tariff, please include with your submission the evidence and calculations on which that saving is based.

- **Re-entry of the vulnerable group tariff in 2003-04**

As set out in Annex C(ii), we expect you to re-enter the vulnerable group tariff in 2003-04 in order to correct for any over or underestimate of take-up in the 2002-03 principal statement.

However, in order to protect you from revenue losses resulting from additional customers successfully applying for the vulnerable group tariff in 2003-04, you may, if you wish, enter a take-up estimate for the forthcoming charging year in your 2003-04 principal statement.

Due to the changes in benefits and tax credits that are to be introduced in April 2003, more people will be eligible for the vulnerable group tariff in 2003-04 than in 2002-03. We will, therefore, allow you to forecast additional take-up in 2003-04 beyond the maximum set out in Annex C(ii) for other optional measured tariffs. Early indications are that around 10 per cent more people will receive benefits/tax credits that

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qualify for the vulnerable group tariff. Correspondingly, we expect that the maximum number of additional customers that will successfully apply for the vulnerable group tariff in 2003-04, due to the changes in benefits, will be 10 per cent of customers that would otherwise be forecast to take up the tariff by April 2004. This maximum does not take account of the socio-economic make-up of people who will receive a qualifying benefit in April. However, it also does not take into account the fact that take-up of the tariff by eligible customers has tended to be gradual. The latter is likely to be of more significance and indicates that the maximum is likely to be too high rather than too low.

Charge multipliers for measured charges

This year we include guidance on how to calculate charge multipliers for measured charges. There may be a particular reason that you are unable to follow this guidance. If this is the case, you must include in the covering letter to your submission an explanation of why this was not possible and the method that you have used to calculate the charge multiplier. Your Auditor must confirm that the method of calculation you use is appropriate. Our guidance is as follows.

You must enter measured charge multipliers, so that when the relevant charges are applied to them the weighting year revenue is calculated in accordance with Licence Condition B. How the charge multiplier is calculated will depend on whether or not it is a charge based on volume.

- **Charges based on volume**

One difficulty in calculating the charge multiplier for volumetric charges is that not all meters are read on 31 March each year. Companies have different ways of addressing this. Some companies bill all the water for each billing period at the same rate; therefore some water delivered in each charging year will be billed at the prior year rate. Other companies have methods of estimating the amount of water used in each year for billing purposes. If you estimate the amount of water delivered in a charging year when billing your customers, you must also calculate the charge multiplier on this basis.

If you bill all water in a billing period at one rate, you can either calculate the charge multiplier on the amount of water billed at the weighting year charge or estimate the amount of water delivered in the weighting year. However, you must be consistent and use the same method each year.

A further complication is that companies may adjust customers' bills for such reasons as leakage allowances. When calculating charge multipliers you should use, as a guide, the method that you used when calculating the revenue analysis of turnover

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prepared under RAG3 for the 2001-02 Regulatory Accounts. If the analysis took into account adjustments that you made to customers' bills, then you must also take account of those adjustments when calculating the charge multiplier.

- **Non-volumetric charges**

The measured customer base is increasing. New measured customers start to pay measured charges throughout the year. It is unlikely that the rate of customers starting to pay measured charges will be constant throughout the year. However, for the sake of simplicity, we assume that the rate is constant.

You need to take account of the changing measured base when calculating the weighting year revenue for each non-volumetric charge (standing charge, rateable value charge, etc). For each charge the charge multiplier can be calculated either as the average of the number of units that could be billed under the charge at the start and

end of the weighting year, or as the number of units that could be billed under the charge at the midpoint of the weighting year. These two options will give the same answer if there is a constant increase in the number of measured customers.

Companies must use the same method for calculating charge multipliers each year. Companies must not calculate the charge multiplier just using the number of units that could be billed under the charge at the end of the weighting year.

- **Excluded charges – large users**

You must exclude charge multipliers for customers whose requirement for water was not less than 100 MI in the weighting year if your company is wholly or mainly in England (250 MI if your company is wholly or mainly in Wales).

- **New charges**

When you introduce a tariff that customers are automatically charged, you must enter charge multipliers for the tariff from the weighting year for those customers that would have been put on the tariff if it had been introduced in this year. This is explained in more detail in Annex C(i).

However, when you introduce a new optional tariff, we have allowed you to use a forecast of the number of customers that will take up the tariff in the charging year as a charge multiplier. For other charging elements that these customers will pay, such as

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volumetric charges, you must use charge multipliers for these customers from the weighting year. This is explained in more detail in Annex C(ii).

It may be the case that a customer used less than 100 MI in the weighting year, but it is now known that it will use more than 100 MI in the charging year. If you are introducing a new optional measured tariff and forecast that this customer would take up a tariff in the charging year that is only available for customers above 100MI, you must base the tariff the customer would be charged on the volume it used in the weighting year.

Please explain in the covering letter to your submission any assumptions you have made if you have had to estimate what charge multipliers would have been if a new charge had applied in the weighting year.

Excluded Charges

Licence Condition B lists a number of “Excluded Charges” which should not be included in the tariff basket. Please remove all excluded charges from the tariff basket.

Principal Statement Information Capture System

The enclosed principal statement information capture system for 2003-04 is provided in Excel 97 format.

We have included an electronic help file on the enclosed diskette. This provides practical advice on how to complete the principal statement, large user and special agreement information capture systems. Guidance on how to access the help file and the information capture systems is set out in summary form in Annex H. The enclosed diskette has been virus checked by Ofwat before despatch. **We strongly recommend, however, that you carry out an appropriate virus check** prior to using the disk.

- **Links to June Return 2002**

We will check details in your principal statement against your June Return submission. The enclosed information capture system contains elements of the water balance information that you submitted in the June Return 2002. We do not expect you to change any of the values for 2001-02 (except for removing information for large users that are excluded from the tariff basket). We recognise that you may wish to provide revised estimates for 2002-03 and 2003-04.

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The information capture system will highlight any changes made. Please explain in your covering letter any changes you make to the information from the June Return submission.

The chargeable volume for 2001-02 in Table 3 should reconcile with the chargeable volumes in the principal statement. Please input the total volume of water recorded in the principal statement into line A3.15 in Table 3. The spreadsheet will automatically convert this volume measured in m³ per year into Ml per day. Line A3.16 is calculated as the measured water delivered at standard rates less meter under-registration less the amount of supply pipe leakage not chargeable (ie. that relating to external meters). If line A3.15 does not equal line A3.16, please provide a full explanation.

Guidance for Reporters

Your Reporter must comment on any changes made to information from the 2002 June Return, no matter how small.

The Reporter must comment if A3.15 is not equal to A3.16 in Table 3 of the additional information. The Reporter should scrutinise and give an opinion on the company's explanation.

This year we will also require Reporters to scrutinise the revenue details in your additional information. This information is important because we use it to ensure that you are complying with condition E. We also use it to calculate average bills for the *Water and Sewerage Bills* leaflet and for the tariffs report. We want to ensure that:

- you have correctly reported revenue for the last complete charging year for households and non-households in the principal statement additional information, and that this is consistent with the June Return table 23, lines 1 and 2;
- you have estimated provisional and forecast revenues on a basis consistent with both the additional information to the principal statement and the respective year's charges. You must make no allowance for bad debts. And you must allocate revenues between households and non-households on a basis consistent with the way in which you allocated revenue for the weighting year; and
- we understand any further assumptions that you make.

Your Reporter must examine your methodology, revealing any assumptions you have made, and comment on whether it is consistent with our objectives.

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Annexes

In addition to the principal statement & additional information capture system, the special agreement capture system and the large user capture system, I enclose eight annexes that set out guidance to help you prepare the above. Only Annex D has been materially altered from RD 21/01. Annex C has been revised to improve clarity, although the substance of the guidance remains the same. The annexes are as follows:

Annex A	Principal statement requirements
Annex B	Treatment of hosepipe/sprinkler charges
Annex C	Treatment of new charges (including optional measured tariffs)
Annex D	Audit requirements
Annex E	Additional information requirements and certification
Annex F	Special agreement requirements
Annex G	Large user requirements
Annex H	Information capture system guidance (circulated to water companies only)

Ofwat Process after 14 January 2003

Please note that we will analyse principal statements and charges schemes in order of receipt. We have made a commitment to approve companies' charges schemes and agree principal statements by 14 February 2003. Where possible we will aim to give approval and agreement respectively before this date. Where principal statements and final charges schemes are not submitted simultaneously by companies this will delay checks on both.

If you have any queries regarding the principal statement information requirements please contact Peter Jordan on 0121 625 1312.

I am copying this letter to Robert Weeden (Water UK), Rodney Anderson (DEFRA) and Bob Macey (National Assembly for Wales).

Yours sincerely

Paul Hope
Head of Tariffs

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PRINCIPAL STATEMENT REQUIREMENTS

The basic structure and layout of the 2003-04 principal statement and additional information are unchanged from previous years.

The data capture system has a user interface incorporating features built into other Ofwat data capture systems. The principal statement information capture system for 2003-04 is provided in Excel 1997 format. It has the option to print only those lines with entries, thereby reducing the length of the printout.

We have included an electronic help file on the enclosed diskette. This provides practical advice on how to complete the principal statement, large user and special agreement information capture systems. Guidance on how to access the help file and information capture systems is set out in summary form in Annex H.

If you experience any problems using the principal statement information capture system please contact Carl Poulton, Head of ISU Systems Development, on 0121 625 1349.

Accuracy

The accuracy levels adopted for calculations in the 2003-04 principal statement are:

- | | | |
|-----------------------------|---|---|
| K | - | these values are set to the nearest 0.01, ie accurate to two decimal places. |
| Change in RPI | - | RPI and inflation figures published by the ONS use one decimal place. For the purposes of calculating the charges limit the percentage change in RPI will be accurate to 2 decimal places (to calculate the percentage change with more decimal places introduces spurious accuracy). |
| Carry Over unused last year | - | for 2003-04 the Carry Over will be given to 2 decimal places, consistent with the Carry Forward on the 2002-03 principal statement (see below). |

- | | | |
|--|---|---|
| Charges Limit | - | the number of decimal places will match the maximum used in the above items, ie two decimal places. |
| Weighted Average Charges Increase (WACI) | - | is calculated to full Excel accuracy. |
| Carry Forward | - | is calculated to full Excel accuracy by subtracting WACI from the Charges Limit. After calculation, Carry Forward will be rounded to two decimal places. This will then form the Carry Over in the next year's principal statement correct to two decimal places. |

Within each tariff basket item there is a comprehensive list of unmeasured and measured charges incorporated in the charge description column of the principal statement. At the bottom of each basket item there are a number of blank lines for any new charges that may be introduced. **The measured water basket has five additional blank lines immediately below the list of volumetric charges. You should use these for any new volumetric tariffs** for the purpose of one of the consistency checks built into the capture system. If you use these lines, please enter a concise description in the charge description column. Your covering letter should set out details of what the charge is for, and how it is to be applied.

When completing the principal statement, you must only enter data against those charges applied by your company leaving all other lines blank. The capture system prevents you from deleting or inserting lines.

We have prepared your company disk with details of 2002-03 charges. Your covering letter should explain any movement of charges, charge multipliers and chargeable supplies to different lines.

We have entered revenue from Standard Charges in Section 0, which we have taken directly from the 2001-02 Regulatory Accounts. You must explain changes to these figures in your covering letter.

If you are introducing an agreed new charge in 2003-04, you must include the charge multiplier and number of chargeable supplies for all required years. If actual figures are not available, you should ensure that the figures included are as accurate as possible and include a note to this effect. Annex C provides more detail on how to complete the principal statement in respect of new charges.

Please observe the following reporting conventions:

General

- i) charges to be entered in £.p. The spreadsheet display format will show 2 decimal places except for rateable value charges and volumetric charges where 4 decimal places will be shown;
- ii) charge multipliers (and chargeable supplies) are to be entered in whole units, not 000's – ie **do not** enter 2.1 for 2,100 charge multipliers;

Measured Sewerage

- iii) we require the **gross** volumetric charge, ie before return to sewer is taken into account, to be entered with the relevant multiplier. This is to achieve a consistent presentation of sewerage volumetric charges for all companies;
- iv) the charge multiplier should be the volume that is charged at the price shown in the charge column. The return to sewer assumption should be entered in line 4.185, 4.186 and/or 4.187. This does not affect the basket ratio;

Trade Effluent

- v) lines 5.023 to 5.026 and 5.027 to 5.030, for B' and S' respectively, should give the charge per kg and hence the charge multiplier should relate to kg;
- vi) regional strengths for 2002-03 and 2003-04 should be entered in lines 5.092 and 5.093 of this basket item. This does not affect the basket ratio.

TREATMENT OF HOSEPIPE AND SPRINKLER CHARGES

This section gives guidance on the treatment of hosepipe and sprinkler charges in the principal statement, either where companies wish to abolish the charge, or where no charge will be made for a charging year due to a hosepipe/sprinkler ban.

1 Abolishing the charge

For the first year of abolishing the charge(s), you should enter the charge multiplier and consequently the number of chargeable supplies in the principal statement, but set the charge to zero.

For the year after that, you should set both the charge and the charge multiplier to zero and leave the line(s) blank in the principal statement. The average charge per chargeable supply for the first year (2003-04) will appear differently on successive principal statements, but within each principal statement the average charge per chargeable supply will remain consistent between the two years and hence show the appropriate charges increase for comparison with RPI+K.

This method is illustrated below, if abolishing the charge in charging year 2003-04.

2003-04 Principal Statement

STANDARD CHARGES DESCRIPTION	CHARGES (£.p)		CHARGE MULTIPLIER		REVENUE (£)		CHARGEABLE SUPPLIES	
	Prior Year 2002-03 (I)	Charging Year 2003-04 (II)	At 1/12/00 (III)	At 1/12/01 (IV)	Prior Year 2002-03 (V)=IxIII	Charging year 2003-04 (VI)=IIIxIV	At 1/12/00	at 1/12/01
Unmeasured Tariff	50.00	56.00	100	100	5,000	5,600	100	100
Hosepipe/sprinkler	20.00	-	30	30	600	0	30	30
TOTALS					5,600	5,600	130	130
AVERAGE CHARGE PER CHARGEABLE SUPPLIES					£43.08	£43.08		
RATIO OF AVERAGE CHARGES							1.00000	

2004-05 Principal Statement

STANDARD CHARGES DESCRIPTION	CHARGES (£.p)		CHARGE MULTIPLIER		REVENUE (£)		CHARGEABLE SUPPLIES	
	Prior Year 2003-04 (I)	Charging Year 2004-05 (II)	At 1/12/01 (III)	At 1/12/02 (IV)	Prior Year 2003-04 (V)=IxIII	Charging Year 2004-05 (VI)=IIIxIV	At 1/12/01	at 1/12/02
Unmeasured Tariff	56.00	56.00	100	100	5,600	5,600	100	100
Hosepipe/sprinkler	-	-	-	-	-	-	-	-
TOTALS					5,600	5,600	100	100
AVERAGE CHARGE PER CHARGEABLE SUPPLIES					£56.00	£56.00		
RATIO OF AVERAGE CHARGES							1.00000	

2 Where a hosepipe/sprinkler ban is in force, but the company wishes to retain the charge for future years

- i) If the ban is for one year only, show the charge for that year as zero, but include the charge multiplier and consequently number of chargeable supplies as normal.
- ii) If the ban continues in consecutive years, the charge will effectively be zero for two years and you can leave the line blank in the principal statement.

If you want to re-introduce the charge, you must include figures for the charge multiplier and number of chargeable supplies for both the charging and the prior year.

TREATMENT OF NEW CHARGES

This section gives guidance on how to complete the principal statement when a new charge is being introduced, including:

1. New measured tariffs eg tariffs for large user customers
2. Peak rate tariffs
3. Tariffs for inset customers

If you are introducing a new charge for the charging year 2003-04, you must include the charge multiplier and number of chargeable supplies (if appropriate) for all the required years.

1. Introduction of new measured tariffs

If the new charge is a refinement or development of a previous charge, you must enter the prior year and charging year charges to reflect the change from the tariff the customers faced in the prior year to the new tariff in the charging year. Enter the charge multiplier (and chargeable supplies if an unmeasured tariff) for the new charge to reflect the take up of the new tariff. This method is illustrated below, as if introducing a new volume tariff for large user customers in 2003-04.

2002-03 Principal Statement

STANDARD CHARGES DESCRIPTION	CHARGES (£.p)		CHARGE MULTIPLIER 1999-2000 (III)	WEIGHTING YEAR REVENUE	
	prior year 2001-02 (I)	Charging Year 2002-03 (II)		Prior Year 2001-02 (IV)=IxIII	Charging Year 2002-03 (V)=IixIII
	General Volumetric Charge	.4500		.5000	10,000,000
TOTALS				4,500,000	5,000,000
RATIO OF WEIGHTING YEAR REVENUES			1.11111111		

2003-04 Principal Statement

STANDARD CHARGES DESCRIPTION	CHARGES (£.p)		CHARGE MULTIPLIER 2001-02 (III)	WEIGHTING YEAR REVENUE	
	prior year 2002-03 (I)	Charging Year 2003-04 (II)		Prior Year 2002-03 (IV)=IxIII	Charging Year 2003-04 (V)=IixIII
	Household	.5000		.5500	2,500,000
Non-household	.5000	.5500	2,500,000	1,250,000	1,375,000
Large Users	.5000	.5000	5,000,000	2,500,000	2,500,000
TOTALS				5,000,000	5,250,000
RATIO OF WEIGHTING YEAR REVENUES			1.05000000		

2. Introduction of Seasonal Tariffs

Companies should follow the general procedure set out in section 1 above when introducing a seasonal tariff in the principal statement.

You must base the charge multiplier on customers' actual consumption in the weighting year. The charge multiplier you enter for peak and off peak volumes must therefore reflect actual consumption for the relevant period of the weighting year.

For example, if consumption is more heavily weighted towards the summer months (peak) you must reflect this in the charge multiplier for this charge.

3. Treatment of Inset Appointments

Guidance is set out below on the procedure for entering an inset appointment in your principal statement.

This applies to new customers that are charged new charges. Customers brought in on existing charges are incorporated in the normal way.

A. Standard approach

Enter details of the level of the charge to be applied in the 'Other charges' Section of the relevant basket. A code will be allocated to the charge and incorporated into the main body of the principal statement in subsequent years. You must enter zeros in the corresponding charge multiplier columns until actual data is available for the dates specified.

This method is described below, for the measured and unmeasured baskets, as if the inset appointment were effective from the charging year 2003-04.

Measured basket

For the first year of the inset (2003-04 principal statement), you must enter the appropriate charge and a zero in the corresponding charge multiplier column (2001-02) of the principal statement.

For the second year of the inset (2004-05 principal statement), you must again enter the appropriate charge (for 2004-05) and a zero in the charge multiplier column (2002-03) of the principal statement.

For the third year of the inset (2005-06 principal statement), you must enter the charge (for 2005-06) and the relevant data in the charge multiplier column (2003-04) of the principal statement.

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Unmeasured basket

For the first year of the inset (2003-04 principal statement), you must enter the charge for 2003-04 and a zero in the corresponding charge multiplier columns (1-12-01 and 1-12-02) of the principal statement.

For the second year of the inset (2004-05 principal statement), you must enter the appropriate charge (for 2004-05) and a zero in the charge multiplier columns (1-12-02 and 1-12-03) of the principal statement. Although actual data is available for the latter charge multiplier, you must continue to enter zeros until actual data is available for both columns.

For the third year of the inset (2005-06 principal statement), you must enter the charge (for 2005-06) and for the first time enter relevant data in both charge multiplier columns (1-12-03 and 1-12-04) of the principal statement.

B. Alternative approach

If the inclusion of the inset appointment has the impact of reducing the average charge per chargeable supply in the unmeasured basket, you may wish to enter unmeasured supplies for the inset appointment as if they were new unmeasured supplies in your existing area of appointment. The procedure is set out below.

For the first year of the inset (2003-04 principal statement), you must enter the charge for 2003-04 and a zero in the corresponding charge multiplier columns (1-12-01 and 1-12-02) of the principal statement as actual data is not available for either date.

For the second year of the inset (2004-05 principal statement) actual data is available for the charging year charge multiplier (1-12-03). You must enter the relevant details in the principal statement along with the level of the charge for 2004-05. For future years you will enter actual charge multiplier details into the principal statement in the normal way.

The procedure to be followed for the measured basket is the same as that set out above.

ANNEX C(ii)

TREATMENT OF NEW CHARGES: NEW OPTIONAL MEASURED TARIFFS

This section explains how to complete the principal statement when a new optional measured tariff is introduced. The substance of the guidance remains the same as previous years, although we have revised it to improve clarity. A worked example for the vulnerable group tariff follows. The approach we have asked companies to take is intended to protect them from revenue losses as a result of introducing measured optional tariffs. Companies can continue to follow this guidance for each year that take-up of a tariff is expected to increase further.

Year 1 – Year of introduction

You can enter a forecast for the number of customers you expect to opt for the tariff in the first year. Please explain in your covering letter the rationale for the level of uptake that you have assumed.

Methodology for entering a forecast

Enter the following lines in the “other charges” section of the basket item.

- **A line for each new charge.** The charge multiplier is what the number of new customers, or volume of these customers etc, would have been if the charge had been introduced in the weighting year. You can assume that the number of customers that would have taken up the charge in the weighting year is the same as the number of new customers that will take up the charge in the charging year. You must ensure that all those forecast to switch to the tariff in the charging year, were customers in the weighting year. Charge multipliers for charging elements that are not based on customer numbers, eg charges based on volume, must be based on records for the forecast customers from the weighting year. You should not enter prior year charges on these lines.
- **A line for each charge in the prior year for the assumed switching customers.** The prior year charge is the charge that these customers were assumed to be paying in the prior year. If the customers paid a variety of charges, such as commercial standing charges, you can enter an average of these charges on one line, as long as you fully explain how you have calculated the average charge in the covering letter to your submission. The charge multiplier is the number of customers, or volume of those customers etc, in the weighting year. If you have to make any assumptions when determining what the prior year charges and charge multipliers should be for the customers that

you think will switch, you must include in your covering letter a rationale these assumptions. You should not enter charging year charges on these lines.

If there are two lines with the same charge multiplier, one with a charge entered for the prior year and the other with a charge entered for the charging year, you can instead enter a single line with charges entered for both years.

It is important that customers are not double counted. You must ensure that charge multipliers for existing tariffs do not include customers whom you believe will opt for new tariffs.

Year 2

In the second year of a charge, we will have given the charge a code and entered it into the main section of the tariff basket. You must enter a charge for the charging year. If you consider that your original forecast of first year take-up is either correct or too high, the charge multiplier for the 2003-04 Principal Statement is the number of customers that you now think will opt for the tariff by the end of the first year (2002-03). This estimate must be based on actual take-up of the tariff. If you now think that the original estimate was too low, then the charge multiplier you should enter is that original estimate which was made for the 2002-03 Principal Statement.

A further entry, described below, will take into account any additional customers that you now think will take up the tariff by the end of the first year (2002-03).

Again, it is important that customers are not double counted. You must ensure that charge multipliers for existing tariffs do not include customers whom you have assumed will opt for new tariffs.

-Adjustment (formerly called correction)

If a company's forecast of take-up of an optional tariff is inaccurate it will lead to other charges being higher or lower than they otherwise would have been. Companies would gain or lose revenue because of this. If nothing was done, charges would continue to be higher or lower than they otherwise would have been each year. And each year companies would gain or lose revenue. Companies must therefore enter additional lines that will have the effect of adjusting other charges to what they should have been if the forecast had been accurate. These lines will not, however, remove/compensate for revenue already gained/lost. The methodologies are different if you overestimated or underestimated the number of customers that would opt for the new tariff:

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Methodology for entering an adjustment for over estimation

You must enter the following lines under "other charges":

- **A line for each new charge.** The charge multiplier is the difference between

the estimate of take-up by the end of 2002-03 in the 2002-03 principal statement and the provisional number that you now think will take up the tariff by this date. The prior year charge is what the customers were assumed to be charged; ie the new charge. You should not enter a charge for the charging year.

- **A line for each element of the charges that the overestimated customers will pay.** The charging year charge is that which these customers will pay in the charging year. The charge multiplier is again the difference between the estimate of take-up for the first year of the tariff in the 2002-03 principal statement and the provisional number that you now think will take-up the tariff by this date. You should not enter a charge for the prior year.

If there are two lines with the same charge multiplier, one with a charge entered for the prior year and the other with a charge entered for the charging year, you can instead enter a single line with charges entered for both years.

It is important that customers are not double counted. You must ensure that charge multipliers for other tariffs do not include customers that are included in this adjustment.

Methodology for entering an adjustment for under-estimation

The following lines must be entered under other charges:

- **A line for each new charge that was introduced.** The charging year charge is that on which the customers will pay in the charging year; ie the new charge. The charge multiplier is the difference between the estimate of take-up by the end of 2002-03 in the 2002-03 principal statement and the provisional number that you now think will take-up the tariff by this date. You should not enter a charge for the prior year.
- **A line for each element of the charges that the underestimated customers had been assumed to pay in the 2002-03 principal statement.** The prior year charge is what the customers were assumed to be paying in the prior year. The charge multiplier is again the difference between the estimate of take-up for the first year of the tariff in the 2002-03 principal statement and the provisional

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number that you now think will take-up the tariff by this date. You should not enter a charge for the charging year.

If there are two lines with the same charge multiplier, one with a charge entered for the prior year and the other with a charge entered for the charging year, you can instead enter a single line with charges entered for both years.

It is important that customers are not double counted. You must ensure that charge multipliers for other tariffs do not include customers that are included in this adjustment.

-Additional Forecast

If you believe take-up will continue to increase in the charging year, you may enter a forecast for the additional number of customers that will opt for the tariff in the charging year. The maximum number that you can forecast is the number now thought to take up the tariff by the end of the first year of charging. Please follow the above methodology for entering a forecast.

Year 3 and future years

For tariffs in their third year of existence you will be able to enter a charge multiplier from the weighting year. If this will adversely effect your company's revenue, you can again enter an estimate of take-up of the tariff at the end of the prior year (2002-03).

-Entering an end of year estimate

If the estimate of take-up for the tariff in the previous year's principal statement is now believed to be either correct or too high, the charge multiplier is the latest estimate of the number of customers that will opt for the tariff by the end of the prior year (2002-03). The previous year's forecast is the sum from the 2002-03 principal statement of the charge multiplier for the tariff in the main part of the basket, plus any adjustment for underestimation and any forecast for the additional take-up of the tariff in 2002-03. If the estimate of take-up for the tariff in the previous year's principal statement is now believed to be too low, then the charge multiplier should remain as that old forecast. The additional customers must be taken account of by entering an adjustment for under-estimation.

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-Adjustment

If you entered a forecast of additional take-up in the 2002-03 principal statement for a tariff, you must enter an adjustment (as described above) in the 2003-04 principal statement.

-Additional Forecast

If you believe take-up will continue to increase in the charging year, you may enter a forecast for the additional number of customers that will opt for the tariff in the charging year. The maximum number that you can forecast is the number now thought to take up the tariff by the end of the prior year (2002-03), less the number that were thought to take up the tariff by the end of the prior year (2001-02) in the 2002-03 principal statement. Please follow the above methodology for entering a forecast.

Worked Example

The worked example for the vulnerable group tariff on the following pages illustrates the above guidance. Similar procedures should be followed for surface water drainage rebates and other new optional measured tariffs. However, due to changes to the vulnerable group regulations we will allow you to make a further forecast for take-up of the vulnerable group tariff in 2003-04 in addition to what the above guidance allows. This is solely for the vulnerable group tariff and will not be allowed for any other tariff.

Entry of the vulnerable group tariff in 2002-03

The worked example below sets out how companies were asked to enter the vulnerable group tariff in the principal statement for 2002-03 (RD 21/01). The example assumes that 700 customers were forecast to take up the vulnerable group tariff in 2001-02 with an average consumption of 200m³. But the provisional estimate of take-up in this year was 500. Entries have therefore been made to make a adjustment for this over estimate of 200. The example also assumes that a further 100 customers were forecast to take up the vulnerable group tariff in 2002-03, again with an average consumption of 200m³. The total water delivered to the customer base of 100,000 is 10,000,000m³.

Scenario			
Forecast take up at end 2001-02	700	Actual take-up (estimated) in 2000-01	400
Forecast take up at end 2002-03	800	Actual take-up (estimated) in 2001-02	600

2002-03 Principal Statement (Charging Year)

STANDARD CHARGES DESCRIPTION	CHARGES (£.p)		CHARGE MULTIPLIER 2001-02 (III)	WEIGHTING YEAR REVENUE	
	Prior Year 2002-03 (I)	Charging Year 2003-04 (II)		Prior Year 2002-03 (IV)=IxIII	Charging Year 2003-04 (V)=IixIII
Standing Charge	20.00	20.00	99,100	1,982,000	1,982,000
Volumetric Charge	0.5000	0.5001	9,820,000	4,910,000	4,910,982
Vulnerable Group Tariff	100.00	101.00	600	60,000	60,600
Other charges:-					
VGT Adjustment	100.00	0.00	100	10,000	0
VGT Standing Charge	0.00	20.00	100	0	2,000
VGT Volumetric Charge	0.00	0.5001	20,000	0	10,002
VGT Forecast	0.00	101.00	200	0	20,200
VGT Standing Charge	20.00	0.00	200	4,000	0
VGT Volumetric Charge	0.5000	0.0000	40,000	20,000	0
TOTALS				5,004,000	~5,004,000
RATIO OF WEIGHTING YEAR			1.0000		
Bt(1)/Bt-1(1) = V / IV =					

B. Re-entry of the vulnerable group tariff in 2003-04

1. Mechanism if company overestimated the number of vulnerable customers in its 2002-03 principal statement

This section shows how a company should enter the vulnerable group tariff in the principal statement for 2003-04 if it overestimated the number of vulnerable customers in the 2002-03 principal statement. The example assumes that the additional actual take-up of the vulnerable group tariff in 2002-03 is estimated to be 150 customers, to make a total of 750 customers on the vulnerable group tariff. It is forecast that a further 150 customers would have taken up the tariff in 2003-04 if the vulnerable group regulations had not changed. It is forecast that a further 90 customers will take up the tariff due to the changes in the vulnerable group regulations

Scenario			
Forecast take up at end 2001-02	700	Actual take-up (estimated) in 2000-01	400
Forecast take up at end 2002-03	800	Actual take-up (estimated) in 2001-02	600
Forecast take up at end 2003-04	900+90	Actual take-up (estimated) in 2002-03	750

2003-04 Principal Statement (Charging Year)

STANDARD CHARGES DESCRIPTION	CHARGES (£.p)		CHARGE MULTIPLIER 2001-02 (III)	WEIGHTING YEAR REVENUE	
	Prior Year 2002-03 (I)	Charging Year 2003-04 (II)		Prior Year 2002-03 (IV)=IxIII	Charging Year 2003-04 (V)=IixIII
Standing Charge	20.00	20.00	98,960	1,979,200	1,979,200
Volumetric Charge	0.5001	0.5002	9,792,000	4,897,979	4,898,958.8
Vulnerable Group Tariff	101.00	102.00	750	75,750	76,500
Other charges:-					
VGT Adjustment	101.00	0.00	50	5,050	0
VGT Standing Charge	0.00	20.00	50	0	1,000
VGT Volumetric Charge	0.00	0.5002	10,000	0	5,002
VGT Forecast	0.00	102.00	150	0	15,300
VGT Standing Charge	20.00	0.00	150	3,000	0
VGT Volumetric Charge	0.5001	0.0000	30,000	15,003	0
VGT Additional Forecast	0.00	102.00	90	0	9,180
VGT Standing Charge	20.00	0.00	90	1,800	0
VGT Volumetric Charge	0.5001	0.0000	18,000	9,002	0
TOTALS				6,986,784	~6,986,784
RATIO OF WEIGHTING YEAR			1.000		
Bt(1)/Bt-1(1) = V / IV =					

Step 1 Enter the level of the vulnerable group tariff for 2003-04 and an estimate of the level of take-up of the vulnerable group tariff for 2002-03 in the corresponding charge multiplier column. This estimate should be based on experience to date.

Example "Vulnerable Group Tariff" charge multiplier has been entered as 750 (600 already on the tariff, plus an additional up-take of 150 in 2002-03).

Step 2 Enter lines in the principal statement marked "adjustment". The numbers entered on these lines are for the customers that were mistakenly assumed to take up the new tariff.

The charge multipliers are the number of these customers and their associated volumes. The prior year charges are those on which these customers were assumed to be charged; ie the vulnerable group tariff. The charging year charges are those on which these customers will be charged in the charging year; ie standing charge and volumetric charge.

Example "VGT Adjustment" charge multiplier has been entered as 50
"VGT Standing Charge Adjustment" has been entered as 50
"VGT Volumetric Charge Adjustment" has been entered as 10,000

Step 3 Enter lines in the principal statement marked "Forecast". The numbers entered on these lines are for the additional customers that it is assumed will opt for the new tariff in the charging year.

The charge multipliers are the number of these customers and their associated volumes. The prior year charges are those on which these customers were being charged; ie standing charge and volumetric charge. The charging year charges are those on which it is assumed that these customers will be charged in the charging year; ie vulnerable group tariff.

Example "VGT Forecast" charge multiplier has been entered as 150
"VGT Standing Charge Forecast" has been entered as 150
"VGT Volumetric Charge Forecast" has been entered as 30,000

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Step 4 **(only for vulnerable group tariff)**
Enter lines in the principal statement marked "Additional Forecast". The numbers entered on these lines are for the additional customers

that it is assumed will opt for the new tariff in the charging year due to changes in the vulnerable group tariff regulations.

The charge multipliers are the number of these customers and their associated volumes. The maximum these can be is 10 per cent of the take-up that otherwise would have been forecast at the end of 2003-04 without this additional forecast. The prior year charges are those on which these customers were being charged; ie standing charge and volumetric charge. The charging year charges are those on which it is assumed that these customers will be charged in the charging year; ie vulnerable group tariff.

Example “VGT Additional Forecast” charge multiplier has been entered as 90
(10 per cent of 900 (750 + 150))
“VGT Standing Charge Forecast” has been entered as 90
“VGT Volumetric Charge Forecast” has been entered as 18,000

Step 5 You will need to adjust the charge multipliers for the standing charge and the volumetric rate, if forecasts are being entered for the charging year (ie step 3 and 4). If this is the case you will need to reduce the standing charge and volumetric rate charge multipliers by the charge multipliers that you have included in these forecasts.

If a adjustment for an overestimate was included in the 2002-03 principal statement (ie step 2), the charge multipliers used in the adjustment would have been excluded from the standing charge and volumetric rate charge multipliers in the 2002-03 principal statement. Please ensure that they are included in the charge multipliers for these charges in the 2003-04 principal statement.

Example “Standing Charge” charge multiplier has been entered as 98,960
(99,100 - 150 - 90 + 100)
“Volumetric Charge” charge multiplier has been entered as 9,792,000
(9,820,000 - 30,000 – 18,000 + 20,000)

2. Mechanism if company underestimated the number of vulnerable customers in its 2002-03 principal statement

The example on the following page sets out how a company should enter the vulnerable group tariff in the principal statement for 2003-04 if it underestimated the number of vulnerable customers in the 2002-03 principal statement. This example assumes that the additional actual take-up of the vulnerable group tariff in 2002-03 is estimated to be 850 customers. It is forecast that a further 250 customers would have taken up the tariff in 2003-04 if the vulnerable group regulations had not changed. It is forecast that a further 110 customers will take up the tariff due to the changes in the vulnerable group regulations

Scenario			
Forecast take up at end 2001-02	700	Actual take-up (estimated) in 2000-01	400
Forecast take up at end 2002-03	800	Actual take-up (estimated) in 2001-02	600
Forecast take up at end 2003-04	1,100+110	Actual take-up (estimated) in 2002-03	850

2003-04 Principal Statement (Charging Year)

STANDARD CHARGES DESCRIPTION	CHARGES (£.p)		CHARGE MULTIPLIER	WEIGHTING YEAR REVENUE	
	Prior Year 2002-03 (I)	Charging Year 2003-04 (II)		Prior Year 2002-03 (IV)=IxIII	Charging Year 2003-04 (V)=IIxIII
Standing Charge	20.00	20.00	98,790	1,975,800	1,975,800
Volumetric Charge	0.5001	0.5008	9,758,000	4,879,976	4,886,806.4
Vulnerable Group Tariff	101.00	102.00	800	80,800	81,600
Other charges:-					
VGT Adjustment	0.00	102.00	50	0	5,100
VGT Standing Charge	20.00	0.00	50	1,000	0
VGT Volumetric Charge	0.5001	0.000	10,000	5,001	0
VGT Forecast	0.00	102.00	250	0	25,500
VGT Standing Charge	20.00	0.00	250	5,000	0
VGT Volumetric Charge	0.5001	0.0000	50,000	25,005	0
VGT Additional Forecast	0.00	102.00	110	0	11,220
VGT Standing Charge	20.00	0.00	110	2,200	0
VGT Volumetric Charge	0.5001	0.0000	22,000	11,002	0
TOTALS				6,985,784	~6,985,784
RATIO OF WEIGHTING YEAR			1.0000		
Bt(1)/Bt-1(1) = V / IV =					

Step 1 Enter the level of the vulnerable group tariff for 2003-04 and an estimate of the level of take-up of the vulnerable group tariff for 2002-03 in the corresponding charge multiplier column. This estimate should be based on experience to date. It should not exceed the charge multipliers for the vulnerable group tariff entered in the 2002-03 principal statement which includes the forecast for the charging year entered in the 2002-03 principal statement. Additional customers estimated to take up the tariff will be taken account of in the adjustment (step 2).

Example “Vulnerable Group Tariff” charge multiplier has been entered as 800 (600 already on the tariff at the end of 2001-02, plus the **forecast** take-up of 200 in 2002-03).

Step 2 Enter lines in the principal statement marked “adjustment”. The numbers entered on these lines are for the extra customers now estimated to take up the tariff by the end of 2002-03 which were not included in the forecast in the previous principal statement.

The charge multipliers are the number of these customers and their associated volumes. The prior year charges are those on which these customers were assumed to be charged; ie the standing charge and volumetric charge. The charging year charges are those on which these customers will be charged in the charging year; ie vulnerable group tariff.

Example “VGT Adjustment” charge multiplier has been entered as 50
“VGT Standing Charge Adjustment” has been entered as 50
“VGT Volumetric Charge Adjustment” has been entered as 10,000

Step 3 Enter lines in the principal statement marked “Forecast”. The numbers entered on these lines are for the customers that it is assumed will opt for the new tariff in the charging year.

The charge multipliers are the number of these customers and their associated volumes. The prior year charges are those on which these customers were being charged; ie standing charge and volumetric charge. The charging year charges are those on which it is assumed that these customers will be charged in the charging year; ie vulnerable group tariff.

Example "VGT Forecast" charge multiplier has been entered as 250
"VGT Standing Charge Forecast" has been entered as 250
"VGT Volumetric Charge Forecast" has been entered as 50,000

Step 4 (only for vulnerable group tariff)

Enter lines in the principal statement marked "Additional Forecast".
The numbers entered on these lines are for the additional customers that it is assumed will opt for the new tariff in the charging year due to changes in the vulnerable group tariff regulations.

The charge multipliers are the number of these customers and their associated volumes. The maximum these can be is 10 per cent of the take-up that otherwise would have been forecast at the end of 2003-04 without this additional forecast. The prior year charges are those on which these customers were being charged; ie standing charge and volumetric charge. The charging year charges are those on which it is assumed that these customers will be charged in the charging year; ie vulnerable group tariff.

Example "VGT Additional Forecast" charge multiplier has been entered as 110
(10 per cent of 1,100 (800 + 50 + 250))
"VGT Standing Charge Forecast" has been entered as 110
"VGT Volumetric Charge Forecast" has been entered as 22,000

Step 5 You will need to adjust the charge multipliers for the standing charge and the volumetric rate for the adjustment that is being entered in the principal statement (ie step 2). You will need to reduce the standing charge and volumetric rate charge multipliers by the charge multipliers that you have included in the adjustment.

You will also need to adjust the charge multipliers for the standing charge and the volumetric rate, if forecasts are being entered for the charging year (ie step 3 and step 4). If this is the case you will need to reduce the standing charge and volumetric rate charge multipliers by the charge multipliers that you have included in the forecasts.

If an adjustment for an overestimate was included in the 2002-03 principal statement (ie step 2), the charge multipliers used in the adjustment would have not have been included in the standing charge and volumetric rate charge multipliers in the 2002-03 principal statement. Please ensure that they are included in the charge multipliers for these charges in the 2003-04 principal statement.

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Example "Standing Charge" charge multiplier has been entered as 98,790
(99,100 - 50 - 250 - 110 + 100)
"Volumetric Charge" charge multiplier has been entered as 9,758,000
(9,820,000 - 10,000 - 50,000 - 22,000 + 20,000)

C. Procedure for 2004-05 principal statement

- For 2004-05, if you have overestimated actual take-up in 2003-04 you should follow the procedure in set out in section 1 above. If you have underestimated actual take-up in 2003-04 you should follow the procedure in set out in section 2 above.
- In both cases, the vulnerable group tariff line in the main basket will incorporate overall take-up in 2002-03 plus estimated take-up for 2003-04 (up to a maximum limit of the take-up forecast for 2003-04 in the 2003-04 principal statement).
- An additional forecast for 2004-05 due to changes in the vulnerable group regulations will only be allowed if there are further changes in the regulations from 1 April 2004. The maximum level of the forecast of additional take-up that will be allowed will depend on the changes that are made.

ANNEX D

AUDIT REQUIREMENTS

We require the principal statement to be audited under the terms of Condition B, Paragraph 6.2 of the Instrument of Appointment of the Water and Sewerage Undertakers and Paragraph 5.3 of the Instrument of Appointment of the Water Undertakers.

The auditor's report must contain:

1. Contact details of a person who can be contacted in case of questions
2. A description of the work that has been carried out. The work must include the auditor checking that:
 - Figures in the principal statement, large user information capture system and special agreement information capture system are consistent with company records. In particular, the auditor must confirm that details of charge multipliers and chargeable supplies in the principal statement accurately reflect the customer charging base and have been taken from appropriate billing records
 - Revenue from standard charges in Section 0 is consistent with the analysis of turnover prepared under RAG3 for the 2001-02 Regulatory Accounts. If it is not, the auditor must comment
3. Any concerns or comments the auditor has, including any charge that has not been able to be audited
4. The following statement:

"We have examined the principal statement and supporting calculations for the Charging Year 2003-04, a copy of which is attached, in accordance with Condition B of the Instrument of Appointment by the Secretary of State for the [Environment/Wales] (the Licence) of XXX Company Ltd (the Appointee) as a Water [and Sewerage] Undertaker under the Water Act 1991.

In our opinion, subject to the above exceptions, the details set out in the principal statement plus supporting calculations are:

- (a) consistent with information supplied in the Regulatory Accounts;

and have been:

- (b) correctly extracted from the Appointee's accounting and other relevant records; and
- (c) correctly calculated in accordance with condition B of the Licence;

Those details set out in the large user information capture system and special agreement information capture system are:

- (a) consistent with information supplied in the Regulatory Accounts;

and have been:

- (b) correctly extracted from the Appointee's accounting and other relevant records.

ANNEX E

ADDITIONAL INFORMATION REQUIREMENTS AND CERTIFICATION

The basic structure and layout of Tables 1 to 6 of the additional information are unchanged from previous years.

The information capture system incorporates Tables 1 to 6 of the additional information. This year, the enclosed principal statement information capture System for 2003-04 is provided in Excel 97 format. An electronic help file has been included on the enclosed diskette. If you experience any problems using the data capture system please contact Carl Poulton on 0121 625 1349.

For Tables 1 to 4 we require information for the three years beginning with 2001-02. The additional information tables contain water delivered, properties and population data submitted in the June Return 2002. We do not expect any changes to the values for 2001-02 (except for the removal of information of excluded large user customers). We recognise that companies may wish to provide revised estimates for 2002-03 and 2003-04.

The information capture system will as a matter of course highlight all the changes made to data for all 3 years covered. The covering letter to the principal statement must explain any changes to the July Return data that the data capture will highlight. Additionally, we require a report from your Reporter to accompany any changes made.

Some of the data provided in, or derived from, the additional information section will be published. The main publication will be the *Tariff structures and charges report* published in the spring. The average household bill will be published in the *Owat Average Bills Leaflet* as last year.

The remainder of this Annex provides clarification on aspects of Tables 1 to 6 of the additional information.

Households & Non-Households

We require information for both households and non-households. Include properties used as single family dwellings as household supplies, as well as cases where a single aggregate bill is issued to cover separate households having individual standing charges. Include households living in combined premises as non-household supplies, as well as properties in multiple occupation having only one standing charge. This demarcation applies both for unmeasured and measured supplies.

Table 1 and Table 2

The revenue sub-total for unmeasured and measured supplies for the 2001-02 Charging Year must reconcile with the 'Revenue from Standard Charges' in Section 0 of the principal statement.

Table 3

For comparison with measured supplies, you must include supply pipe leakage (but not communication pipe leakage) in estimates of water delivered to unmeasured properties. Supply pipe leakage included in water delivered figures must be entered in Column B of Table 3.

We require details separately for externally metered households and for those households not externally metered. When totalled these two lines relate to all measured households. An external meter is one installed at or near the boundary of the customer's property (or the street in which the distribution main is laid).

The chargeable volume for 2001-02 in Table 3 should reconcile with the chargeable volumes in the principal statement. Line A3.15 requires input of m³ taken from the principal statement which is then converted into MI/d. Line A3.16 is calculated as the measured water delivered at standard rates less meter under-registration less the amount of supply pipe leakage not chargeable (ie. that relating to external meters). If line A3.15 does not equal line A3.16, please provide a full explanation and ensure that your Reporter comments on the explanation given.

Certification

The additional information tables must be supported by a statement signed by a Director (normally the Regulatory or Finance Director), confirming that the information and explanations provided are consistent with the information in the principal statement, June Return 2002 and 2001-02 Regulatory Accounts as appropriate or, if not, explaining the reasons for the differences.

If you have made any changes to data previously submitted to Ofwat in the June Return 2002, your Reporter must comment in his/her report.

SPECIAL AGREEMENT REQUIREMENTS

Introduction

Special agreements are any agreements not fixed in accordance with standard charges. We require that you provide information annually on the special agreements you have with your customers. This will enable us to consider any issue of undue preference or undue discrimination under Licence Condition E. We also require you to inform us of any new agreements and any updates to existing agreements as they are put in place.

In April 2003 we will make available the 2003-04 Special Agreement Register in the Ofwat library and on the Ofwat website. We will update the register as necessary in October 2003.

All details except customer names and addresses will be available in the Ofwat library and on the Ofwat website (www.ofwat.gov.uk).

Special agreement information capture system

A formatted information capture system has been created in Excel 97. This spreadsheet contains four individual worksheets (two for water only companies); one of which is a reconciliation of water delivered with the June Return 2002 and the remaining worksheets provide a breakdown of special agreements for water, sewerage and trade effluent.

Water Delivered 2001-02 – Table 1

This table is a summary table of all water delivered at non-standard rates and as bulk supplies; potable and non-potable. We expect this table to reconcile with the figures submitted in Table 10 Lines 26, 27, 31 and 32 (Column 4) respectively of the June Return 2002. To preserve the integrity of the calculations please do not overwrite the totals. You must carry forward volumes from the water table and enter them in the relevant blank cells. The spreadsheet will automatically calculate the totals. These totals should reconcile with the June Return Total line. If they do not, **please explain in your covering letter any difference. Additionally we require a report from your Reporter to accompany any changes made.**

Water – Table 2

Please include all water special agreements and bulk supply agreements on this table. Please split these into four categories: potable special agreements, non-potable special agreements, bulk supply imports and bulk supply exports.

We require a full history of all special agreements including changes, additions, new agreements and terminated agreements for both potable and non-potable water. We expect a full listing of bulk supply imports and exports for reconciliation purposes between companies.

We require the following information for each agreement (including bulk supplies from the core to non-core business activities):

- unique customer name and reference number;
- volume of water in 2001-02. If the start date is after 2001-02, indicate expected volume;
- volumetric unit price for 2001-02, 2002-03 and 2003-04;
- the standing charge for 2001-02, 2002-03 and 2003-04 (where applicable, enter the meter size under the terms);
- any discounts given or allowances made in 2001-02, 2002-03 and 2003-04;
- total revenue for 2001-02 (final), 2002-03 (estimate) and 2003-04 (forecast);
- whether the water supply is potable or non-potable;
- date the agreement comes into effect;
- duration of the agreement;
- the termination/renewal date;
- Reason why the customer is being charged by special agreement rather than by standard tariffs, the terms, the value of capital contributions, location details, indication of water works where the customer's water is treated, termination provisions, provisions for revising supply and price, meters.

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Sewerage – Table 3

Please include all sewerage special agreements on this table.

We require a full history of sewerage special agreements including any changes, additions, new agreements and terminated agreements.

We require the information for each agreement as follows:

- unique customer name and reference number;
- volume in 2001-02. If the start date is after 2001-02, indicate expected volume;
- volumetric unit price for 2001-02, 2002-03 and 2003-04;
- the standing charge for 2001-02, 2002-03 and 2003-04 (where applicable, enter the meter size under the terms);
- any discounts given or allowances made in 2001-02, 2002-03 and 2003-04;
- total revenue for 2001-02 (final), 2002-03 (estimate) and 2003-04 (forecast);
- date the agreement comes into effect;
- duration of the agreement;
- the termination/renewal date;
- Reason why the customer is being charged by special agreement rather than by standard tariffs, the terms, the value of capital contributions, location details, indication of sewage treatment works where the customer's waste is treated, termination provisions, provisions for revising the service and price, meter size;

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Trade Effluent – Table 4

Please include all trade effluent special agreements on this table.

We require a complete listing of all trade effluent agreements including any changes, additions, new agreements and terminated agreements.

We require the information for each agreement as follows:

- unique customer name and reference number;

- volume in 2001-02. If the start date is after 2001-02, indicate expected volume;
- unit price for R, V, Bv, M, B, S for 2001-02, 2002-03 and 2003-04;
- effluent strength Os and Ss for 2001-02, 2002-03 and 2003-04;
- any discounts given or allowances made in 2001-02, 2002-03 and 2003-04;
- total revenue for 2001-02 (final), 2002-03 (estimate) and 2003-04 (forecast);
- date the agreement comes into effect;
- duration of the agreement;
- the termination/renewal date;
- Reason why the customer is being charged by special agreement rather than by standard tariffs, the terms, the value of capital contributions, location details, indication of treatment works where the customer's trade effluent is treated, termination provisions, provisions for revising service and price.

We require all agreements to be available on request if further detail is needed.

LARGE USER REQUIREMENTS

Removal of large users from the tariff basket

Regulations laid by DETR Ministers on 20 July 2000 came into force on 17 August 2000. These lowered the threshold for inset appointments, contained in Section 7(5)(a) of the Water Industry Act 1991, from the previous limit of not less than 250 megalitres (MI) per year to not less than 100 MI per year, for companies in England.

Licence Condition B allows for an automatic amendment upon the coming into effect of any regulation made under Section 7(6) of Water Industry Act 1991, redefining the inset threshold. Therefore you must treat any charges made for large users (premises with a requirement for water that is not less than 100MI of water per year) as "Excluded Charges" and so be excluded from the tariff basket. For companies in Wales (Dŵr Cymru and Dee Valley Water), the threshold has remained unchanged at not less than 250MI per year.

Implications for 2003-04 principal statement and additional information

For the 2003-04 principal statement, you must not enter any large user tariffs that are excluded from the tariff basket. In addition, you must exclude charge multiplier details for customers whose premises had a requirement for water in the weighting year of not less than 100 MI per year if your company is wholly or mainly in England (250 MI if your company is wholly or mainly in Wales). Weighting year revenue for these large user customers has already been excluded from Section 0.

The above applies to water, sewerage and trade effluent customers. This means that the charge details of sewerage and trade effluent customers whose premises have a requirement for water is not less than 100MI per year should also be removed from the tariff basket. This is still the case where a customer is supplied with water of not less than 100MI per year but discharges less than 100MI per year.

For the above purposes, water only companies will need to inform the relevant sewerage undertaker in its supply area which of its customers have a requirement of water of not less than 100MI per year. This information should be provided as soon as possible in order to enable the companies to meet the 15 January 2001 deadline for submission of the 2003-04 principal statement and in any case no later than 29 December 2000.

Large User Capture System

Companies must submit with the principal statement details of those customers who are excluded from the tariff basket because they are large users in the large user information capture system.

For all companies in England and Wales detailed information is required about customers whose premises have a requirement for water of not less than 250 MI of water per year. In addition to this, for companies wholly or mainly in England, summary information will also be required to provide information on its customers whose premises have a requirement of water between 100MI and 250MI per year.

The formatted capture system has been created in Excel 97. This spreadsheet contains four individual worksheets (two for water companies); one of which records details of customers supplied with between 100MI and 250MI of water per year. The remaining worksheets require a breakdown of large users supplied with not less than 250MI of water per year for water, sewerage and trade effluent.

Summary 100-250MI – Table 1

This table requires details of the total number of customers supplied with between 100MI and 250MI of water per year and their associated volumes and revenues for water, sewerage and trade effluent. Exclude customers charged by special agreement.

The details required for water, sewerage and trade effluent customers are set out below:

- Total number of customers in 2001-02;
- Total volume supplied/discharged in 2001-02;
- Total revenue for 2001-02 (final), 2002-03(estimate) and 2003-04 (forecast).

Water – Table 2

This table requires a detailed breakdown of water delivered and must include all large users supplied with not less than 250MI of water per year excluding customers charged by special agreement. The table is divided into two categories; potable and non-potable supplies.

The details required are set out below:

- Customer name and unique customer reference number;
- Location details (address);
- Volume of water in 2001-02;
- Volumetric unit price for 2001-02, 2002-03 and 2003-04;
- Fixed charge for 2001-02, 2002-03 and 2003-04;
- Total revenue for 2001-02 (final), 2002-03 (estimate) and 2003-04 (forecast);
- Whether the water supply is potable or non-potable.

Sewerage – Table 3

This table requires a detailed breakdown of sewage collected and should include all large users supplied with not less than 250MI of water per year excluding customers charged by special agreement.

The details required are set out below:

- Customer name and unique customer reference number;
- Location details (address);
- Volume of waste water in 2001-02;
- Volumetric unit price for 2001-02, 2002-03 and 2003-04;
- Fixed charge for 2001-02, 2002-03 and 2003-04;
- Total revenue for 2001-02 (final) , 2002-03 (estimate) and 2003-04 (forecast);

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Trade Effluent – Table 4

This table requires a detailed breakdown of trade effluent and should include all large users supplied with not less than 250MI of water per year excluding customers charged by special agreement.

The details required are set out below:

- Customer name and unique customer reference number;
- Location details (address);
- Volume of waste water in 2001-02;
- Details of charging basis and charges for 2001-02, 2002-03 and 2003-04;
- Total revenue for 2001-02 (final), 2002-03 (estimate) and 2003-04 (forecast);