

Annual Report of the Director General of Water Services

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of the Director General of Water Services

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For the period 1 April 2004 to 31 March 2005

Presented to Parliament in pursuance of section 193 of the Water Industry Act 1991
and to the National Assembly for Wales

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To

Rt Hon Margaret Beckett MP
Secretary of State for Environment, Food and Rural Affairs
and
Rt Hon Rhodri Morgan AM
First Minister

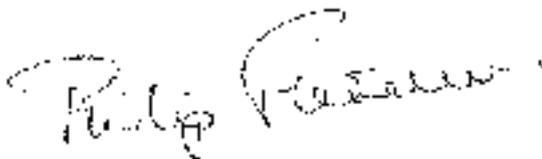
Dear Secretary of State and First Minister

I am pleased to present my report on our work for the year ending 31 March 2005.

The review of companies' price limits for 2005-10 has dominated our workload this year. I consider the price limits I set are as high as they needed to be but no higher, in order to protect the interests of customers of monopoly service suppliers. An increase in price limits is necessary to allow the companies to maintain the progress in service quality and performance that has already been achieved and to make the further advances required.

This has been the last full year in which WaterVoice is statutorily a part of Ofwat. I would like to take this opportunity to thank all the Committee Chairmen, especially Maurice Terry as Chairman of the National Council, Members of Committees and WaterVoice staff for the contribution they have made on behalf of customers. I look forward to developing a constructive and productive working relationship with the Consumer Council for Water, which you will be establishing from October 2005.

I am grateful too for the hard work of my colleagues on the Ofwat Board, and of all Ofwat staff without whom the successful completion of a demanding year's work would not have been possible.



Philip Fletcher
Director General of Water Services



Director's review of 2004-05

This year has been an intense period of work for Ofwat, the industry and its stakeholders. It culminated in my announcement on 2 December 2004 of price limits for the five-year period beginning 1 April 2005. I set price limits that I consider are fair to customers, the companies, and the environment. They are no higher than they had to be to enable each company to maintain service quality and performance, to invest in further improvements in environmental and drinking water quality, and to enhance security of supply.

We aim to adhere to the principles of good regulation in all that we do. During the year, while our focus has largely been on the price review, we have made particular efforts to improve our transparency and accountability. We have shared our reasoning with the companies and explained our decisions in public. We try to be consistent in our approach to each company and over time. Where we look to make changes, we do this in consultation with others.

Customers' bills

At this price review I set an average price limit of 4.2% a year for each of the five years. The average household bill of £249 in 2004-05 will rise by £46 to £295 by 2009-10 (before inflation). This is a third less than the companies sought in their business plans.

Positive price limits are needed to finance the substantial capital programme of almost £17 billion and the higher running costs faced even by efficient companies. To reflect the companies' costs we set an average price limit of 9.6% in 2005-06. All of the companies accepted the price limits and there were no Competition Commission referrals.

We gave advance warning that bills would need to rise if the companies were to maintain services sustainably as well as making the statutory improvements required of them. We have explained fully our decisions in our reports. We have responded to enquiries and complaints about the level of bills following our announcement.

Price review evaluation

We believe that the review of price limits was conducted well; certainly in terms of process it has been complimented by independent observers. However, there are undoubtedly areas that can be improved for future reviews. In December 2004, I appointed a steering group to examine independently the way we conducted the review. This group will research views and talk to a wide range of stakeholders. It will focus on the lessons that can be learnt from this review and make recommendations for us to consider for the next price review in 2009.

John Baker, one of our non-executive advisory directors, is chairing this independent steering group. The group expects to announce its findings by the end of July 2005.

We are accountable to Parliament. The Environment, Food and Rural Affairs Committee and the Environmental Audit Committee have between them conducted three inquiries into aspects of the price review, although all of these were concluded before we announced our final determinations. We have contributed to Defra's responses to the Committees' recommendations.

Water Act 2003

In the interests of customers, WaterVoice has made an independent and constructive contribution to the development of national and regulatory policy and practice. We look forward to maintaining and building on this working relationship as the reins transfer to the Consumer Council for Water, under its newly appointed Chair Designate Dame Yve Buckland, in October 2005. With Defra and WaterVoice, we have been taking part in preparing for this change.

We expect the Water Services Regulation Authority to be responsible for our work from 1 April 2006. New duties under the Water Act 2003 have applied to us since 1 April 2005. In the year ahead we will be considering with our stakeholders the implications of these new duties on the way in which we currently operate our statutory functions. These include a duty to contribute to the achievement of sustainable development. We are considering how best to take account of the Government's latest sustainable development guidance and ensure that the companies meet the indicators that apply to them as set out in 'Securing the future'. Central to our task is the need to protect the interests of customers and of certain groups of vulnerable customers.

Market competition

From November 2005 customers consuming at least 50 megalitres of water per year can choose to buy their water supplies from a new licensee. Incumbent companies and new licensees will be able to apply for either a retail licence or a combined licence. This year we consulted on our draft access guidance and expect to issue our final guidance on price and non-price terms for access in 2005-06. We have welcomed the industry's commitment to put an effective and workable system in place and look forward to competition for large users developing from the autumn of 2005.

Safeguarding customers

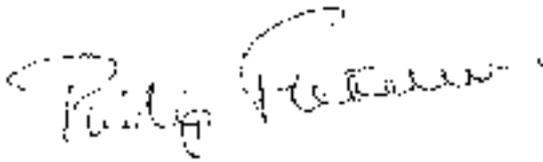
Comparative competition underpins all of our work, no more so than at a price review. We continue to value the benefits that comparative competition has brought. We have pursued international comparisons and this year have added to this comparative data with information from the Scandinavian 6-Cities benchmarking group. Regulation of the water and sewerage industry in England and Wales continues to be regarded as a world leader and we have hosted visits from international visitors who wished to explore with us how regulation operates in England and Wales.

Corporate activity

During the year there were a number of changes of ownership in the water industry. We consulted on changes to the corporate structures of Cambridge, Mid Kent, Portsmouth and South East Water. All prospective new owners were from companies that do not currently operate in the water industry. We consider with an open mind each proposed merger. Any proposed mergers between the current owners of water companies would be similarly considered, but within the context of the requirement for a mandatory reference to the Competition Commission to consider, amongst other things, the implications of the proposal for our economic regulation of the whole sector.

In conclusion

This has been a demanding, but also rewarding year for Ofwat as we successfully completed our price review. I look forward to a challenging year ahead.



Philip Fletcher
Director General of Water Services

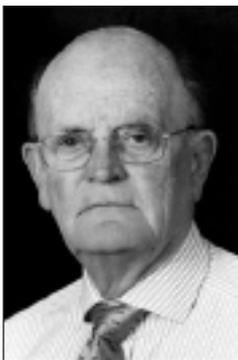


Our senior management team

The Ofwat Board is chaired by Philip Fletcher and comprises four non-executive advisory directors and four executive directors. Fiona Pethick (Head of Corporate Affairs) is secretary to the Board and Huw Brooker (Head of Legal Services) advises the Board.



Philip Fletcher,
Director General
of Water Services



John Baker,
Non-executive
advisory director



Martin Cave,
Non-executive
advisory director



Jane May,
Non-executive
advisory director



Roger Munson,
Non-executive
advisory director



Huw Brooker,
Head of
Legal Services



Roger Dunshea,
Director of
Operations



Bill Emery,
Director of Costs &
Performance and
Chief Engineer



Keith Mason,
Director of
Regulatory Finance



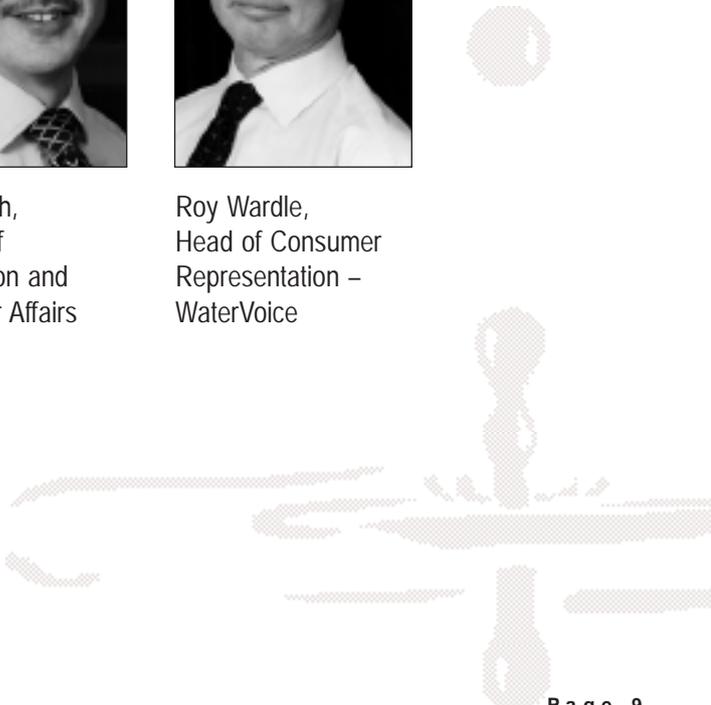
Fiona Pethick,
Head of
Corporate Affairs



Tony Smith,
Director of
Competition and
Consumer Affairs



Roy Wardle,
Head of Consumer
Representation –
WaterVoice



1 Price review 2004

The primary focus of our work this year has been the price review.

On 2 December 2004 we announced our final determinations of price limits for the 23 water companies operating in England and Wales. This was the conclusion of a demanding two-year process. In October 2002 we published our methodology for the price review in 'Setting price limits for 2005-10: Framework and approach'. This also set out the timetable that we would use for the price review.

Our aim for the review was to set price limits that provide best value to customers now and in the future. We aimed to achieve this by enabling well-managed companies to finance the delivery of services in line with relevant standards and requirements and provide incentives for companies to improve their efficiency and service delivery. We consider that the price limits we set fulfilled these aims. Our processes aimed to use all stakeholders' time efficiently and to provide transparency about how we came to our decisions.

The price limits we set were 4.2% on average for each of the five years 2005-10. This is a third less than the companies proposed in their business plans. The average household bill will increase by 18% before inflation over the five years. This compares with the companies' proposals for an average increase of 29%. The price limits for each of the five years and their potential impact on the average bill for each company are set out in 'Future water and sewerage charges 2005-10: Final determinations'.

Company business plans

The business plans the companies submitted to us by 30 April 2004 were an essential part of the price review. This was later than anticipated due to a delay to the publication of the principal guidance. This guidance from Ministers set out their decisions on the policies needed to deliver existing commitments including EU obligations and a small programme of additional discretionary policy initiatives. Each company's plan included its views on the price limits it believed it needed to fund its proposed activities and the outputs it planned to deliver. In general terms we were content with the strategies the companies proposed, although in our determinations we took a different view on the costs of their strategies and the efficiencies they could achieve.

Each company's reporter examined and tested its proposals and the business planning processes it used to arrive at those proposals. The reporters, with help from the auditors, exposed, examined and reviewed the assumptions underpinning each company's strategy. Each reporter provided us with a report setting out his/her findings.

We scrutinised each company's plan thoroughly. We looked at the company's financial assumptions, the revenues it said it needed, and its proposed quality, environmental and service improvements. We also examined each company's plan to invest in maintaining its assets. We considered each of the points made in the plan and undertook our own modelling in arriving at our draft determinations.

Draft determinations

We published our draft determinations on 5 August 2004, a week later than originally planned. The proposed price limits were prepared on a consistent basis, but took account of each company's particular circumstances. We provided a detailed explanation and a populated financial model to each company so that it could understand how we reached our decisions.

Companies provided us with representations, for example on whether we had given sufficient weight to their business plan proposals. We consulted all stakeholders and they had until October to provide us with their views on our draft determinations.

We received more than 500 additional responses to our consultation. These focused on the level of price limits and bills we proposed in our draft determinations. Reservations were expressed by customers' representatives about the sharp increase in bills in 2005-06 followed by smaller increases in subsequent years. Customers from the South West and WaterVoice South West suggested that any increase in water and sewerage bills would be unacceptable.

Some companies considered that the efficiency assumptions underlying our draft determinations were not achievable. The companies also questioned our assumptions on future operating costs, drawing particular attention to the allowances made for items such as energy costs.

Companies, some WaterVoice Committees and customers urged us to make sure that companies had sufficient revenue to maintain their assets. By far the largest number of customers, more than 300 individuals, considered that the level of investment in environmental improvements included in our draft determinations was inadequate. Many of these were responding to an RSPB campaign for more environmental improvement schemes to be included in our final determinations.

Sewer flooding was another issue that prompted many representations, mostly expressing disappointment with the number of improvements included in our draft determinations.

Other issues raised included concerns about the impact of our draft determinations on large users, the cost of capital included in our draft determinations, and the circumstances that could allow companies or us to seek interim determinations.

We took all of the representations we received into account in arriving at our final determinations.

Ministers' final guidance

In October 2004 Ministers provided their final guidance on the drinking water quality and environmental improvements they expected to be delivered in price limits. This fine-tuned their principal guidance issued in March 2004. Ministers clarified the policy outputs they expected to be delivered in 2005-10 and published a regulatory impact assessment, to which we had contributed, covering the policy initiatives that went beyond existing obligations. This guidance also clarified the administration of changes in water abstraction licences. Final guidance for Wales confirmed the exclusion of further work in Wales.

Final determinations

We announced our final determinations on 2 December 2004. Our decisions and explanations about how we arrived at them are set out in 'Future water and sewerage charges 2005-10: Final determinations'.

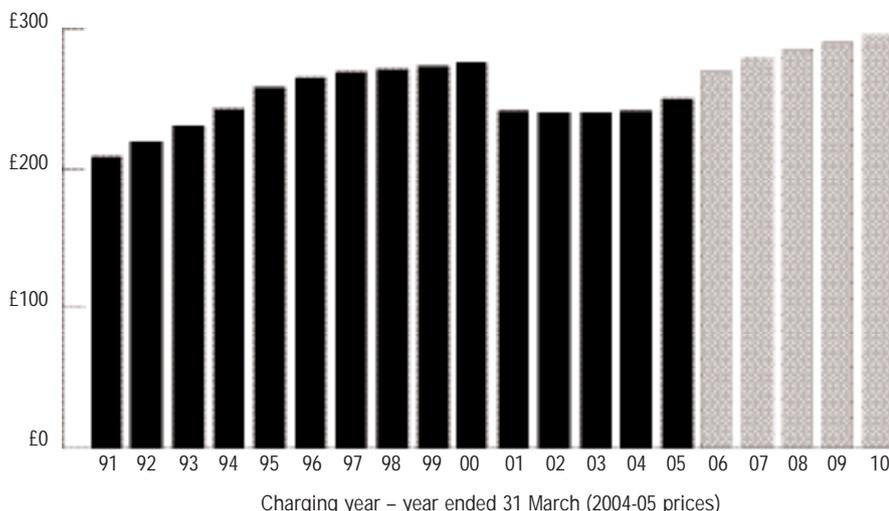
Our determinations have led to an annual average price limit of 4.2% before inflation in England and Wales. This ranges from 2.4% for Anglian to 6.9% for South West on average each year. For the water only companies the range is from an average reduction of 0.5% for Tendring Hundred to an increase of 4.8% a year for Folkestone & Dover.

The price limits reflect the costs each company faces including increased running costs, more activity to maintain their assets and improve security of supply, further improvements to drinking water quality and the environment and reductions to sewer flooding. Our final determinations were 1% higher per year on average than our draft price limits. This reflected changes in our approach as a result of the representations we received, and took account of Ministers' final guidance as well as correcting some inaccuracies.

Overall, the price limits we set will lead to an increase in the average household bill of 18%, before inflation, over the five-year period. Average household bills have risen by 11.8% including inflation in the first year – 2005-06.

Figure 1 provides a projection of average household bills from 2005, compared with past average bills.

Figure 1 Actual and projected average household bills 1990-91 to 2009-10



We recognise that many customers prefer gradual increases in bills to allow them to adjust their budgets. However, we concluded that the revenues companies can raise from their customers should in general reflect their costs in any given year of the price review period. Smoothing price limits over the five-year period would increase the total cost to customers. Four companies had proposed smoothed price limits to moderate the very sharp increases that would otherwise have arisen in April 2005 and we reflected this approach in the price limits we set for these companies.

The price limits are larger in 2005-06 than in later years, as this is the first opportunity to take account of the additional costs companies have incurred over the last five years, such as pensions and energy costs.

The price limits will lead to the following benefits over the five-year period.

- All current essential services safeguarded for customers and the environment – this requires a bigger programme to maintain pipes, sewers and treatment works for the future.
- Safe and more reliable supplies of drinking water – achieved through further improvement projects in water quality and security of supply.
- Further protection for the environment – achieved through a major programme of work to deliver tighter standards at over 1,000 sewage treatment works, and improve over 2,000 overflows from the sewerage system. This will improve our rivers and coastal waters, and includes 379 investigations to inform decisions on future environmental protection.
- More than 95% of companies' and Ministers' proposals included in price limits. Some proposals were excluded, where we considered that they had not yet been fully justified and set out by the companies.
- A programme of nearly £1 billion to safeguard homes against the risk of sewer flooding. This would resolve or mitigate every known high-risk problem of internal flooding from overloaded sewers where companies' plans said action is needed by 2010. By then, the proportion of properties at risk should reduce to 0.01% of households.

Handling uncertainties

At a price review we cannot predict precisely what will happen in the subsequent five years. We recognise that there are areas where we cannot be certain about the impact of certain factors on the companies. Our final determinations identified a number of changes that can trigger an interim determination.

In our change protocol (MD 197), which we published on the same day as our final determinations, we set out the principles and procedures for companies and the quality regulators to obtain confirmation of any changes to the improvement programmes assumed in price limits.

Competition Commission

Each company had two months following issue of the price limits to decide whether it wanted us to refer its determination to the Competition Commission for redetermination. No company chose to pursue this route.

Monitoring plan

Each company is required to publish a monitoring plan setting out what customers will receive for the price limits set. The plan sets out its overall strategy for 2005-10, including the company's commitments on drinking water quality and environmental improvements, customer service, maintaining serviceability and prices, consistent with the final determination.

Each company submitted its monitoring plan to us on 7 March 2005. We carried out a consistency check of each company's plan with its final determination. Where we identified inconsistencies we examined whether these were fully explained in the text. If not, we gave the company the opportunity to revise its plan before it was published. If we were unable to agree, we added a note to the company's plan setting out our regulatory expectations and copied this to the relevant WaterVoice Committee. A summary of each company's monitoring plan can be found on our website.

We will monitor each company's compliance with the expectations in our final determination through the annual June returns. The monitoring plan will support this process and enable others to put each company's annual progress into context.

Evaluating the review

Commentators have complimented us on the transparency of this review. However, there are always ways to improve. Following completion of the price review the Director appointed an independent steering group, chaired by John Baker, one of our non-executive advisory directors, to examine the way we carried out the two-year review. Its objectives include examining the suitability of the process and how we applied our methodology. The steering group will consider stakeholders' views on the overall process and ways in which it might be improved. The principles of good regulation identified by the Better Regulation Task Force provide a context for this work.

The group appointed an independent researcher to carry out a survey and in-depth interviews with stakeholders. The group will also meet key stakeholders to listen to their views. Ofwat staff have been asked how they felt the process had worked in practice. All visitors to our website have an opportunity to respond to questions about the review process.

The group intends to produce recommendations and a report for the Ofwat Board by the end of July 2005. We will publish the group's findings.

Informing customers about future bills

The price limits we set led to increases in bills for 2005-06. We needed to explain why bills had to rise and by how much, and deal with complaints from customers about the increases they face.

We produced the following publications to help achieve this:

- three newsletters focusing on key stages of the price review;
- two information notes describing the price review process; and
- a detailed annual bills leaflet covering the price review and what it will deliver.

We placed this information on our website to keep customers informed. We also provided full briefing to the media and participated in interviews.

We anticipated an increase in the number of calls and correspondence to the office following the issue of companies' bills to customers. To prepare for this, staff were trained to handle these calls sensitively and sympathetically and to provide clear explanations about why bills are rising.

2 Monitoring companies' performance

Comparative competition

Every year, we assess each company's progress in delivering the outputs and efficiencies we expect from it. Comparing performance and setting challenging improvement assumptions forms part of our five-yearly price setting process. We also ensure that each company has strong incentives to outperform our expectations.

We monitor the industry using a range of comparative measures that cover most aspects of water and sewerage service provision. These range from simple comparative measures (compliance with quality and service requirements) to statistical models measuring relative efficiency.

We rely on good quality and comparable information that we obtain from each company. This is helped by effective scrutiny by the company's reporter and auditor.

We collect the information we need annually from each company through:

- the principal statement, which details its charges for the forthcoming year;
- its charges scheme;
- the June return; and
- its regulatory accounts.

The key information is the June return, in which each company sets out its achievements on service to customers, investment and performance. We place most of this information on our website, so others can review each company's progress and relative position as well as our analysis.

The Environment Agency and the Drinking Water Inspectorate (DWI) provide us with an annual report on each company's progress in delivering its required improvements.

We publish five annual performance reports, so that customers, WaterVoice and others can see how each company is performing, and how it compares with its peers. The reports include details of regulatory action we have taken where a company's performance does not meet our expectations.

- Tariff structure and charges 2004-2005 report (May 2004).
- Financial performance and expenditure of the water companies in England and Wales 2003-2004 report (September 2004).
- Levels of service for the water industry in England and Wales 2003-2004 report (October 2004).
- Security of supply, leakage and the efficient use of water 2003-2004 report (December 2004).
- Water and sewerage service unit costs and relative efficiency 2003-2004 report (January 2005).

The improvements in service and efficiency achieved by the companies result from comparative competition. Comparative competition is a key mechanism for making sure that customers continue to get better services at lower costs year-on-year into the future.

E f f i c i e n c y a n d b e n c h m a r k i n g

We used our analysis of each company's operating costs to set prices for the 2005-10 period. Our work shows that despite the climate of rising costs – such as energy costs and pensions – the industry continued to improve its efficiency in line with our 1999 expectations.

We undertake work to place the performance of the companies in England and Wales in a wider context. There is increased European awareness of the value of such comparisons and we have made important new contacts. For example, we are now using data provided by the Scandinavian 6-Cities benchmarking group. Evidence continues to show that customers in England and Wales receive world-class value and service. We published our 'International comparison of water and sewerage service 2005 report' in March 2005.

C a p i t a l m a i n t e n a n c e

We monitor and report on each company's service and the serviceability of its asset systems to its customers every year. We also assess the trends for key measures to ensure that assets can continue to provide good service for the foreseeable future.

Overall, for companies in England and Wales the trends in serviceability are assessed as stable or improving for all areas. The exception is the performance of sewage treatment works, which was judged to be marginal.

The serviceability performance of four companies is assessed as deteriorating in some parts of their systems. The companies affected are putting in place action plans to restore stable serviceability by the dates included in our final determinations.

I m p r o v i n g d r i n k i n g w a t e r a n d t h e e n v i r o n m e n t

Price limits assume that companies will continue to carry out a substantial investment programme to enhance drinking water quality and reduce the impact of their activities on the environment. We worked and consulted extensively with companies, stakeholders and regulators to specify the programme of work. The individual projects included in this programme are set out on our website. Our price limits assume an investment programme of around £5.5 billion for the period 2005-10.

We monitor each company's progress in completing the enhancements assumed for the five years 2000-05. The DWI reports on each company's progress in meeting its obligations, as does the Environment Agency. With the Agency, we held the annual joint environmental performance meetings with all ten water and sewerage companies during September to October 2004. For both the water and sewerage services we reviewed and reported on the companies' current performance in meeting their responsibilities towards the environment and delivering wholesome drinking water, and their progress in delivering tighter standards.

Where a company was either required to complete more work than expected or experienced delays in delivering its obligations we took this into account in setting price limits. We cannot assume that there will be no changes to the 4,000 or so projects included in the quality enhancement programme for 2005-10 and the change protocol sets out how we will handle this.

Water Framework Directive

Defra, the Welsh Assembly Government and the Environment Agency are taking the lead on various aspects of implementing the Water Framework Directive. We all face a challenging timetable to provide both environmental and economic information to implement the Directive. The Government has responsibility for the economic analysis and we are providing information to help it in this task. We carried out analysis and provided data to the Government to assist its preparations for the recent Article 5 reports to the European Commission. These were presented to the Commission early in 2005. We are members of a number of Defra-led groups on implementing the Directive. We are also participating in Defra's collaborative research to identify cost-effective ways to comply with the Directive.

Odour control

We participated in the Defra-led industry group developing a code of practice and guidance on resolving odour nuisance problems at sewage treatment works.

In setting price limits, we provided for a significant programme of work to alleviate odour nuisance problems at a number of sewage treatment works.

Private sewers

The Government has issued its response to Defra's consultation paper on existing privately owned sewers and drains in England and Wales. We are working with Defra to find a practical, fair and cost-effective solution to the problems caused by these assets. We also provided information to Defra to help it prepare a regulatory impact assessment for a further consultation on the options.

Security of supply

This year the companies submitted their final water resource plans to the Environment Agency and to us. These set out each company's plans to maintain and where necessary improve security of supply over a 25-year timeframe in the face of changing demand and supply pressures. We scrutinised these carefully as part of the price review process, in collaboration with the Agency. We paid particular attention to those companies where improvements to security of supply are needed over the next few years, and challenged companies to demonstrate that their plans would safeguard security of supply at best value.

We published our assessment of current performance in security of supply. This confirmed the need for improvements to be delivered before 2010 for a number of companies. We also monitored the dry weather conditions through the winter of 2004-05.

Leakage

We monitor each company's analysis of the level of water leakage from its network. We take action where leakage is above a level that is not justified on economic or environmental grounds. Price limits for the 2005-10 period include leakage assumptions which minimise costs to customers and the impact on the environment. We have continued to scrutinise Thames, Three Valleys and United Utilities' activities to ensure they reduce their leakage levels. Thames continues to follow its agreed action plan, as does Three Valleys. United Utilities is working to resolve the problem of recent increases in leakage in the North West.

Efficient use of water

We continue to monitor companies' work to promote the efficient use of water by their customers. We participated in the national water conservation group market transformation programme, as well as work to promote water efficiency in new build properties and industry discussions about a possible water savings trust. We also helped judge the Environment Agency's water efficiency awards, and sponsored the award category for economic research in this area.

As part of our work on the price review, we reviewed water companies' plans to advance demand management. We consider that over time the most effective way of ensuring efficient use of water is to relate use to costs by metering domestic customers. We included financial provision for accelerated metering programmes for 16 water companies, representing a step up in the pace of this activity. Over the period 2005-10 we have allowed for the proportion of domestic customers on meters to rise from 26% to 36%.

Customer service

Performance

Companies continue to deliver high levels of service to the vast majority of their customers. We were concerned that some customers faced difficulties in contacting some companies by telephone and we have taken regulatory action to ensure that these companies become accessible to their customers. Services have now improved markedly.

Overall performance assessment (OPA)

Each year we assess each company's performance as part of our overall performance assessment. In March we set out the methodology for the OPA for 2005-06 onwards in RD 05/05. This includes revised indicators for telephone call handling and security of supply. It also reflects changes in the way the DWI and the Environment Agency report on performance.

Sewer flooding

During the year we analysed proposals to reduce sewer flooding in the 2005-10 period. We carried out a survey to gather information about the financial and other impacts of sewer flooding on customers. We also commissioned a study into the tangible costs of sewer flooding which allowed us to calculate the economic value of reducing the risk of flooding to different types of property. Both reports were published in August 2004.

We have taken a view on what is most likely to constitute a cost beneficial programme. Quantifying the benefits of resolving sewer flooding is not clear cut. However, taking account of the evidence available and stakeholders' desires to make progress, we judged that all expenditure on schemes costing below £120,000 per problem would be cost beneficial. We also judged that 70% of expenditure on schemes costing between £120,000 and £250,000 per problem, and 40% of expenditure of schemes costing more than £250,000 is likely to be cost beneficial. It is for the companies to take detailed decisions about individual schemes.

Our price limits allow companies to provide a capital scheme or mitigation measures for every known high risk problem identified in their plans where overloaded sewers cause repeated internal flooding and where they proposed taking action by 2010. New problems and a significant number of external flooding problems can also be dealt with. In total, we have assumed £970 million to address the problem of sewer flooding in England and Wales in the period 2005-10. By 2009-10, we estimate that only 0.01% of properties connected to the public sewerage system will be at risk of flooding from overloaded sewers once or more in ten years. This is dependent on the rate at which new properties at risk are identified.

We held a seminar on arrangements for compensating those affected by flooding from sewers and measures to reduce the impact of flooding. With representatives from WaterVoice, the national flood forum, the companies, Defra and the insurance industry, we discussed the balance between insurance, the guaranteed standards scheme and other sources of compensation to those experiencing flooding. We will consult on the way forward in 2005.

Telephone call handling

During the year we completed the development of a qualitative customer survey to measure customer satisfaction with telephone call handling. Working with Water UK and WaterVoice the survey was tested successfully. After consultation we published in RD 05/05 (March 2005) our approach to the revised indicator. This indicator combines levels of customer satisfaction with quantitative measures of how easy it is to contact companies by telephone (including the number of occasions when all telephone lines are engaged).

Reporters and auditors

The reporters scrutinise and comment on the regulatory information that each company submits to us. Their reports give us confidence that the information is consistent and reliable and are vital for effective comparative competition.

The reporters and auditors play an essential part at price reviews by scrutinising the companies' business plans. The reporters expose, examine and challenge all material assumptions, including financial ones, underpinning the plans. They pay particular attention to the companies' allocations of projected expenditure, particularly for capital maintenance and the quality programme. They provide a professional opinion on these plans and tell us whether the companies have followed our guidance, and whether their projected costs are reliable.

The auditors examine companies' regulatory accounts, and comment in the same way as for statutory accounts. They worked for the reporters in scrutinising the financial aspects of companies' business plans.

We assess the overall quality of the reporters' work and their contributions to our assessment of the June returns. We also assessed the auditors' work on the business plans. We shared our findings with the companies and presented awards to the top performers.

● Business plans (April 2004)

John Brindley of WS Atkins (Southern) and Ian Cartwright-Taylor of WS Atkins (Three Valleys).

PricewaterhouseCoopers (Anglian and South East).

● June return 2004

Roger Sawdon of WS Atkins (South West) and John Wild of Black and Veatch (Cambridge).

We established a programme for the appointment of reporters for 2005-10 and published it on our website. Companies started their contract letting process in December 2004. The final appointment will be made in March 2006. We take an active role in the selection exercises and approve all appointments of reporters.

We held our joint workshop for reporters and auditors in December 2004.

3 Protecting customers

WaterVoice

WaterVoice, through its ten regional committees and the WaterVoice Council, represents the interests of customers. It will produce its own annual report on its activities up to the end of September 2005, the point of transfer to the Consumer Council for Water.

Although currently a part of Ofwat, WaterVoice represents customers' views independently at a regional, national and European level. We work with WaterVoice under a memorandum of understanding.

Price review

WaterVoice was closely involved throughout the price review.

- The committees commented on each company's draft and final business plans, particularly on whether they reflected customers' concerns.
- Following our draft determinations, the Director met representatives of each committee to discuss his decisions and the committee's response. Each committee submitted a written representation setting out its views.
- The WaterVoice Council provided views at a national level.

We worked closely with WaterVoice and other stakeholders on research to understand customers' priorities for the price review and customers' views on the effects of sewer flooding incidents. Where a company had undertaken customer research to support its business plan, the local committee commented on the findings.

Policy development

More broadly, WaterVoice provides valuable input into our policy development. Its views were particularly influential this year in:

- helping us develop our approach on sewer flooding;
- assessing the quality of service delivered to customers through regular company audits;
- reviewing our overall performance assessment methodology;
- contributing to research on telephone call handling (DG9), leading to a change in our policy;
- developing our thinking on debt and affordability issues; and
- approving each company's charges scheme.

Approving charges schemes

Our approach

Within its overall price limits, each company sets its charges and publishes these in an annual charges scheme. To protect customers, we check and approve each scheme before it is published. Companies submit drafts of their charges schemes, alongside their principal statements, which set out their charges in detail. We scrutinise these to ensure that each company's charges:

- comply with its price limits;
- reflect costs; and
- are consistent with guidance from the Secretary of State.

We consulted the WaterVoice Committees on companies' charging proposals. We approved each company's 2005-06 charges scheme in February 2005.

Licence condition changes

After consulting with water companies and customer groups we modified companies' licences. These changes will ensure that the licence conditions of the regulated water companies are more consistent.

We provide more detail on the effects of the modifications and the reasons for making them in MDs 189 (March 2004), 194 (August 2004) and 196 (August 2004). We did not make all of the modifications we initially proposed following comments from the companies. We intend to revisit the proposals that did not go ahead to ensure that the necessary changes are in place for the next price review.

Social issues

Help for customers

Companies have procedures in place to ensure that assistance is available to customers that require additional help, such as the disabled or elderly. In December 2004 we published on our website, for the first time, the number of customers registered for special assistance in each water company's area. This was recommended by WaterVoice following its review of the way companies apply our guidelines on assisting the elderly and disabled. It will also help inform the development of good practice.

Affordability

While we cannot set price limits on the basis of affordability, we have worked hard to ensure that customers' bills are no higher than they have to be.

We recognise that the cost of water and sewerage services is a problem for certain customers, especially those on low or fixed incomes and those served by companies with higher than average bills. We are also well aware of the effect that price increases, particularly those for 2005-06, are having on customers who find it difficult to pay their water bills.

We welcomed the Government's review of affordability issues and contributed to its analysis and advice that culminated in the 'Cross-government review of water affordability report', published on 2 December 2004. We are working with Defra to take forward the report's recommendations. We are members of a steering group that will undertake a pilot study in the South West to assess the benefits of targeting available assistance to low-income customers. We will also work closely with Defra on its review of water charging.

With organisations such as Water UK, the Public Utilities Access Forum and the National Consumer Council, we have contributed to current thinking on the affordability of water and sewerage services.

Vulnerable groups

Under government regulations, metered customers who receive specified benefits, and who use a lot of water due to the size of their family or because they suffer from certain medical conditions, can opt for a capped bill.

Defra published its conclusions to its consultation on 'Reductions for vulnerable groups' in January 2005. This extended eligibility for assistance under the regulations to more customers. We worked with the companies, as part of our approval of their charges schemes, to ensure that the changes made to the regulations were correctly implemented.

Debt information

We asked all companies to complete a questionnaire to help us evaluate the quality of information we collect on outstanding water payments in the June returns. We sought more detail on how they collect and report this information. The results of this work will feed into our wider review of information collected in the June return, which we will take forward in 2005-06.

Payment methods

We monitor the range and accessibility of the payment methods the companies offer their customers as part of our approval of charges schemes. All companies continue to offer a wide range of payment methods, frequencies and locations. This is particularly important for low-income customers who face difficulties in paying their bills.

As in previous years, some companies proposed either introducing or increasing charges for 'payment related' activities. These covered items such as charges for dishonoured cheques and failed direct debit payments. Before we approved these charges, we made sure that they properly reflected the costs involved.

Several companies also wanted to introduce a handling fee for processing credit card payments. We approved these charges but made sure that they reflected costs.

We continue to work with the water companies and Ofgem to raise the profile and encourage promotion of the third party deduction scheme 'Water direct' and its equivalent for energy. This scheme helps customers to budget by allowing bill payments to be deducted directly from benefit payments. We discussed how the scheme could be improved at a seminar organised by Ofgem.

Customers in debt

We published information, submitted to us by the companies, on the level of debt recovery actions for domestic customers and the number of commercial water customer disconnections.

Levels of outstanding revenue have risen since the ban on domestic disconnection was introduced in July 1999. In RD 18/04 (August 2004), we set out for the industry the levels of outstanding revenue and the associated costs in 2003-04, compared to those in 1998-99 and 2002-03.

We continue to work closely with WaterVoice and Water UK to discuss debt issues. We are also a member of the project steering group for Water UK's research into the socio-economic characteristics of customers with debts.

Codes of practice

We approved codes of practice for domestic customers throughout 2004-05. These codes deal with debt recovery, leakage and a range of other customer service issues as required by the licence.

Licence condition H (code of practice on debt) was modified to remove all references to disconnection. All companies accepted this modification.

Complaints and disputes

WaterVoice deals with most complaints. Ofwat settles and reviews some complaints and disputes.

Ofwat dealt with 433 formal and 130 informal complaints and disputes in 2004-05. We obtained compensation and rebates amounting to £71,000.

We held complaint workshops in May and October for WaterVoice members and staff. These aim to promote best practice in complaint handling within WaterVoice offices. Participants considered a number of case studies about service failures experienced by customers.

We received six complaints that WaterVoice had been unable to resolve with the companies. We supported WaterVoice's recommendations in five cases. We dealt with 61 complaints from customers who were not satisfied with WaterVoice's investigations. We partly upheld one of these cases. Four cases are ongoing. On the basis of our reviews there is no evidence of significant shortcomings by WaterVoice in its complaint handling.

Internal reviews

Customers' complaints are largely dealt with by the WaterVoice Committees and the majority of customers are satisfied with the help they receive. Where customers are not satisfied with WaterVoice's investigation or the way it handled the complaint they can ask us to review the complaint. Ofwat's Director of Consumer Affairs deals with the complaint and lets the complainant know his findings. If the complainant remains dissatisfied with the way the complaint has been handled they can ask for it to be considered under our internal review procedure.

In such cases the Head of Corporate Affairs reviews how the complaint has been handled and provides the complainant with her decision. She examines how the complaint was dealt with at all stages as well as any areas where the complainant considers that their concerns have not been properly addressed.

During the past year we handled 12 internal review cases. If a complainant is unhappy with our decision, following an internal review, they can ask their MP to take the matter to the Parliamentary Ombudsman. The Parliamentary Ombudsman can consider complaints about how we have handled a complaint but not about WaterVoice's complaint handling. During the year, the Parliamentary Ombudsman conducted one formal inquiry into a complaint we originally dealt with.

Information about how we handle complaints is provided in the 'Ofwat complaints procedure', which is available on our website.

Connection charge disputes

Companies are entitled to recover the reasonable costs of making connections to water mains. Disputes may be referred to the Director for determination.

Of the five disputes closed, all were settled in favour of the customer. We required companies to make refunds to customers ranging from 3% to 10% of the original charge (an average refund of 8%).

Of the 44 cases that we referred to the companies informally for them to review, 20 resulted in refunds to customers.

Sewer appeals

If a company refuses to adopt a customer's sewer as a public sewer, the customer can appeal to the Director. We dealt with six appeals and 48 enquiries during the year.

Trade effluent appeals

Traders can make an appeal to us if a company refuses them permission to discharge effluent into a public sewer.

Nine cases were brought forward from last year and we received 12 new cases. Of these, 11 cases have been resolved informally or withdrawn. Of the remaining ten cases, we expect seven to be resolved without the need for a hearing.

Complaints about pipe laying in streets

We received four complaints, none of which required formal arbitration.

Complaints about pipe laying in private land

Three cases were resolved formally, with total awards of £2,750. We resolved 58 cases informally, usually by the company agreeing additional compensation, or doing further reinstatement work.

Guaranteed standards scheme (GSS) disputes

Customers are entitled to guaranteed standards of service, as laid down by the Government. If a company fails to meet any of these standards, customers can claim compensation. We monitor the scheme and recommend changes.

We settled three disputes under the GSS, one in favour of the customer. We resolved a further 18 cases informally, nine in the customer's favour.

Free meters

Domestic customers are entitled to free meters. Where a company finds it is impractical or unduly costly to install a meter we require it to offer customers an assessed charge based on what they would have paid if metered. If there is a dispute about whether a meter should be fitted, we make the final decision.

This year, we dealt with 23 disputes. Meters were installed in eight cases, in 11 the company applied an assessed charge and four cases were withdrawn.

New powers to determine disputes

The Water Act 2003 gave us powers to determine a new range of disputes with effect from 28 May 2004. These include:

- the terms and financial conditions for installing new water mains, public sewers and lateral drains;
- the terms and financial conditions of self-lay agreements; and
- refusals by water companies to adopt self-laid pipes supplying water for domestic purposes.

Following consultation, we issued guidance in May 2004 about the process we would follow when handling such disputes. We have received two formal disputes under these new powers and will be making decisions on these shortly.

Self-lay

Self-lay is the mechanism by which developers or their contractors can install new water mains and service pipes instead of asking the water company to do the work.

The Water Act 2003 introduced a statutory framework for self-lay with effect from May 2004. Following a consultation exercise we issued guidance on financial arrangements for self-lay and requisitioning agreements in May 2004. These set out the financial arrangements that should underlie water companies' self-lay policies and procedures.

We have continued to work with our industry self-lay advisory group (SLG). The SLG has supported us in implementing the Water Act framework by commenting on the final guidance and on consultation papers. The SLG has also produced national levels of service for water undertakers to follow when handling self-lay applications. UK Water Industry Research referred to this work when completing its code of practice for self-laying water mains and services. The SLG monitors how the new regime is operating.

Marketing insurance services

Some water companies promote optional insurance services to their customers on behalf of Home Service (GB) Ltd. This company offers insurance covering, for example, leaks in household pipes. We do not regulate these services. However, during the year we raised concerns with the water companies and met Home Service to discuss the style of its marketing literature. We did this because some customers were at risk of confusing these optional insurance services with their water bills. Home Service has changed its literature for future marketing campaigns.

Water Resale Order

The Water Resale Order 2001 protects customers from being overcharged where they pay a third party, such as their landlord or a managing agent, for their water and sewerage services.

Although we have no formal role in enforcing the Order, this year we responded to more than 80 queries from resellers and purchasers about how charges should be set under the Order.

New powers relating to water resale, introduced in the Water Act 2003, commenced in October 2004. We issued a consultation paper setting out our proposals on how these new powers should be incorporated into the existing Order. We have also consulted on other issues to clarify how the Order will operate.

4 Companies' finance and mergers

Mergers

Provisions in the Enterprise Act 2002 and Water Act 2003 that update the way in which mergers between water companies are handled came into force on 29 December 2004. The provisions introduced significant procedural changes. The threshold for qualification is now one based on turnover rather than the value of assets. Except in very limited cases, Ministers no longer make decisions on mergers.

In considering any merger, the Competition Commission must consider whether the merger would prejudice our ability to make comparisons between water companies. If the Commission decides there is a prejudicial outcome then it determines what action, if any, should be taken to remedy, mitigate or prevent that prejudice. Under certain circumstances the Commission can take into account any relevant customer benefits that arise from the merger (for example lower prices, improved quality or greater choice) in making decisions on remedial action.

In October 2004 we responded to the Competition Commission's consultation, 'Water merger references made under Section 32 of the Water Industry Act 1991 – Competition Commission Guidelines' (July 2004). This sought views on the Commission's draft guidance and set out its approach to assessing water mergers. Our response is on our website. The Commission published its final guidance on 23 December 2004.

We also responded to a series of consultations undertaken by the Department of Trade and Industry on the statutory instruments required to implement the Enterprise Act provisions. This included a consultation on the definition of turnover for the threshold tests in the Enterprise Act. The statutory instrument defines turnover as revenue derived from the sale of products and the provision of services falling within the appointed business of the water enterprise to businesses or consumers in the UK.

Our position on mergers remains that the loss of an independently owned company potentially weakens our ability to make comparisons. In our view, any merger would require an appropriate remedy or countervailing benefit to offset any detriment to our ability to make comparisons. We will consider with an open mind each individual merger proposition that arises before offering our advice to the Commission.

Corporate activity

Bournemouth & West Hampshire Water Plc

In April 2005, Bournemouth & West Hampshire cancelled and repaid all of the preference shares in issue. Repayment of the preference shares and its refinancing were facilitated by the proceeds of a bond issue. This refinancing brought the company's gearing to a level within the range of 55%-65% that we assumed for all companies at the 2004 price review.

In May 2005, we gave notice of our intention to modify the licence of Bournemouth & West Hampshire to bring it into line with other companies with a similar structure.

Cambridge Water PLC

In April 2004, Cheung Kong Infrastructure Holdings Limited (CKI) acquired Cambridge. We consulted on the acquisition in June 2004, inviting views on the regulatory issues, including:

- the capacity of CKI to be the owner of a regulated water business; and
- the need for any changes to Cambridge's licence to protect customers' interests.

The company's licence already contained the most up-to-date versions of the licence conditions that ring fence the company from its owners, as a result of its previous acquisition by Union Fenosa in January 2000. Therefore in September 2004 we gave notice of our intention to make only minor modifications to the company's licence.

Mid Kent Water Ltd

In February 2005, The Utilities Trust of Australia (UTA) and Hastings Diversified Utilities Fund (HDUF) each acquired a 50% interest in Swan Group plc, the owner of Mid Kent Water Ltd.

We issued a consultation paper in April 2005 inviting views on any regulatory issues arising from the acquisition, including:

- the capacity of UTA and HDUF to be the owners of a regulated water business;
- the need for any changes to Mid Kent's licence to protect customers' interests; and
- implications for the financing of Mid Kent.

We expect, as a minimum, to modify condition P of the company's licence in order to reflect its new ownership.

Northumbrian Water Ltd

In July 2004, we published our review of the financial position of Northumbrian. This followed publication of our position paper (August 2003) following downgrading of the company's credit quality after its acquisition by Aquavit Plc (which was subsequently renamed as Northumbrian Water Group plc) in May 2003.

Our review concluded that the company took adequate steps to demonstrate both to the capital markets and to us that it is able to raise finance to fund future investment programmes.

Northumbrian's credit rating improved as a result of a number of steps it took, including gaining our agreement to an increase in its price limits from 0 to 10% for 2004-05 (under the formal interim determination process), which improved its cash flow.

We remain concerned about the links between the debt guaranteed by Northumbrian and other debt raised by its parent company. This potentially exposes its customers to greater risk than customers of other regulated businesses. The company believes that the risks are remote, but we will continue to monitor the position. If we believe that the risks have changed, we will expect the company to remedy the position as a matter of priority.

This link will be eliminated in 2006 when the parent company bond matures. Northumbrian confirmed that, in accordance with its licence, any new financial arrangements it enters into will not link debt guaranteed by the regulated company with any debt raised for purposes other than financing the regulated business.

Portsmouth Water Ltd

In February 2005, Secondary Market Infrastructure Fund UK LP acquired a 36% shareholding in Portsmouth's parent company – South Downs Capital Ltd. We will consult on the transaction. Depending on responses to the consultation and the outcome of our own analysis, we may need to consider modifications to Portsmouth's licence.

South East Water Ltd

In November 2003, South East was acquired by Macquarie Bank Limited from French group Bouygues. Subsequently, Macquarie transferred its interest in South East to the Macquarie European Infrastructure Fund.

We proposed changes to South East's licence to further ring fence the regulated water business from other activities carried out by its new owners, and to bring it into line with other water companies in England and Wales.

The proposed changes were accepted and the company's licence was amended in July 2004.

In July 2004 Macquarie changed the financial structure of South East, significantly increasing its level of debt. We reviewed the financial projections under the new structure. In light of our review and the licence modifications made in July 2004, we took no further regulatory action.

South Staffordshire Water PLC

In November 2004, Bahrain-based Arcapita Bank (formerly First Islamic Investment Bank), through its subsidiary AqualInvest Acquisitions Ltd, acquired South Staffordshire PLC, the owner of South Staffordshire Water. In December 2004, we consulted on the acquisition, inviting views on any regulatory issues arising, including:

- the capacity of AqualInvest Acquisitions Ltd to be the owner of a regulated water business; and
- the need for any changes to South Staffordshire's licence to protect customers' interests.

In April 2005 we issued our conclusions on the consultation and notified our intention to make licence modifications to further ring fence South Staffordshire from its new owners and to bring its licence into line with other water companies that are part of larger groups.

The company has agreed in principle to these modifications and is acting as if they are already in place.

Sutton & East Surrey Water plc

In April 2005 Terra Firma Investments GP(Z) Limited announced its proposal to acquire East Surrey Holdings plc through its subsidiary Kellen Acquisitions Limited. East Surrey Holdings plc is the owner of Sutton & East Surrey Water plc.

We will consult on the proposed acquisition and will invite views on:

- the capacity of the new owners to control a regulated water business; and
- the need for any changes to the water company's licence to protect customers' interests.

The City

We have continued to inform the financial sector about our work through City briefings. Normally held at six-monthly intervals, in 2004 these were held in August and December, to coincide with our draft and final determinations.

Regulatory accounts

We require companies to publish annual regulatory accounts in accordance with our regulatory accounting guidelines (RAGs) 1 to 4.

In RD 10/04 (April 2004) we set out our initial thoughts on the regulatory accounts and the adoption of International Accounting Standards (IAS). We said that we would retain UK Generally Accepted Accounting Practice (GAAP) as the basis for the regulatory accounts. We asked companies for their views on the issue of IAS as a whole and their likely impact on statutory reporting.

We published in April 2005 our annual update of regulatory capital values for the period to 2005.

In December 2004, we published the capital values for the period 2005-10 which we had calculated as part of the 2004 price review in 'Future water and sewerage charges 2005-10: Final determinations'.

T r a n s f e r p r i c i n g

Water companies are under a duty to prevent cross-subsidy by trading at arm's length from associate companies and by keeping their regulated and non-regulated businesses separate.

Maintaining transparency of water companies' costs ensures that the financial ring fence around the Appointee is effective. This protects water customers from bills inflated by inappropriate costs that are not associated with the proper delivery of water and sewerage services.

We monitor the companies to ensure that cross-subsidy does not take place and that companies are complying with our guidance on transfer pricing (RAG 5).

This year we reviewed in detail trading arrangements at Northumbrian, Severn Trent, Thames, United Utilities, Mid Kent, South Staffordshire and Three Valleys.

At the 2004 price review we made downward adjustments to the declared costs of a small number of companies that were unable to demonstrate arm's length trading in 2003-04. This ensured that customers were protected from the possibility of bills being inflated by cross-subsidy.

Following the price review, we consulted on a revised version of RAG 5. This takes account of our power from 1 April 2005 to fine companies for breach of a licence condition. This will apply to trading with the Appointee under all contracts awarded on or after 1 April 2005.

We work with other regulators (principally Ofgem) to ensure that the costs of utility companies that are part of a larger group can be separately identified.

S p e c i a l i n v e s t i g a t i o n

In 2004 an employee of Severn Trent made a number of allegations to the company and to us about the handling of accounting and regulatory returns.

The board of Severn Trent plc (the holding company) appointed external forensic accountants from PricewaterhouseCoopers (PwC) to investigate these allegations. The board concluded in the light of PwC's report that its water customers had not been overcharged.

We are conducting our own inquiry into the issues raised on behalf of customers. We have received written assurance from the company that if it were ever found that customers had been overcharged any necessary corrections would be made.

5 Market competition

Water supply licensing and the Water Act 2003

The Water Act 2003 brings in specific legislation for competition.

- From November 2005, customers who are likely to consume at least 50 megalitres of water a year will be able to purchase water from either their existing water undertaker or from a water supply licensee. We estimate that this facility will be available to around 2,200 customers, who in total spend approximately £200 million on water each year.
- Companies will be able to apply for either a 'retail' licence, which entitles the holder to purchase water from a water undertaker (called a wholesale supply) and to retail it to eligible customers; or a 'combined' licence, which authorises the holder to introduce water into a water undertaker's supply system and retail it to eligible customers (a combined supply). Companies will be able to apply to us for a licence from 1 August 2005.

Undertakers will have a duty to provide access to their supply systems, and to provide wholesale supplies, on reasonable terms. We consulted on our draft access code guidance in October 2004 and received responses in January 2005. We will issue our final guidance on price and non-price terms for access in June 2005, and expect undertakers to publish price and non-price terms for access by August 2005.

To enable the basic legislative framework to operate, the Water Act 2003 provides for the making of secondary legislation and statutory guidance. Ofwat, Defra and the Welsh Assembly Government consulted on proposals for secondary legislation and statutory and non-statutory guidance in October and December 2004. Responses were received in January and March 2005 respectively, and the final regulations and guidance issued from June 2005.

Industry involvement in water supply licensing

The success of this project so far is attributable to the close involvement of industry stakeholders, working together to ensure that an effective regime is delivered on schedule. The stakeholder groups we have established are:

- a sponsor group, with representatives from all industry stakeholders, to oversee the project, give high level direction and ensure its successful delivery by November 2005;
- a technical advisory group, with representatives from all industry stakeholders, to provide expert advice on the principles and processes necessary to support the regime (this group follows on from the two advisory groups that helped to prepare the relevant secondary legislation and guidance for consultation from February to September 2004);

- a regulators' group involving Defra, Ofwat, the DWI, the Environment Agency and Welsh Assembly Government, to co-ordinate the various activities of each organisation; and
- a communication group, with representatives from all industry stakeholders, to advise on how we can deliver an effective communication strategy.

In November 2004, we held a workshop for relevant stakeholders. The focus of the day was to provide an update on progress, for other regulators to explain their role in water supply licensing, and for stakeholders to identify what they need to do to prepare for the new regime.

New licences

Under the new regime, water undertakers will continue to operate according to their instruments of appointment, although there will be some modifications to existing conditions of appointment to reflect the competition provisions in the Act. Licensees will have a water supply licence, which will be of a different construction to water undertakers' instruments of appointment. These licences will have standard terms and conditions governing how licensees operate, together with specific individual conditions where appropriate.

In December 2004, we consulted on modifications to water undertakers' existing conditions of appointment and conditions of water supply licences. We expect to make modifications to undertakers' conditions of appointment and to grant water supply licences later this year.

Insets

An inset appointment allows one company to replace another as the appointed water undertaker for a specific area.

We continue to work with applicants on a variety of inset proposals. The inset regime will exist in parallel with that for water supply licensing. The existing large user inset threshold in England was reduced to 50 megalitres a year on 1 April 2005, in line with the water supply licensing eligibility threshold.

On 25 June 2004, the Director appointed Three Valleys to supply water to Kodak in Harrow, in place of the existing supplier Anglian. Anglian agreed to exclude the Kodak site from its area of appointment.

On 17 August 2004, the Director appointed Three Valleys to supply water to Fairfield Park and Lower Wilbury Farm in Arlesey, Bedfordshire. He granted this inset appointment under the greenfield criterion, as none of the premises on the site were served with water by an existing undertaker.

Competition Act 1998

The Competition Act prohibits anti-competitive behaviour and abuses by companies with dominant positions in markets. When we receive a complaint, we decide whether we have powers to consider it under the Competition Act 1998 or the Water Industry Act 1991 and, if necessary, which powers are most appropriate.

Appeals to the Competition Appeal Tribunal

The Tribunal was created by the Enterprise Act 2002. One of its main functions is to hear appeals in respect of decisions made under the Competition Act 1998 by the Office of Fair Trading (OFT) and the concurrent regulators (including the Director). More information on the Tribunal's role is available on its website (www.catribunal.org.uk).

The Tribunal is considering appeals of three decisions by the Director.

Shotton

In December 2000, Albion Water Limited (Albion) complained to us about the terms offered by Dŵr Cymru Cyfyngedig/Welsh Water (Dŵr Cymru) for access to its distribution and treatment infrastructure for supplying water to Albion's customer, the Shotton paper mill. Albion alleged that Dŵr Cymru had breached the Chapter II prohibition of the Act for a number of reasons, principally relating to the price Dŵr Cymru had offered Albion for access to its network.

The Director published his decision in this case on 27 May 2004, following a thorough investigation into the many complex issues raised. Albion lodged an appeal against the decision on 23 July 2004. Aquavitae (UK) Ltd, a non-statutory water company, was given leave to intervene in Albion's appeal on the issue of the Director's interpretation of the costs principle in the Water Act 2003. The appeal continues and the Tribunal will make its judgement after the main hearing in May 2005.

New Bath House/Albion Yard

In January 2001, Enviro-Logic Ltd, now Peninsula Water Ltd, complained to us about Thames Water Utilities Ltd's conduct in relation to providing a price for access to its network. Enviro-Logic wished to supply customers from boreholes at New Bath House and Albion Yard using Thames' network.

After we closed the file on the complaint, Enviro-Logic made an application under the original section 47 of the Act in relation to one point of the complaint. We concluded that the views put forward in two letters amounted to a decision that the Chapter II prohibition had not been infringed. We published the letters on 31 March 2003. Enviro-Logic subsequently asked the Director under the original section 47 of the Act to withdraw or vary his decision in relation to other points of the complaint. In May 2004, the Director informed Enviro-Logic that he would not withdraw or vary his decision.

Albion (a former subsidiary of Enviro-Logic) appealed the decision not to vary or withdraw the original decision to the Tribunal on 12 July 2004. The appeal continues and the Tribunal will make its judgements after the main hearing in June 2005.

Aqua Resources Limited/Severn Trent Water Limited

On 14 April 2005 Aqua Resources (Aqua) lodged an appeal with the Tribunal relating to the Director's decision not to investigate Aqua's complaint about the terms on which Severn Trent was prepared to grant access to its network to a new entrant who was seeking to enter into a common carriage agreement. The Tribunal will hold a case management conference in May 2005.

Modernising EC competition law

Regulation 1/2003 of the Council of the European Union (the Modernisation Regulation) came into force on 1 May 2004. The Regulation requires national competition authorities (the OFT and concurrent regulators, including Ofwat) to apply EC competition law (Articles 81 and 82, EC Treaty) when applying national competition law where there is a potential effect on trade between Member States. We are working with the OFT and other concurrent regulators to ensure the effective and appropriate implementation of the Regulation. The OFT published revised competition policy guidelines in December 2004, reflecting the changes introduced by the Regulation.

6 Freedom of Information Act 2000

The Freedom of Information Act (FOIA) came into force on 1 January 2005. To make sure that we were ready to implement the Act, we appointed an information officer, set up an internal implementation group and carried out training and education for all staff. The training included workshops and guidance on good practice in handling requests. Once the Act was in place we extended the membership of our implementation group to include all staff with responsibilities for handling requests under the FOIA. This group keeps abreast of all developments and guidance from the Department for Constitutional Affairs (DCA) and the Information Commissioner.

We are monitoring and recording all FOIA requests to ensure that we handle them properly and meet the deadline for responses. We are making sure that we have the information we need to provide quarterly reports to the DCA.

Information requests

We handle any FOIA request on the presumption of disclosure, whilst paying due regard to the public interest and information provided by third parties.

In the period between 1 January 2005 and 31 March 2005 we received 32 FOIA requests. The deadline for answering a request is 20 working days, although the legislation allows extensions in certain circumstances. We have met the deadline in 30 cases. Of the 32 requests received, 22 have received a response with full disclosure of the information requested. We have only refused to disclose any information in two cases which we considered were exempt.

Releasing information

When we release information to an individual under the FOIA we also place it on our website if it is of interest to the general public.

In response to an enquiry we decided to publish minutes of Ofwat Board meetings on our website from March 2005.

Going forward

We have in place an extensive publication scheme, which we review annually. Our publication scheme was approved by the Information Commissioner in 2002 and will be reviewed again this year.

At present the legislation covering our work includes a statutory bar on us disclosing information without the consent of the provider. The DCA is reviewing amendments on repeal of such statutory bars. It expects to publish its review findings and recommendations in 2005-06.

7 Communication

We are committed to openness and transparency and to keeping our stakeholders informed about our activities. We rely extensively on our website and make strenuous efforts to ensure that all information we publish is placed on our website early on the day it is published. Many stakeholders tell us that our 'what's new' section is invaluable for keeping them informed. We also make paper copies available on demand and publicise our activities through press notices, information bulletins and appearances on broadcast media.

Keeping stakeholders informed

In a price review year it is important that customers know what to expect and when.

At each stage of the price review we published a clear timetable setting out the next stages of the review. We required each company to publish a summary of its business plan so that customers could see the price limits their companies were seeking. We also published information summarising the price limits included in companies' business plans. At an early stage we set out our expectation that investment needed to rise at this review, to warn customers of bill increases to come. We published our draft determinations for consultation in August 2004 and encouraged comments on our decisions.

We briefed Ministers, WaterVoice Chairmen, the quality regulators, the City and the press, including the regional media, on the level of price limits and our expectations of what companies would deliver. For our final determinations in December 2004 we undertook the same activities and provided an explanation of the differences between our draft and final determinations.

Stakeholder workshop

We held our annual workshop on our forward programme in February 2005. The objective was to gain feedback from stakeholders on our programme for the coming year, including looking at the formation of the Consumer Council for Water (CCW) and the Water Services Regulation Authority (WSRA). A panel of stakeholders presented their perspectives on the way forward for us and the industry. Smaller group workshops covered a wide range of subjects, including the price review process, consumer issues and future financial issues.

Consultations

We consult widely on any new policy initiatives and welcome views on our proposals. We aim to comply with 'Having your say', which sets out how we will conduct any consultations we undertake. Where possible we take account of respondents' views and reflect what they say in our policy decisions.

Publications

Each year we produce a wide variety of publications to keep customers, the companies and others informed about our work. This year we produced the following documents:

- 57 publications;
- 2 leaflets and 1 new information note (5 information notes revised);
- 62 press notices and information bulletins; and
- 33 MD/RD letters (and 8 SLR/WSL letters).

www.ofwat.gov.uk

The Ofwat website has seen an increased number of hits this year.

Table 1 Number of website hits

Year	Number of website hits
2000-01	83,800
2001-02	109,685
2002-03	276,000
2003-04	491,350
2004-05	543,622

More than 700 users are directly notified by e-mail about new or updated information placed on our website. We invite all users to take advantage of this service.

For the first time this year the June return was published on the website, instead of on CD-Rom.

We are developing an advanced search facility for the website, which is due to be launched early in 2005-06. This will allow users to search for documents using options such as date searching, searches within individual site areas and the ability to refine search results.

Working with Parliament

We are accountable to Parliament and we work hard to keep MPs and AMs informed about our activities. This was particularly important in a price review year. For both our draft and final determinations we provided information to elected representatives setting out the price limits for the companies operating in their constituencies and the benefits that would be delivered.

The Environment, Food and Rural Affairs Committee undertook an inquiry 'Water pricing 2004'. We provided memoranda of evidence to the Committee and appeared before it to discuss the price review. The Committee took evidence from us between our draft and final determinations and published its report 'Water pricing: Follow up' on 1 December 2004, the day before final price limits were published. We also contributed to its inquiries into 'Climate change, water security and flooding' and the 'Draft natural environment and rural communities bill'.

We also provided evidence to the Environmental Audit Committee's inquiry into 'Water: The periodic review 2004 and the environmental programme'.

Library and information services

The Library is responsible for the website and is the publication sales and distribution point. This year we answered more than 3,600 telephone enquiries. Written enquiries increased to more than 1,500, 43% more than in 2003-04.

We received one request for information under the Environmental Information Regulations and none under the Open Government Code of Practice on Access to Government Information.

We dispatched more than 3,600 publications and 35 outside visitors used the Library, fewer than in 2003-04. This is probably because more information is available electronically.

The Library holds the Director's register. This is a collection of documents, specified by section 195 of the Water Industry Act 1991, which includes water company licences, undertakings and determinations. It is freely available for consultation by the public, with a small charge made for copies of extracts. Determinations made by the Director under the Water Industry Act 1991 are also available for inspection.

Ofwat's public enquiry unit can be contacted via e-mail at enquiries@ofwat.gsi.gov.uk or on 0121 625 1373.

Customer charter

We aim to provide a high quality and effective service. Our customer charter sets out how we aim to do this. Table 2 shows our performance against our key targets. We always work to achieve our goals and this year we have met most of our charter standards. Where we have not we will aim to improve on this.

Table 2 Performance against our standards ^{1,2}

	Performance standard	Achievement against standard
Replying to written enquiries	Reply within 10 working days (unless the item is particularly complicated). Our target is 95%.	Achieved
Replying to phone enquiries	Reply within 2 working days (by phone). Our target is 97%. Reply within 10 working days (in writing). Our target is 95%.	Achieved Achieved
Returning your messages	If you ask us to, we will return calls left on our answering machines within one hour of re-opening.	Achieved
Requests under the Code of Practice on Access of Government Information	We will reply within 20 working days.	No requests
Requests under the Environment Information Regulations	We will reply within 40 working days.	Achieved
Complaints handled by the Director and disputes and appeals	We will respond to enquiries within 10 working days. Our target is 80%. We will decide formal disputes or appeals within 90 working days. Our target is 80%.	Achieved Not achieved ³
Internal review procedure	We will tell you about the outcome within 20 working days.	Not achieved ⁴
Complaining to Ofwat about the WaterVoice Committees	We will tell you within 10 working days whether we will investigate the matter. We aim to deal with 80% of complaints within 40 working days.	Achieved

Notes

1. WaterVoice reports on its performance against charter standards in its own annual report.
2. Complaints involving competition matters are excluded from our customer charter. These complaints tend to be complex so are not covered by our standard complaint procedure.
3. 63% of complaints within the Director's jurisdiction were settled within 90 days.
4. Cases we consider under the internal review procedure are often long and complicated and involve a number of different parties.

8 Resources

Staff recruitment and development

We recruit on merit through fair and open competition, enabling opportunity for employment regardless of race, sex, physical disability or marital status. Recruitment activities are subject to external audit by the Civil Service Commissioners to ensure that we comply with the guidance set out in its Recruitment Code.

During the year we completed 21 separate recruitments. The results are summarised in the table below.

Table 3 Staff recruitment

Level	Number appointed	Proportion of women (%)	Proportion from ethnic minorities (%)
Head of team/function	1	100	0
Middle management	9	33	0
Clerical and secretarial	11	100	9
Total	21	71	5

Most people were recruited through open competition, except two who were short-term contract appointments.

We have a total staff of 252 (full-time equivalent, as at 31 March 2005) of whom:

- 56% are women;
- 12% are from ethnic minority groups;
- 7 are members of the Senior Civil Service (6 men and 1 woman);
- 13 are employed on fixed term and casual contracts;
- 12% work part-time;
- 21% work for WaterVoice Committees.

Over the year staff turnover was 12%.

Training and development continues to be a priority. Staff are encouraged to undertake training necessary not only for their work but also to develop each individual's skills to their full potential.

Senior staff changes and remuneration

Julia Havard, Head of External Relations, left in January 2005. We wish her well for the future and thank her for her contribution during the past 12 years. She is replaced by Fiona Pethick as Head of Corporate Affairs. The new job title reflects a reorganisation to strengthen policy co-ordination across the office and in readiness for the setting up of the WSRA in 2006.

The salary of the Director is £148,440.

Salaries for members of the Senior Civil Service (as at 31 March 2005, £)

95,000 – 99,999	1
90,000 – 94,999	1
85,000 – 89,999	1
80,000 – 84,999	1
75,000 – 79,999	1
70,000 – 74,999	1
65,000 – 69,999	1

Race equality scheme

Under our race equality scheme we undertake monitoring to ensure that staff do not receive less favourable treatment because of their race or ethnic background. During the year no staff from an ethnic group were involved in disciplinary procedures and no grievance cases were due to race or ethnic background. No race issues were mentioned by staff during exit interviews.

Staff training attendance

Table 4 Staff training

April 2004 – March 2005		
Ethnic group	Number of days training	%
White	642	92.2
Other ethnic groups	54	7.8
Total	696	100

WaterAid

Staff have continued to support the work of WaterAid, and have organised a number of fundraising activities during the year. These have included contributions from activities such as sponsored climbs, raffles, a book sale, lottery winnings and fantasy football. Staff also support the WaterAid Christmas catalogue, which as well as raising funds, spreads the message about WaterAid's work in providing access to safe drinking water and sanitation.

We have raised funds during the last year for our sponsored project to help communities in the sand islands of the rivers in Bangladesh.

WaterAid's Amy Weiser and Kabiru Abass visited us in February and told us about the work that WaterAid is carrying out in Nigeria.

Ofwat Board

The Ofwat Board met ten times during the year. The Board's key focus for most of the year was the 2004 price review. The Board was party to the process for the 2004 price review and supported the outcome. It also discussed issues such as competition in the water industry.

The Board held an additional meeting in February 2005 to discuss the strategic issues Ofwat needs to tackle in the years ahead and these have been reflected in our forward programme. The non-executive advisory directors also attended meetings with some of the key stakeholders during the year, including WaterVoice and the water companies.

WaterVoice membership

Appointments

Until the establishment of the CCW from October 2005 the Director has statutory responsibility for appointing WaterVoice Chairmen and members. These appointments are outside the remit of the Commissioner for Public Appointments but the Director is committed to complying with the Commissioner's code of practice. During the year the appointments of Chairmen and members were extended to 30 September 2005.

Table 5 WaterVoice Chairmen as at 31 March 2005

Committee	Chairman	First appointed	Current appointment started	Appointment ends	Monthly time (days) commitment	Remuneration (£)
Central	James Perowne KBE	1.8.02	1.8.02	30.9.05	8	20,942
Eastern	Catherine Harvey	1.4.01	1.4.01	30.9.05	8	20,942
North West	Maurice Terry	26.2.97	26.2.01	30.9.05	12 *	31,412
Northumbria	Andrea Cook OBE	1.4.01	1.4.01	30.9.05	8	20,942
Southern	Richard Sturt	1.10.01	1.10.01	30.9.05	8	20,942
South West	Noel Olsen	1.4.01	1.4.01	30.9.05	8	20,942
Thames	Herman Scopes	19.4.97	1.4.01	30.9.05	8	20,942
Wales	John Ford CBE	26.2.01	26.2.01	30.9.05	8	20,942
Wessex	Sheila Reiter OBE	1.8.95	1.4.01	30.9.05	8	20,942
Yorkshire	Mohammed Ajeeb CBE	26.2.01	26.2.01	30.9.05	8	20,942

* Includes four days as WaterVoice Council Chairman.

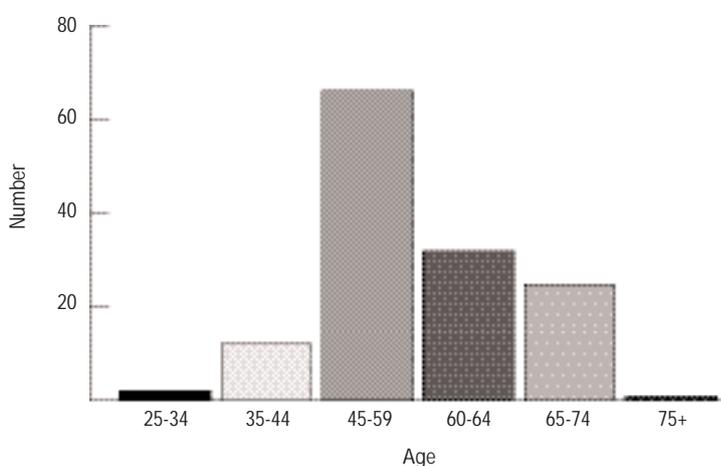
WaterVoice members

Membership of the ten WaterVoice Committees is normally reviewed annually. However in common with the arrangements for chairmen, some appointments were extended to provide continuity until the establishment of the CCW. Of the 86 members whose appointments were due to expire on 30 April 2005, 82 agreed to stay on until 30 September 2005, two members declined reappointment and two members retired. No new members were appointed during the year.

At 31 March 2005, the total membership was 138 (including the 10 chairmen). There were 51 (37%) women and 11 (8%) from ethnic minority groups. This compares with the national averages for appointments to public bodies of 38% women and 6% from ethnic minorities.

The age profile for chairmen and members is shown in figure 2.

Figure 2 Age profile of WaterVoice Chairmen and members



Further details are published in the WaterVoice annual report 'Representing water customers' and on the WaterVoice website (www.watervoice.org.uk).

Honours

WaterVoice members give their time on a voluntary basis. John Lawrence of WaterVoice Southern received an MBE in the Queen's Birthday Honours List 2004. Sheila Reiter, Chairman of WaterVoice Wessex and Council Chairman from 1998-2001, received an OBE and Brenda Lalonde, also of WaterVoice Wessex, received an MBE in the Queen's New Year Honours List. Since the Committees were established, 16 members have received honours for services to water customers.

Transition to the CCW

We have worked with WaterVoice and Defra on a number of issues to help set up the CCW. We consulted with staff representatives on the transfer arrangements. The appointment of the Chair Designate of the CCW, Dame Yve Buckland, was announced on 15 March 2005. We look forward to working with her and the Council.

Running Of wat

IT services

A wide area network was successfully installed on time and to budget. This connects WaterVoice offices to headquarters and has speeded up routine e-mail transmission and Internet access.

In November 2004, the Office of Government Commerce published its report recommending the use of open source software across the public sector. The report included the results of a number of pilot studies in which we took part. We are currently considering the feasibility of moving to open source software in the future. We plan to conclude our testing in spring 2005, before deciding on a strategy to take us through to the next price review in 2009.

IT development

During the past 12 months IT development focused on providing and supporting systems for the price review. The financial model Aquarius 3 has been used extensively by both the water companies and us. We have continued to facilitate data sharing between ourselves and the water companies through information capture systems.

Quality assurance

Quality assurance work has played an important part in ensuring the quality and accuracy of internal and external price review documents.

Security and service delivery

Our IT systems provided a reliable, secure and responsive service throughout the price review.

We actively manage the security and protection of our IT systems. During the year the security of our IT system was regularly threatened by potentially harmful viruses. However, our security measures prevented any harm.

Safeguarding the work environment

Our internal auditors reviewed our health and safety and security procedures. We have made improvements and clarified roles and responsibilities.

Finance

Financial information provided in this annual report is an estimate and is subject to external audit by the National Audit Office (NAO). We prepare the accounts in accordance with HM Treasury Resource Accounting requirements.

The price review and competition issues were the main cost pressures on expenditure. We continued to operate well within the licence fee ceiling. Our expenditure plans are scrutinised by Parliament and HM Treasury. Our budget for 2004-05 was £14.7 million and we expect an underspend of 2% when our accounts are completed. The budget for 2005-06 was set in February at £14.7 million, a real terms reduction for the coming year.

We will carry forward an estimated £1.0 million of the previous year's licence fees to offset against future fees charged to the companies.

The income and expenditure is summarised in table 6.

Table 6 Estimated income and expenditure 2004-05

	£000s	£000s
Income		
Licence fees unused from previous year	502	
Licence fees recovered	13,800	
Other income	100	
Total income		14,402
Expenditure		
Permanent staff	9,100	
Agency and secondees	120	
Personnel overheads	800	
Consultancy projects	900	
Accommodation	1,640	
Non-cash costs (eg depreciation)	680	
Other	1,162	
Total expenditure		14,402

Table 7 Administration costs – by activity group

	2003-04 outturn	2004-05 estimated outturn
	£000s	£000s
Regulatory action	7,817	8,191
External relations and legal services	1,214	1,435
Finance, human resources, office services and operations	1,421	1,482
Direct costs of WaterVoice and consumer representation	2,578	2,580
IT services and information management	607	714
Total income	13,637	14,402

Table 8 Ofwat's administration costs

	£000s				
	2001-02 outturn	2002-03 outturn	2003-04 outturn	2004-05 estimated outturn	2005-06 plans
Gross administrative costs:					
Staff	6,407	7,312	8,435	9,235	9,426
Other	4,425	4,513	5,202	5,167	5,275
Total gross administration costs	10,832	11,825	13,637	14,402	14,701
Related administrative receipts from licence fees and other minor receipts	(11,563)	(11,825)	(13,637)	(14,402)	(14,701)
Total net administration costs	(731)	-	-	-	-
Departmental expenditure limit (DEL)	(731)	-	-	-	-

Notes

1. This table is included as a requirement stipulated by HM Treasury. Outturn figures are taken from our published resource accounts. We operate on the basis that licence fees recovered from the industry should cover our costs. Surpluses of income stated in 'Total net administration costs' refer to the income generated from our publications.
2. 2004-05 gross administration costs are based on estimated outturn and are subject to review by audit.
3. Planned income and expenditure for 2005-06 is based on Ofwat's existing organisational structure, including WaterVoice. The CCW will be established on 1 October 2005 and will take over the consumer representation functions and will be independent of Ofwat. There will be an increase in the budget for the CCW; this will be decided by Defra in early 2005-06.

Table 9 Consultancy and professional services 2004-05
(contracts of over £50,000, excluding VAT)

Project	Supplier
The cost base	Babtie Engineering
Review of water company capital maintenance submissions	Mott MacDonald
Cost of capital	CEPA/Europe Economics
Company tax projections	Deloitte & Touche
Water Framework Directive	Arup (Oxera sub-contractor)
Payroll system	Logica CMG
WaterVoice market research	MVA Ltd

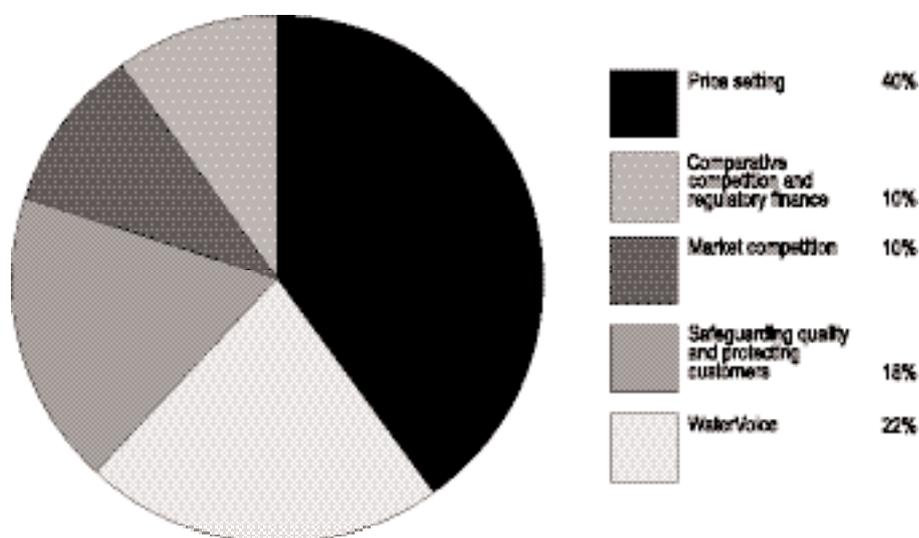
Resource accounts

We published our resource accounts for 2003-04 in September 2004 (HC1022). The accounts received an unqualified audit certificate from the Comptroller and Auditor General. We plan to publish the accounts for 2004-05 by July 2005. The resource accounts are prepared in accordance with the Government Resources and Accounts Act 2000 and directions issued by HM Treasury.

Resource allocation

Our expenditure is apportioned to the outputs set out in our forward programme. A summary of resource allocation against our main outputs is shown in figure 3.

Figure 3 Resource allocation



Audit

Our financial and risk management systems and reports are scrutinised by the Audit Committee, which consists of John Baker (Chairman) and Roger Munson, both non-executive advisory directors. NAO, Internal Audit (KPMG), the Director and senior finance staff attend the committee. The Audit Committee met three times during the year.

Licence condition N consultation

In preparation for the establishment of the CCW we consulted on the necessary licence changes to recover its costs. Licence changes will be made in early 2005-06.

Risk management and RIAs

Risk assessment is embedded into the work of the office and procedures are raised in six-monthly reports to the Ofwat Board, Management Committee and Audit Committee. Policy consultation documents include regulatory impact assessments that assess the impact of regulatory policy proposals on stakeholders in terms of costs and benefits.

9 Our forward programme

In 'Ofwat forward programme: 2004-05 to 2006-07' (March 2004) we set out our priorities for this year. Inevitably, the main focus of our activities was on achieving the price review outputs. In order to meet our price review deadlines we produced some of our reports comparing company performance later than usual.

We set out below the dates by which we achieved the outputs outlined in our forward programme.

Performance against milestones

Milestones	Date achieved
Price setting	
Companies' final business plans submitted	May 2004
Companies' June returns received	June 2004
Publish our draft determinations for consultation	August 2004
Companies provided their responses to our draft determinations consultation	September 2004
Other stakeholders provided their responses to our draft determination document	October 2004
Final determinations	December 2004
Evaluate 2004 price review	December 2004–July 2005
Safeguarding customers	
Publish 'Tariff structure and charges 2004-2005 report'	May 2004
Complaints workshops	May and October 2004
Publish companies' leakage performance for 2003-04	July 2004
Publish data on debt levels and debt recovery procedures	August 2004
Publish 'Financial performance and expenditure of the water companies in England and Wales 2003-2004 report'	September 2004
Publish 'Levels of service for the water industry in England and Wales 2003-2004 report'	October 2004
Consult WaterVoice on companies' draft charges schemes	November 2004
Publish 'Security of supply, leakage and the efficient use of water 2003-2004 report'	December 2004
Publish the numbers of customers registered with companies as requiring special services	December 2004

Milestones	Date achieved
Approve companies' charges schemes	February 2005
Introduce revised approach to measuring quality of telephone services	March 2005
Comparative competition and companies' finance	
Approve appointment of four reporters	June 2004 and November 2004
City briefings	August and December 2004
Reporters and auditors workshop	December 2004
Publish 'Water and sewerage service unit costs and relative efficiency 2003-2004 report'	January 2005
Publish 'International comparison of water and sewerage service 2005 report'	March 2005
Market competition	
Publish 'Complaints considered under the Competition Act 1998 – 2003-04'	April 2004
Legal drafts of modifications to water undertakers' Instruments of Appointments and standard conditions of water supply licensees issued	December 2004
Consult on aspects of the new competition framework	December 2004
Publish guidance on financial arrangements for self-lay and requisitioning arrangements	March 2005
Water Act 2003 and other emerging issues	
Publish memorandum of understanding between the DWI and Ofwat	April 2004
Publish policy and procedures for financial penalties	March 2005
Prepare policy for handling Freedom of Information Act 2000 requests	December 2004
Publish health and safety information requirements for the June return	March 2005
Resources, accountability and external relations	
Consult on modifications to licence condition N	June 2004
Publish annual report	April 2004
Publish annual accounts	September 2004
Publish draft forward programme	January 2005
Forward programme workshop	February 2005
Publish forward programme	April 2005

Appendix 1

WaterVoice Committees

WaterVoice Central
For customers of Severn Trent Water and
South Staffordshire Water

First Floor
Chanelle House
86 New Street
Birmingham B2 4BA
Tel: 0121 644 5252
0845 702 3953
Fax: 0121 644 5256
e-mail: central@watervoiceworks.org.uk

WaterVoice Eastern
For customers of Anglian Water, Cambridge Water, Essex &
Suffolk Water and Tendring Hundred Water

Ground Floor
Carlyle House
Carlyle Road
Cambridge CB4 3DN
Tel: 01223 323889
0845 795 9369
Fax: 01223 323930
e-mail: eastern@watervoiceworks.org.uk

WaterVoice Northumbria
For customers of Northumbrian Water and
Hartlepool Water

Eighth Floor
Northgate House
St Augustine's Way
Darlington DL1 1XA
Tel: 01325 464222
0845 708 9367
Fax: 01325 369269
e-mail: northumbria@watervoiceworks.org.uk

WaterVoice North West
For customers of United Utilities Water

Suite 902
Ninth Floor
Bridgewater House
Whitworth Street
Manchester M1 6LT
Tel: 0161 236 6112
0845 705 6316
Fax: 0161 228 6117
e-mail: northwest@watervoiceworks.org.uk

WaterVoice South West
For customers of South West Water

First Floor
Broadwalk House
Southernhay West
Exeter EX1 1TS
Tel: 01392 428028
0845 795 9059
Fax: 01392 428010
e-mail: southwest@watervoiceworks.org.uk

WaterVoice Southern
For customers of Southern Water, Folkestone & Dover
Water, Mid Kent Water, Portsmouth Water and South East
Water

Fourth Floor (South)
High Holborn House
52/54 High Holborn
London WC1V 6RL
Tel: 020 7831 4790
0845 758 1658
Fax: 020 7831 7253
e-mail: southern@watervoiceworks.org.uk

WaterVoice Thames
For customers of Thames Water, Three Valleys Water and
Sutton & East Surrey Water

Fourth Floor (South)
High Holborn House
52/54 High Holborn
London WC1V 6RL
Tel: 020 7831 4790
0845 758 1658
Fax: 020 7831 4850
e-mail: thames@watervoiceworks.org.uk

WaterVoice Wales (DyfrLais Cymru)
For customers of Dŵr Cymru Welsh Water and
Dee Valley Water

Room 140
Caradog House
1-6 St Andrews Place
Cardiff CF10 3BE
Tel: 029 2023 9852
0845 707 8267
Fax: 029 2023 9847
e-mail: wales@watervoiceworks.org.uk

WaterVoice Wessex
For customers of Wessex Water, Bournemouth & West
Hampshire Water, Bristol Water, Cholderton &
District Water

2 The Hide Market
West Street
St Philips
Bristol BS2 0BH
Tel: 0117 955 7001
0845 707 8268
Fax: 0117 955 7037
e-mail: wessex@watervoiceworks.org.uk

WaterVoice Yorkshire
For customers of Yorkshire Water

Eighth Floor
Northgate House
St Augustine's Way
Darlington DL1 1XA
Tel: 01325 469777
0845 708 9368
Fax: 01325 369269
e-mail: yorkshire@watervoiceworks.org.uk

Appendix 2

The water and sewerage companies

Anglian Water Services Ltd

Henderson House
Lancaster Way
Huntingdon
Cambridgeshire PE29 6XQ
Telephone: 01480 323900
www.anglianwater.co.uk

Dŵr Cymru Cyfyngedig (Welsh Water)

Pentwyn Road
Nelson
Treharris
Mid Glamorgan CF46 6LY
Telephone: 01443 452300
www.dwrcymru.co.uk

Northumbrian Water Ltd

Abbey Road
Pity Me
Durham DH1 5FJ
Telephone: 0870 608 4820
www.nwl.co.uk

Severn Trent Water Ltd

2297 Coventry Road
Birmingham B26 3PU
Telephone: 0121 722 4000
www.stwater.co.uk

Southern Water Services Ltd

Southern House
Yeoman Road
Worthing
West Sussex BN13 3NX
Telephone: 01903 264444
www.southernwater.co.uk

South West Water Ltd

Peninsula House
Rydon Lane
Exeter EX2 7HR
Telephone: 01392 446688
www.southwestwater.co.uk

Thames Water Utilities Ltd

Clearwater Court
Vastern Road
Reading RG1 8DB
Telephone: 0118 373 8000
www.rwethameswater.com

United Utilities Water plc

Dawson House
Great Sankey
Warrington WA5 3LW
Telephone: 01925 234000
www.unitedutilities.com

Wessex Water Services Ltd

Claverton Down Road
Claverton Down
Bath BA2 7WW
Telephone: 01225 526000
www.wessexwater.co.uk

Yorkshire Water Services Ltd

Western House
Western Way
Halifax Road
Bradford BD6 2LZ
Telephone: 01274 691111
www.yorkshirewater.com

The water only companies

Albion Water Ltd

71 Clarence Road
Teddington
Middlesex TW11 0BN

Telephone: 0208 977 3055

Bournemouth & West Hampshire Water plc

George Jessel House
Francis Avenue
Bournemouth
Dorset BH11 8NB

Telephone: 01202 591111
www.bwhwater.co.uk

Bristol Water plc

PO Box 218
Bridgwater Road
Bristol BS99 7AU

Telephone: 0117 966 5881
www.bristolwater.co.uk

Cambridge Water plc

90 Fulbourn Road
Cambridge CB1 9JN

Telephone: 01223 706050
www.cambridge-water.co.uk

Cholderton & District Water Company Ltd

Estate Office
Cholderton
Salisbury
Wiltshire SP4 0DR

Telephone: 01980 629203

Dee Valley Water plc

Packsaddle
Wrexham Road
Rhostyllen
Wrexham LL14 4EH

Telephone: 01978 846946
www.deevalleywater.co.uk

Folkestone & Dover Water Services Ltd

Cherry Garden Lane
Folkestone
Kent CT19 4QB

Telephone: 01303 298800
www.fdws.co.uk

Mid Kent Water plc

Rocfort Road
Snodland
Kent ME6 5AH

Telephone: 01634 873111
www.midkentwater.co.uk

Portsmouth Water Ltd

PO Box 8
West Street
Havant
Hampshire PO9 1LG

Telephone: 02392 499 888
www.portsmouthwater.co.uk

South East Water plc

3 Church Road
Haywards Heath
West Sussex RH16 3NY

Telephone: 01444 448200
www.southeastwater.co.uk

South Staffordshire Water plc

Green Lane
Walsall
West Midlands WS2 7PD

Telephone: 01922 638282
www.south-staffs-water.co.uk

Sutton & East Surrey Water plc

London Road
Redhill
Surrey RH1 1LJ

Telephone: 01737 772000
www.waterplc.com

Tendring Hundred Water Services Ltd

Mill Hill
Manningtree
Essex CO11 2AZ

Telephone: 01206 399333
www.thws.co.uk

Three Valleys Water plc

PO Box 48
Bishops Rise
Hatfield
Herts AL10 9HL

Telephone: 01707 268111
www.3valleys.co.uk

Appendix 3

Reporters and auditors

Water and sewerage companies	Auditors	Reporters
Anglian Water Services Ltd	PricewaterhouseCoopers	WS Atkins
Dwr Cymru Cyfyngedig	PricewaterhouseCoopers	Halcrow Management Sciences
Northumbrian Water Ltd	Ernst & Young	Black & Veatch
Severn Trent Water Ltd	PricewaterhouseCoopers	Halcrow Management Sciences
Southern Water Services Ltd	PricewaterhouseCoopers	WS Atkins
South West Water Ltd	PricewaterhouseCoopers	WS Atkins
Thames Water Utilities Ltd	PricewaterhouseCoopers	WS Atkins
United Utilities Water plc	Deloitte & Touche	Halcrow Management Sciences
Wessex Water Services Ltd	KPMG	Halcrow Management Sciences
Yorkshire Water Services Ltd	Ernst & Young	Strategic Management Consultants
Water only companies	Auditors	Reporters
Bournemouth & West Hampshire Water plc	PricewaterhouseCoopers	Halcrow Management Sciences
Bristol Water plc	PricewaterhouseCoopers	WS Atkins
Cambridge Water plc	Deloitte & Touche	Black & Veatch
Cholderton & District Water Company Ltd	B Johnson Esq	*
Dee Valley Water plc	Saffrey Champness	MWH UK Ltd
Folkestone & Dover Water Services Ltd	Ernst & Young	MWH UK Ltd
Mid Kent Water plc	Deloitte & Touche	Monson Engineering Ltd
Portsmouth Water Ltd	Grant Thornton	Kellogg, Brown & Root Ltd
South East Water plc	PricewaterhouseCoopers	Strategic Management Consultants
South Staffordshire Water plc	Deloitte & Touche	Black & Veatch
Sutton & East Surrey Water plc	KPMG	Kellogg, Brown & Root Ltd
Tendring Hundred Water Services Ltd	Ernst & Young	MWH UK Ltd
Three Valleys Water plc	Ernst & Young	WS Atkins

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

How to contact us:

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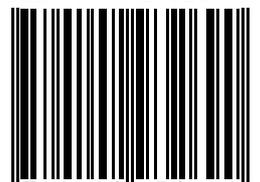
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