

Mr R J Baty
Chief Executive
South West Water Limited
Peninsula House
Rydon Lane
Exeter EX2 7HR

8 November 2001

INTERIM DETERMINATION – provisional response

On 14 September 2001 you made an application for an interim determination of your company's price limits under Part IV of Condition B of the licence. Your Reporter, Roger Sawden of WS Atkins submitted his report on your application on 14 September 2001.

Your application covers the additional costs and loss of revenue resulting from the following four items:

- a greater numbers of customers taking up the free meter option than was allowed for in the final determination (notified item);
- cryptosporidium monitoring requirements placed upon your company by the Drinking Water Inspectorate (Relevant Change of Circumstance);
- Changes to the lead compliance programmes (Relevant Change of Circumstance); and
- the costs associated with the Climate Change Levy.

In addition to these changes your application identified delays to two major waste-water projects. We have also identified delays to a number of smaller projects. We have taken both of these into account when determining your application as set out in my letter to you of 27 September 2001.

Annex A summarises your estimates of the effect of these changes on your costs and revenues.

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We have completed our initial assessment of your application. Our approach and our initial findings, judgements and conclusions are summarised in Annex B attached to this letter. We have provided you with some explanatory notes expanding on Annex B. Our provisional views on the impact of the changes on your costs and revenues are set out in the summary table (Annex A).

Our initial assessment of the total impact of the relevant items on your costs and revenues is sufficient to exceed the materiality threshold set down in Condition B of your licence. The revised price limits set out on the attached table would apply from April 2002. In the final determination in 1999 we anticipated that the average household bill would need to increase by £13.79 in real terms between 2001-02 and 2004-05. We now consider that it will need to increase by £25.58 in real terms over the same period.

In MD169 we indicated that companies seeking an interim determination should expect a licence modification to extend the scope of the notified item to allow for both losses and gains. This means that in future an interim determination can be triggered by Ofwat if our revised metering assumptions turn out to be too generous. A copy of the proposed licence modification is attached at Annex C.

Please could we have your written representations on this draft determination by Thursday 22 November 2001. We shall be meeting you on Friday 30 November 2001 to hear your representations.

Written representations are sought from other interested parties by Thursday 29 November 2001.

We shall issue our final determination of your application by 14 December 2001.

We are placing this draft determination in the Ofwat library and announcing our decision to the London Stock Exchange.

This letter and enclosures has been copied to John Ballard (DEFRA), Michael Rouse (DWI), Richard Cresswell (Environment Agency), Noel Olsen, (Chairman of South West CSC), your local Members of Parliament and Members of the European Parliament.

PHILIP FLETCHER

ANNEX A

| SOUTH WEST WATER LIMITED | | | | | | |
|--|---|--|---------|---|---------|---------|
| DRAFT INTERIM DETERMINATION – Autumn 2001 – SUMMARY TABLE | | | | | | |
| Description | | Company's Assessment (September 2001) | | Ofwat's Assessment (November 2001) | | |
| Item 1 – Additional meter optants | | | | | | |
| 1.1 | Total additional meter optants in period to 2004-05 (AMP3) over and above the November 1999 assumptions. | + 55,011 (water) + 53,750 (sewerage) | | + 32,698 (water) + 30,622 (sewerage) | | |
| 1.2 | Estimated net additional capital expenditure over the AMP3 period | £9.3m | | £7.4m | | |
| 1.3 | Estimated net additional operating expenditure over the AMP3 period | £2.3m | | £1.4m | | |
| 1.4 | Estimated loss in revenues over the AMP3 period | £42.3m | | £31.4m | | |
| 1.5 | Materiality amount (NPV of total net additional costs and losses) | | | £103.0m | | |
| 1.6 | Contribution towards materiality threshold | | | 42.3% | | |
| Item 2 – Cryptosporidium – additional requirements for continuous monitoring and treatment. | | | | | | |
| 2.1 | Estimated net change in capital expenditure to 2004-05 | £3.1m | | £2.7m | | |
| 2.2 | Estimated net change in operating expenditure to 2004-05 | £2.6m | | £2.4m | | |
| 2.3 | Materiality Amount (NPV of total net additional costs and losses) | | | £8.0m | | |
| 2.4 | Contribution towards materiality threshold | | | 3.3% | | |
| Item 3 – Lead – changes to the compliance programmes | | | | | | |
| 3.1 | Estimated capital expenditure on confirmed lead programme to 2004-05 | £6.7m | | £4.1m | | |
| 3.2 | Estimated operating expenditure on confirmed lead programme to 2004-05 | £2.9m | | £2.2m | | |
| 3.3 | Materiality amount (NPV of total net additional costs and losses) | | | £10.5m | | |
| 3.4 | Contribution towards materiality threshold | | | 4.3% | | |
| 3.5 | Reduction in capital expenditure on lead communication pipe replacement compared with that assumed in the 1999 final determination | -£9.5m | | -£11.9m | | |
| 3.6 | Materiality amount (NPV of total net reductions) | | | -£11.4m | | |
| 3.7 | Contribution towards materiality threshold | | | -4.7% | | |
| Item 4 – Climate Change Levy – not a relevant change of circumstance | | | | | | |
| Item 5 – Counter Notice – Torbay, Cornborough, AMP 3 schemes | | | | | | |
| 5.1 | Estimated net change in capital expenditure to 2004-05 | -£0.2m | | 0 | | |
| 5.2 | Estimated net change in operating expenditure for AMP3 | -£2.6m | | -£2.2m | | |
| 5.3 | Materiality amount (NPV of total net additional costs and losses) | | | -£6.4m | | |
| 5.4 | Contribution towards materiality threshold | | | -2.6% | | |
| OVERALL ASSESSMENT | | | | | | |
| 6 | Materiality amount (NPV of total net additional costs and losses) | | | £103.8m | | |
| 7 | South West turnover for 2000-01 used in materiality test | | | £243.5m | | |
| 8 | Materiality test | | | 42.6% | | |
| PRICE LIMITS | | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
| 9 | Current price limits (as set in November 1999) | -12.2 | 0.0 | 2.0 | 2.0 | 2.0 |
| 10 | Draft revised price limits | -12.2 | 0.0 | 3.7 | 3.8 | 3.7 |

Notes:

1. Additional costs and revenue losses shown as positive, savings and revenue gains shown as negative.
2. The appropriate Discount Rate used is 4.2%.
3. **Materiality test** – Result must be greater than $\pm 10\%$ to trigger a change in price limits.
4. All monetary values are stated in September 2001 prices. Totals may not add due to rounding.

ANNEX B

**SOUTH WEST WATER LIMITED
DRAFT INTERIM DETERMINATION – Autumn 2001
SUMMARY OF OFWAT'S INITIAL ASSESSMENT**

1. We have followed a four stage assessment of your application in accordance with the terms of Condition B of your company's licence.
2. You included five changes in your application:
 - a greater number of customers taking up the free meter option;
 - the additional requirements placed upon your company by the Drinking Water Inspectorate (DWI) – to deal with cryptosporidium;
 - changes to the lead compliance programmes;
 - the costs associated with the Climate Change Levy; and
 - some delays to projects in your quality programme.
3. Our initial assessment of your application and the counter notice is set out in summary terms below.

STAGE 1 – CONFIRMATION THAT THE CHANGED REQUIREMENTS ARE RELEVANT CHANGES IN CIRCUMSTANCE OR ARE COVERED BY SPECIFIC NOTIFIED ITEMS

Item 1 – Additional meter optants

4. A special notified item was set out in the 1999 price determination to protect the company from some of the implications of a greater number of customers taking up the free meter option than had been assumed by Ofwat.
5. We confirm that the rate of meter uptake is faster than we assumed in the final determination and has triggered the notified item.

Item 2 – Cryptosporidium - additional requirements for continuous monitoring and treatment

6. In 1999 the extent of the new requirements to deal with the risk from cryptosporidium was uncertain. Provision in price limits was only made for that work which had been identified and received technical support from the DWI. The outcome of risk assessments was not known, and hence no provision was made in price limits for any requirements to carry out continuous monitoring.
7. The DWI issued a revised notice dated 7 September 2000 under regulation 23A of The Water Supply (Water Quality) (Amendment) Regulations 1999 which set out the steps you must take to comply with the requirements of regulation 23B. The

DWI has since agreed the need for continuous monitoring at Bratton Fleming when the river source is in use. We have received confirmation from the DWI that the work set out in your application is necessary to meet your obligations under the cryptosporidium regulations.

8. The statement of intent issued by the DWI on 30 November 1999 set down the programme of improvement works you are required to carry out at three sites. These improvements to washwater facilities are necessary in order to satisfy 'Badenoch and Bouchier' requirements.

9. We confirm that these cryptosporidium monitoring and treatment requirements qualify as a Relevant Change of Circumstance. We are content that the scale of the work set out in your application is appropriate and additional to what has been assumed in price limits set in 1999.

Item 3 – Lead – changes to the compliance programmes

10. Provision was made in price limits in 1999 for a work programme to deal with the new lead standards. This was based on a lead communication pipe replacement programme and plumbosolvency control. During the 1999 periodic review the DWI clearly stated that it would review the most effective means of delivering compliance after receiving further information from each company. Plumbosolvency control is now the preferred initial approach.

11. The DWI has confirmed that the provision made in the final determination for lead was only for the purpose of setting prices. The programme of work set down in the DWI's letter to the company dated 27 July 2001 'Water Supply (Water Quality) Regulations 2000: Regulation 41 – Approval of Programmes of work' replaces the letter of support provided for the periodic review process. This programme of work requires you to install plumbosolvency treatment at 18 sites, and investigate the need for first time treatment at another eight sites.

12. We have taken advice from the DWI on the timescale of any subsequent lead communication pipe replacement that may be required. The effectiveness of plumbosolvency control will need to be assessed before it is possible to determine whether further action may be required to achieve full compliance with the lead parameter.

13. We consider that the change in the lead compliance programmes is a Relevant Change of Circumstance.

Item 4 – Climate Change Levy

14. I have carefully considered your request, but have not included any allowance for it in this draft determination.

15. Changes in the general law, including changes to taxation, fall outside the definition of a legal requirement in Condition B13.2(1)(a) in your company's

conditions of appointment. The definition covers requirements arising in water-specific legislation (ie relating to the handling or treatment of water or waste water).

16. The Climate Change Levy (CCL) is a general business tax on the use of energy. The fact that your company, in common with other water and sewerage undertakers and, among others, companies in the mining and quarrying sectors, is currently excluded from the categories of those which may secure rebates from the CCL does not mean that it is a legal requirement which applies to your company "... in its capacity as a water or sewerage undertaker...".

Item 5 – Capital investment deferrals

17. Provision was made in price limits for wastewater quality improvement schemes. You report in your application delays to the schemes at Torbay and Cornborough, and that beneficial use will not be achieved at these sites by the due dates. In discussions with the Environment Agency we have also noted the revised completion dates for ten other schemes.

18. We consider that the non-delivery of these quality outputs by the required dates is a Relevant Change of Circumstance.

STAGE 2 – ASSESSING THE APPROPRIATE NET ADDITIONAL COSTS/REVENUE LOSSES ATTRIBUTABLE TO EACH CHANGE

Item 1 – Additional meter optants

19. Ofwat has carefully assessed the information contained in your application and, where appropriate, we have requested further clarification from you and the Reporter.

Numbers of optants

20. In assessing the evidence most weight has been attached to confirmed outturn information and the extent to which this indicates a divergence from the assumptions made in the final determination.

21. In the final determination we assumed that 15% of unmeasured customers would choose to change to measured charging between April 2000 and March 2005. We also assumed that switching would follow a pattern whereby a constant proportion of the remaining unmeasured customer base took up the free meter option each year.

22. Your application presents evidence relating to free meter installations in the period 1 April 2000 to September 2001. This includes 5,655 optional meters installed free of charge before 1 April 2000, but not used as the basis for charging until that date. Your submission also presents some evidence to support your forecast of meter optants up to March 2005.

23. For the purpose of this draft interim determination Ofwat is required to take a forward-looking view of the likely uptake of optional metering for the remainder of the quinquennium. In doing so we have had regard to the sensitivity of calculations to alternative extrapolations, and to the limited quantity of outturn data.

24. We accept that the number of optional meters you have installed since April 2000 will have a material impact on the cost and revenue assumptions made for the

1999 periodic review. However, we do not agree with your projections for the future rate of uptake. In particular, we do not anticipate the stepped increase in optant numbers in 2002-03 that is included in your forecast.

25. For the future rate of uptake we have assumed that the demand for free optional meters will continue to be higher than assumed at the 1999 final determination. However, we believe that the projected rate of uptake should take account of the 'pent up' demand for free meters that was included in your 2000-01 figures and has now been met. We have therefore assumed that each year 4.7% of the remaining unmeasured customers, starting from September 2001, will take up the free meter option.

26. Our revised projections of revenue also take account of variations between the level of meter optants assumed in the final determination for 1998-99 and 1999-2000 and the outturn numbers of meter optants during that period.

Meter optant characteristics

27. You estimate that the characteristics of meter optants will be different from those assumed in the final determination.

28. Our assumptions take account of your view on average post switching consumption and average switcher rateable value to date. However, our projections assume that the average consumption of the remaining unmeasured customers with an incentive to switch will increase over time. The draft interim determination assumes that optant's pre-switching water delivered will be 60% of the average unmeasured household water delivered in 2000-01 rising to 68% by 2004-05. In addition, we have continued to use the 1999 periodic review assumption that those taking the free meter option are unlikely to reduce their consumption by more than 5% on average.

Meter unit costs

29. For the capital cost of installing meters, we have used the same industry standard unit costs as at the 1999 final determination. We have assumed the mix of meter location adopted by the Competition Commission in its determination of price limits for Mid Kent Water and Sutton and East Surrey Water. We have continued to assume the unit operating costs adopted for the 1999 final determination.

Meter location

30. Ofwat has considered evidence put forward by the company regarding meter location, and taken account of the Competition Commission's opinion that the level of funding allowed in the 1999 final determination will have the effect of pushing companies towards an internal meter policy. Therefore the capital and operating cost allowances for meters have been calculated assuming that 14% of new meters will be installed in existing boundary boxes, and that 75% of the remaining new meters will be installed externally.

Item 2 – Cryptosporidium - additional requirements for continuous monitoring and treatment

31. You have chosen to deal with the requirements by carrying out continuous monitoring at 14 sites, providing a process and commencing continuous monitoring

at another three sites, and shutting down three others. The Reporter has commented that the decisions made by the company are reasonable.

32. We have reviewed your projected costs for meeting the requirements for cryptosporidium monitoring and treatment, and considered the Reporter's report. We have also looked more widely at experience elsewhere, and in particular at market prices for this type of work already included in price limits for other companies.

33. Your estimate of the additional operating costs of carrying out continuous monitoring for cryptosporidium have been compared with the benchmark established elsewhere. We have considered your operating costs and the annual cost of financing the capital investment in your laboratory when reviewing the costs of cryptosporidium monitoring. These are reasonable compared with the benchmark and have not been subjected to further challenge. We have adjusted your operating costs for 2000-01 to reflect the actual number of samples collected and analysed assuming a unit cost in line with subsequent years.

34. Continuous monitoring and testing for cryptosporidium is still in its infancy. It is reasonable to assume that as experience is gained there will be decreases in the unit costs of materials and increases in efficiency for this labour intensive procedure. We judge that a continuing efficiency of 2.5% per annum is a reasonable expectation.

35. You included within the additional capital expenditure for cryptosporidium monitoring the cost of modifying your laboratory to carry out the analysis of cryptosporidium to DWI requirements. In assessing the provision to be made in price limits we have reduced this expenditure by 3%, consistent with the catch-up improvement assumed for capital enhancement in the final determination, to reflect relative efficiency in capital procurement.

36. You have also included within the additional capital expenditure for monitoring the cost of replacing laboratory centrifuges at a future date. We have not included this capital maintenance expenditure in our assessment. You also include within the capital expenditure, the cost of carrying out risk assessments. You have indicated that a proportion of this cost represents in-house labour costs. This is an opportunity cost and so has been excluded from our assessment.

37. The additional capital expenditure associated with the installation of monitoring equipment is higher than the benchmark established elsewhere. The costs of installing cryptosporidium monitoring equipment should be broadly similar for all sites. Consequently we have reduced the cost estimate by 75% of the difference between the company estimate and the benchmark cost.

38. You are also installing additional treatment at some works and improving filter washwater facilities at a number of others in order to satisfy cryptosporidium requirements. The costs of some of these improvements were included in the final determination, but the membrane plant at Houndall and the washwater improvements at Prewley, Delank and St Cleer were not included, so are being assessed in this determination.

39. The annual operating cost for the membrane plant at Houndall is higher than the benchmark established elsewhere. Our assessment at this site has been based on the benchmark. We do not have sufficient comparative data on the operating

costs associated with the three 'Badenoch and Bouchier' washwater upgrades to establish a benchmark. Our assessment has been based on reducing your estimated operating costs for these works by the same proportion as those of the membrane plant at Houndall.

40. In the past companies have been able to deliver much greater efficiencies in dealing with such new standards and new processes than either they or Ofwat expected. Accordingly we have assumed an efficiency gain of 2.8% per annum in operating costs for both the membrane installation and the washwater upgrades.

41. We have reduced the additional capital expenditure for the membrane plant at Houndall by 3%, consistent with the catch-up improvement assumed for capital enhancement procurement derived from the cost-base in the final determination.

42. We have also reduced the additional capital expenditure in 2000-01 for the three washwater upgrades by 3% to incorporate this catch-up. We judge that there is uncertainty about the additional capital costs of this work in subsequent years, and we have reduced the company estimates by 10% for 2001-02 and 2002-03

43. No efficiency has been assumed in 2002-03 for the additional capital expenditure associated with cryptosporidium treatment.

Ofwat's view of the likely costs of cryptosporidium monitoring and treatment

44. You assessed the net present value over 15 years of the operating costs and the capital costs of complying with the new requirement as £8.4m at September 2001 prices, with £2.6m net additional operating costs and £3.1m net additional capital costs incurred over the period to March 2005.

45. We assess the net present value over 15 years of these costs to be £8.0m, with £2.4m net additional operating costs and £2.7m net additional capital costs over the period to March 2005.

Item 3 – Lead – changes to the compliance programmes

46. The DWI stated in Information Letter 13/98 that the provision made for meeting the new lead standards was solely for the purpose of estimating costs for the periodic review. The Information Letter made it clear that allowance in price limits was subject to companies agreeing specific programmes of work with the DWI once the criteria for action had been agreed. After the final determination, the DWI set out in Information Letter 12/2000 the criteria for action, which resulted in more emphasis on treatment to reduce plumbosolvency than was assumed in the final determination. The DWI stated that financial provision for the quality elements was to be used only for treatment, and that lead communication pipe replacement would not qualify for funding as a quality improvement unless prior written approval was given by the DWI.

47. The DWI has not given such approval to your company and so we have not included in our assessment the expenditure you have reported on lead pipe replacement.

48. DWI Information Letter 3/2001 states that companies wishing to carry out opportunistic lead pipe replacement should submit their proposals to the DWI for consideration. All proposals must be agreed in advance by the DWI to count as quality driven work for price limit purposes.

49. The DWI has not approved opportunistic lead pipe replacement for South West Water, and so we have not included in our assessment your cost estimates for this activity.

50. We consider that your initial estimate of additional operating costs for plumbosolvency treatment are high in comparison with those of other companies. We have compared your cost estimate with cost information from other companies likely to have similar qualities of water to South West. The costs for the benchmark company have been compared with yours, and we have reduced your cost estimate by 75% of the difference in costs.

51. We have assumed that future efficiencies of 1.4% a year are reasonable for plumbosolvency control operating costs.

52. Your Reporter has indicated that the additional capital costs of plumbosolvency control for the eight sites scheduled for completion next year have not been worked up to the same degree of detail as those of the other sites. We consider that this indicates a significant level of uncertainty about these costs. In view of this we have reduced your estimate of the additional capital expenditure by 10%.

53. We have assumed future efficiencies of 1.4% a year are reasonable for this capital work.

Ofwat's view of the likely costs of changes to the lead compliance programme

54. DWI has confirmed that the agreed programmes of work (dated 27 July 2001) have replaced the letters of support provided only for the purposes of the periodic review. The final determination in 1999 made allowance for dealing with the lead parameters, linked for the purpose of the review to a programme of lead communication pipe replacement. No lead communication pipe replacement has yet been confirmed by DWI, and the timescale and extent of any such replacement is not yet known. We have considered separately the costs of complying with the programme now confirmed by the DWI and the savings arising from the changed work programme.

55. The net present value over 15 years of the operating costs and the capital costs, put forward by the company, of complying with the confirmed lead programme was £17.6m, with £2.9m net additional operating costs and £6.7m net additional capital costs over the period to March 2005.

56. We assess the net present value of these costs to be £10.5m, with £2.2m additional operating costs and a £4.1m additional capital costs over the period to March 2005.

57. The allowance in price limits for the lead compliance programme, linked to a programme of lead communication pipe replacement in the 1999 price setting, is offset. The net present value of this is £11.4m.

58. You considered the net effect of these two changes and estimated the net present value over 15 years of the additional operating and capital costs to be £5.0m.

59. For the purposes of calculating materiality we have considered these changes as two separate amounts of costs and savings as set out in your licence.

Item 4 – Climate Change Levy – not a relevant change of circumstance see paragraphs 14 - 16 above.

Item 5 – Capital investment deferrals

60. You have provided us with information on the actual or expected completion dates of a number of schemes including Torbay and Cornborough. We have also discussed these completion dates with the Environment Agency and considered the Reporter's comments on the expected completion dates for a number of projects

61. We have then considered the difference between the amounts allowed for in price limits for the original completion dates and that for the new dates. The financial assumptions made were the same as those used in the 1999 price setting, taking account of the revised completion dates.

Ofwat's view of the likely impact on costs of capital deferrals

62. You assessed the net present value over 15 years of the operating costs and the capital costs of the changes to be a reduction of £5.2m at September 2001 prices, with a net reduction of £2.6m in operating costs and a net reduction of £0.2m in capital costs over the period to March 2005.

63. We assess the net present value over 15 years of these changes to be a net reduction of £6.4m, with a net reduction of £2.2m in operating costs and a net change in capital costs of less than £0.01m over the period to March 2005.

STAGE 3 – MATERIALITY TEST – IN AGGREGATE DOES THE SUM OF ALL THE CHANGES EXCEED THE MATERIALITY THRESHOLD SET DOWN IN THE LICENCE?

64. Condition B of the licence sets a materiality threshold for consideration of interim determinations. If the present value of the net additional costs and revenue losses (calculated up to the start of the next charging period for capital costs and over 15 years for operating costs and revenue losses) arising from the changes is greater than 10% of the turnover of the Appointed Business in the latest financial year for which accounting statements have been delivered to Ofwat, then a revision of price limits is triggered.

65. The results of our analysis, based on the revised assumptions set out above, are summarised in Annex A. This shows that the materiality threshold has been satisfied.

STAGE 4 – IMPLICATIONS FOR PRICE LIMITS IF THE MATERIALITY THRESHOLD IS EXCEEDED

66. Because the materiality threshold is exceeded we are required by Condition B of your licence to review and revise your price limits. Our provisional assessment of your company's application is that the price limits for the charging years 2002-03 to 2004-05 should be revised as set out in the table in Annex A.

67. We propose to adopt the symmetrical notified item model used by the Competition Commission, together with the new projections of meter optants as amended by the numbers set out in Annex A. The licence modification and revised notified items are attached at Annex C.

DRAFT

WATER INDUSTRY ACT 1991 s.13(1) MODIFICATION OF CONDITION B OF THE CONDITIONS OF APPOINTMENT OF

[]

Made on []
Coming into effect on [1 April 2002]

1. In Condition B, in place of paragraph 13.2(6) there shall be inserted –

“13.2(6)(a) where any Base Cash Flows under (5) consist of items to which (b) below does not apply, what is the Net Present Value of those Base Cash Flows calculated up to the start of the first of the Charging Years for which the next periodic review falls to be carried out;

(b) where any Base Cash Flows under (5) consist of¹ revenue and/or Operating Expenditure, what is the Net Present Value of those Base Cash Flows calculated over 15 years –

and what is the aggregate of those Net Present Values calculated under (a) and (b) (“**the Materiality Amount**”);”.
2. Paragraph 12.3 (Definitions of Costs and Receipts in paragraph 13 and in the definition of a ‘Relevant Change of Circumstance’) shall be amended as follows –
 - (i) after the semicolon at the end of (1), delete “and”; and
 - (ii) at the end of (2), delete the full stop and insert –
“;and

(3) without prejudice to subparagraph (1) above, “Operating Expenditure” in subparagraph 13.2(6) includes those items currently so identified in Regulatory Accounting Guidelines 3 and 4 and in the July Return 1999 Reporting Requirement, line 22 in table 21 and line 23 in table 22. For the avoidance of doubt, depreciation, the write-down/off of assets, the profits/loss on disposal of assets and infrastructure renewals expenditure or charges are excluded.”.

Philip Fletcher

¹Deletion of the words ‘loss of’ from previous version

NOTIFIED ITEM

For the purpose of this determination Ofwat has assumed that the cumulative increase in the numbers of measured household customers arising from the exercise of the free meter entitlement under s.144A(1) of the Water Industry Act 1991 will be as specified for each year in the following table.

| Numbers of Household Meter Optants between 1 October 2001 and 30 September in the Year | | |
|---|-------------|-------------|
| 2002 | 2003 | 2004 |
| 20,728 | 40,420 | 59,188 |

Any difference between either or both of the assumed cumulative numbers and the actual, cumulative numbers at 30 September in the year in question is a notified item.

The costs attributable to the notified item shall be interpreted to comprise:

- (i) the difference in capital expenditure to be attributed to the provisions and installation of a different number of meters;
- (ii) the difference in annual operating expenditure to be attributed to the provision of measured charging for a different number of customers;
- (iii) the extent to which annual revenues accruing to the company from standard charges are different as a result of the cumulative number of household optants varying from the numbers specified above.

1 November 2001