



Annual report 2002–03
of the Director General of Water Services

O F W A T



Our vision <<

A water industry that delivers a world-class service, representing best value to customers now and in the future.

Our mission <<

To regulate in a way that provides incentives and encourages the companies to achieve a world-class service in terms of quality and value for customers in England and Wales.

How we do it <<

By:

- >> Setting price limits at levels which:
 - enable well-managed companies to finance the delivery of services in line with relevant standards and requirements;
 - provide incentives for companies to improve efficiency and service delivery;
 - share the benefits between customers and investors.
- >> Ensuring that we are aware of stakeholders' views and priorities by consulting with customer groups, the industry and others, and undertaking customer surveys.
- >> Facilitating the development of competition to promote further efficiency gains and, where practicable, further choice for customers.
- >> Working with the quality regulators to make sure that Ministers have the information they need to set the quality improvement programme within a long-term framework.
- >> Ensuring that customers' tariffs are fair and do not unduly discriminate or show preference to any class of customer.
- >> Handling disputes and complaints involving the companies economically, effectively and fairly.
- >> Monitoring the companies' performance and taking action, where necessary, to protect the interests of customers and other stakeholders.
- >> Openly and transparently publishing information, which allows customers and other stakeholders to have their say in regulatory decisions.
- >> Making sure that Ofwat delivers best value in its regulatory role and by valuing and encouraging the development of its entire staff.
- >> Assessing company performance by making appropriate comparisons between the regulated companies, drawing on relevant information from other sectors and from international comparisons where available.



Annual report 2002–03

of the Director General of Water Services

For the period 1 April 2002 to 31 March 2003

Presented to Parliament in pursuance of section 193 of the Water Industry Act 1991 and to the Welsh Assembly Government.

Ordered by the House of Commons to be printed 22 May 2003.

HC 679

London: The Stationery Office

£10.60



Office of the Director General of Water Services
Centre City Tower, 7 Hill Street, Birmingham B5 4UA
Tel: 0121 625 1300 E-mail: philip.fletcher@ofwat.gsi.gov.uk Fax: 0121 625 1348

To

RT. HON. MARGARET BECKETT, MP

The Secretary of State for Environment, Food and Rural Affairs

and

RT. HON. RHODRI MORGAN, AM

First Minister, Welsh Assembly Government

Dear Secretary of State and First Minister

I am pleased to present my report on Ofwat's work for the year ending 31 March 2003.

We are committed to openness and transparency in our work, and this report to you and all stakeholders is part of that.

This year, for the first time, we commissioned an independent survey of stakeholders to consider our effectiveness and our processes. We welcomed the positive feedback from the survey and are now building on its findings.

The focus of our work has been the price review – we will set prices in November 2004. We started this two-year process in October 2002 by consulting on how we will go about it.

We have continued our routine but essential work in monitoring the companies' performance. Protecting the interests of customers remains central to our role, working closely with WaterVoice.

We have given advice to Government on the Water Bill, which will change the shape of economic regulation of the industry in the years to come.

A handwritten signature in cursive script that reads 'Philip Fletcher'.

Philip Fletcher

Director General of Water Services

Contents



Director's review	4
1. Price setting	7
2. Protecting customers	13
3. Safeguarding quality and service	17
4. Companies' finance and mergers	21
5. Price competition	25
6. The Water Bill	27
7. Communications	29
8. Resources	32

Appendices



1. Ofwat's milestones 2002-03	38
2. WaterVoice committees	40
3. Independent reporters and auditors	41
4. The water and sewerage companies	42
5. The water only companies	43
6. Ofwat administrative costs	44
7. Ofwat staff numbers	45
8. Ofwat structure	46

Director's review



DIRECTOR'S REVIEW

The main focus of our work this year has been preparing the ground for the coming review of price limits, which will be decided in 2004. We consulted on our proposed methodology last October, and announced our conclusions in the light of responses in March 2003.

We are adopting a transparent approach to the review and continue to follow the principles of good regulation set by the Better Regulation Task Force: transparency, accountability, proportionality, consistency and targeting.

To help us observe these principles, we commissioned an independent survey of stakeholders' views on our transparency and how we go about our work. We welcome the outcome. The survey has usefully indicated areas for improvements. The full survey report is on our website.

The next price review <<

We remain committed to incentive-based price cap regulation, using the formula RPI-X¹. This has demonstrated its effectiveness in driving efficiency in the privatised utility industries in the absence

of price competition. But it requires careful consideration of the scope for further efficiency and the treatment of uncertainty.

Many respondents sought greater incentives for companies to outperform price limits and drive efficiency further. Many of the easier efficiency gains have been made already following privatisation in 1989. But, although future efficiencies are becoming harder, we believe that there is still scope for the industry to become more efficient, at a faster rate than the economy nationally.

This view is supported by a study we commissioned from Europe Economics on the scope for future efficiency in the industry. We are not yet drawing conclusions. We need to be sure that our eventual proposals provide sufficient incentive for the most efficient companies, to the benefit of customers as well as shareholders.

In the treatment of uncertainty, we reject the option of a general contingency provision in prices to allow for unforeseen risks outside the control of prudent management. But we are looking carefully at the changes the regulatory system should provide for.

¹ RPI-X is a price cap that limits changes in overall prices to inflation (RPI) plus or minus a factor determined by the regulator.

The companies need to be able to finance their functions. Water UK's survey of debt and equity investors, published in April, provides important evidence about how investors view risk for the sector. We will take account of this and other studies in assessing the cost of capital.

As part of the review, we joined with representatives of Government, customers, companies and environmental groups to commission MORI to carry out our first joint customer research project. The research steering group is now working on the second stage of the market research, which will further explore customers' views on the particular service improvements needed and the impact on bills.

Companies will submit draft business plans by mid-August. We look to companies to present well-justified plans, representing value for money for customers. The plans will inform our discussions with the companies; and we shall also use them to inform Government and fellow regulators on the decisions Ministers need to make in setting the water quality and environmental programmes for the next five years.

It is too early to say what bills for 2005-10 are likely to be. The scale of the pressures to spend, including the environmental programme, means that it is unrealistic to expect a reduction. We are obliged to set price limits that enable companies to finance and carry out their functions, but at the same time customers look to Ofwat to ensure that prices are no higher than necessary.

The Water Bill <<

The Water Bill was published in February and is progressing through Parliament. We have worked as expert advisors with other government departments in developing the proposals. The Bill introduces important changes, including water-specific legislation for competition.

The Bill also proposes a new corporate structure for Ofwat, and the establishment of WaterVoice as an independent Consumer Council. We are already moving

in the directions proposed by Government. The Ofwat Board has been at work for a year. Our non-executive advisory directors add value to our decisions. And although we continue to work closely with WaterVoice, the Council's freedom to speak independently of the regulator has been strengthened.

The constitutional changes in the Bill will not take effect before April 2005, which will enable us to complete the periodic review as we began it, under the current regime.

Changing structures <<

Since the last price review several companies have changed their capital structures. Different models have emerged, but all have involved increasing the level of debt finance on the companies' balance sheets.

We believe that it is for the companies to manage their own capital structures. I welcome innovation directed at improving efficiency and effectiveness – an important aim in an incentive-based regime.

The most recent research presents evidence that, at least in the short term, some of the new structures have the potential to deliver savings for customers by reducing the cost of capital. But it also highlights the financial risks of highly leveraged structures, including the potential systemic risk of a number of companies failing simultaneously.

Progress on services <<

Most companies continue to deliver improved services. Research tells us that customers believe the companies generally achieve satisfactory service in relation to costs. But we are not complacent. We remain concerned about Thames Water's failure to meet leakage targets. We have taken regulatory action and we expect Thames' performance to be brought into line with the rest of the industry by 2006-07.

We continue to make progress in tackling sewer flooding. We recognise customers' strength of feeling about this issue. This year, we have seen a reduction in the number of properties suffering internal flooding from sewers. We have agreed measures for companies to carry out additional work now, in advance of the review.

Ofwat's services

<<

As well as putting pressure on the companies to deliver, we continue to keep a tight rein on our own costs. In 2002-03 our cost to customers remained at under 50p per connected property; as it will in 2003-04, notwithstanding a budget increase needed to prepare for the review and other duties.

Our achievements over the last year would not have been possible without the initiative, insight, professionalism and determination of Ofwat's and WaterVoice's staff, and the Chairmen and members of WaterVoice. I wish to thank them and all other stakeholders for their support as we enter the next phase of the price review and as the new structure of Ofwat begins to take shape.



Philip Fletcher
Director General of Water Services

Price setting



PRICE SETTING

Every five years we set price limits that enable well-managed companies to deliver a high-level service to their customers in a sustainable and efficient way whilst making essential environmental and other improvements. We set a separate price limit for each company for each year. These price limits restrict the average change in bills.

In 2004 we will set price limits for the companies from 1 April 2005 to 31 March 2010. Our approach builds on our experience from the 1994 and 1999 reviews.

Our aims in this review

We aim to set price limits that provide best value for customers now and in the future. We intend to:

- enable well-managed companies to finance the delivery of services in line with relevant standards and requirements; and
- provide incentives for companies to improve efficiency and service delivery.

In conducting the price review, we adopt an open process in which we consult on our approach and explain our thinking before reaching decisions. We want the process to be predictable, consistent throughout, transparent and credible.

We work closely with the companies, other government departments and fellow regulators, consumer and environmental groups and the City.

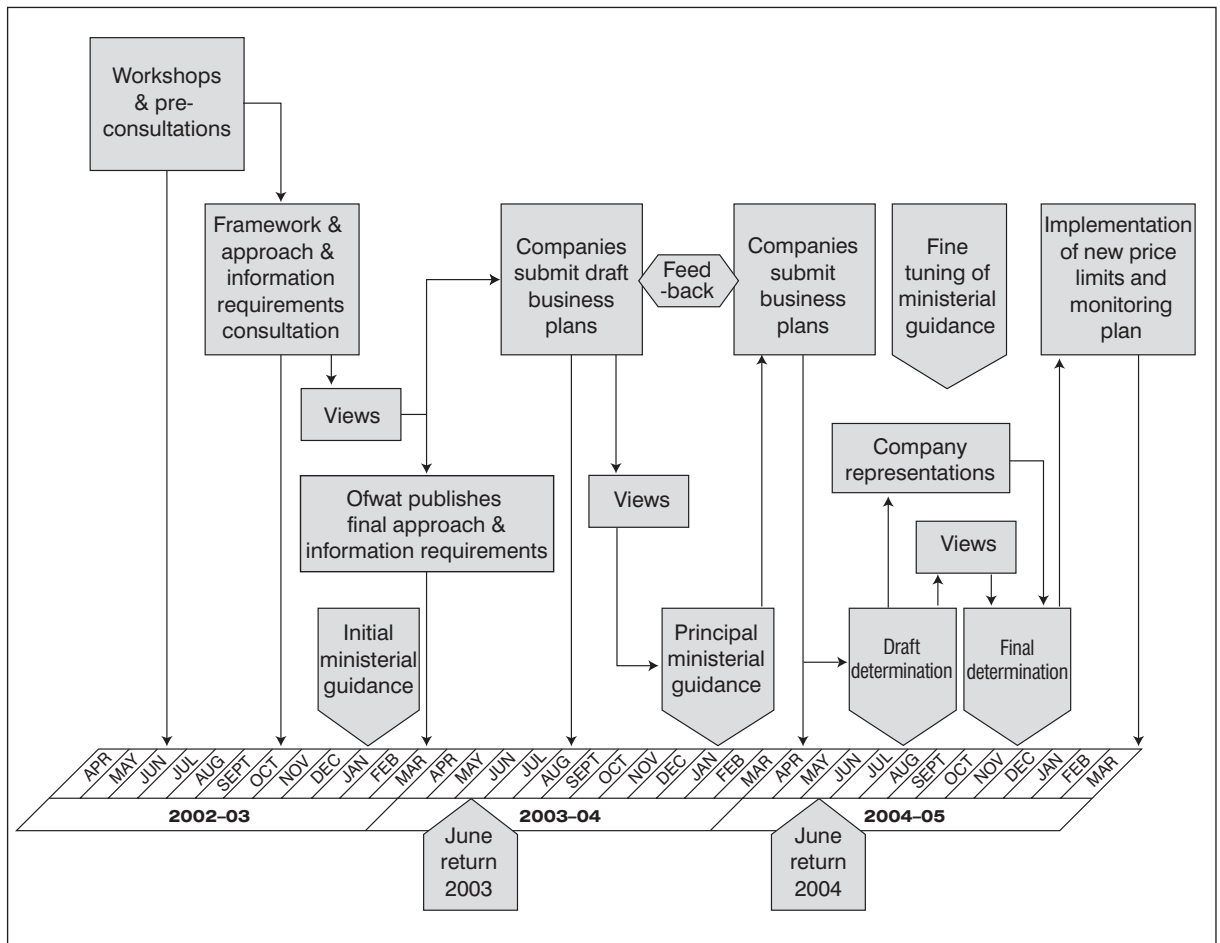
WaterVoice plays a key role in representing customers. We seek their comments through consultation and by asking their advice on particular topics.

Figure 1 overleaf sets out the timetable for the review.

Consulting on our framework, approach and information requirements <<

After our earlier investigations (see page 10), we started the review in October 2002 by publishing our draft methodology paper for

Figure 1: Timetable for the 2004 price review



consultation, 'Setting price limits for 2005-10: Framework and approach'. During the consultation process we held workshops for stakeholders.

At the same time we consulted on the business plan information requirements.

The draft and final business plans will enable each company to identify and quantify all the strategic issues that it faces in the next five years.

In March 2003 we published our methodology paper, taking respondents' views into account, in 'Setting water and sewerage price limits for 2005-10: Framework and approach'. We published a summary of consultation responses². We also issued the draft business plan information requirements to companies, reporters and auditors.

Responses to our methodology consultation confirmed our general

approach. But concerns were raised in particular about the incentives for companies that outperform our assumptions, and about mechanisms for dealing with uncertainties.

We accept that since privatisation in 1989 many of the easier efficiency gains have now been made. But there is still scope for the industry to become more efficient, and we published a preliminary report by consultants on this in March 2003³. We recognise the need to be sure that there are sufficient incentives for companies to continue to outperform our assumptions. We are doing further work on this and plan to consult in May 2003.

We have also looked again at the mechanisms for dealing with uncertainties at and between periodic reviews. The methodology paper set out how we intend to provide more clarity on handling issues of uncertainty.

²'Setting water and sewerage price limits for 2005-10: Framework and approach - Summary of consultation responses and our conclusions', March 2003.

³'Scope for efficiency improvement in the water and sewerage industries: final report for Ofwat', Europe Economics, March 2003.

Environmental drivers to price limits <<

The companies supply high-quality water and deal with waste water to exacting standards. Both the standards and company performance have improved significantly since 1989. Government Ministers and the Welsh Assembly Government decide the scope and timescale for new improvements.

We are working with the other regulators to ensure that when the Government and the Welsh Assembly Government decide on programmes to be included in the new price limits, they understand the implications for customers. We expect companies to plan for and to meet new requirements set out in legislation, in government policy, or driven by customer demand.

We published 'Environmental drivers for the 2004 periodic review' jointly with the Environment Agency in March 2002. In this paper, the Agency, with English Nature and the Countryside Council for Wales (CCW) have collated the key pieces of legislation and policy that may require the companies to change either their capital assets or the way they are operated. We jointly published two updates of this paper⁴. The Agency used this to identify where improvements may be required in 2005-10. The Agency set out its representations to Government in 'Future environmental priorities for the water industry' (January 2003).

In January 2003 the Secretary of State published her initial guidance to us on the environmental programme for England in the next five years. The Welsh Assembly Government published its guidance in March 2003. We are working with officials from the Department for Environment, Food and Rural Affairs (DEFRA), Welsh Assembly Government, the Drinking Water Inspectorate (DWI), the Environment Agency, English Nature and CCW to incorporate this guidance into the price review process. Companies will provide cost estimates in their draft business plans in August 2003; the Environment Agency

will also provide information on the benefits of the programme. The comparison of costs and benefits will inform the principal ministerial guidance on the scope and timing of the quality enhancement programme in January 2004.

Understanding customers' priorities <<

Customers pay the water and sewerage charges and receive the services. As well as inviting comments on consultation documents, we use market research to help us understand their views and to inform decisions to be made.

Joint market research

We investigated customers' views with eight other stakeholders (DEFRA, DWI, the Environment Agency, English Nature, Welsh Assembly Government, Water UK, WaterVoice, and the Wildlife and Countryside Link).

We commissioned a survey to explore customers' expectations and priorities for water and sewerage services, particularly for 2005-10. Focus group discussions and a quantitative survey took place during 2002.

We published the results in November 2002⁵. Customers are satisfied with tap water supply, sewerage services and value for money. Most respondents see little need to improve the current service they receive. The areas where improvements were most thought to be needed were "maintenance of the quality of coastal and bathing waters", "maintenance of the quality of river waters", "protection of important wildlife and plants", "avoiding the risk of homes being flooded by sewage" and "tap water taste and smell".

Customers' views differ on whether they would be willing to pay more through their annual bills to fund improvements to services.

We used the research results to advise the Secretary of State on her initial guidance to us.

⁴'Environmental drivers for the 2004 periodic review' (September 2002 (RD 25/02) and April 2003 (RD 15/03) updates).

⁵'The 2004 periodic review: research into customers' views', November 2002.

Tackling sewer flooding

Reducing the risk of sewer flooding is a high priority for customers. In March 2002 we consulted on our approach to tackling the problem of sewage flooding homes⁶. We held a seminar with stakeholders. In September 2002 we issued our response⁷. In the methodology paper⁸, we proposed that companies should, by 2010, plan to solve, or reduce, sewer flooding problems for customers who are at risk of repeat flooding at least once in ten years.

We have also confirmed that we would consider proposals by companies to make more rapid progress on the worst cases of sewer flooding before the price review⁹. We have agreed, or are in discussions about, proposals by most of the companies to address the worst problems by then.

Early investigations <<

Investigative work leading up to the publication of the draft methodology paper in October 2002 included: service delivery, financial affairs, incentives and uncertainties. The results fed into our consultation paper and into the methodology paper in March 2003.

Service delivery

Overall Performance Assessment

Each year we measure and compare the companies' overall delivery of service to customers using the Overall Performance Assessment (OPA). This year the assessment incorporated new measures that were developed in consultation during 2001-02. The new measures provide fairer comparison between companies. We also use OPA data as part of the review, when adjusting the link between service levels and prices.

⁶'Flooding from sewers – a way forward', March 2002.

⁷MD 180, 26 September 2002.

⁸'Setting water and sewerage price limits for 2005-10: Framework and approach', March 2003.

⁹MD 180, 26 September 2002.

¹⁰RD 14/02, 8 May 2002.

¹¹RD 33/02, 16 December 2002.

¹²RD 05/02, 19 March 2002.

¹³RD 19/02, 28 June 2002.

¹⁴RD 22/02, 21 August 2002.

Supply/demand economics

The balance between supply and demand is an important driver of the industry's costs and revenues. This year we have worked with the Environment Agency to align our regulatory information requirements. We have developed a standardised way of presenting information on long run marginal costs – a key measure of how much it will cost companies to meet demand for water in future.

Capital maintenance

Capital maintenance is the renovation and renewal of the systems each company uses to maintain service to existing and future consumers. The challenge is to invest the right amount at the right time. During the last three years, the industry has developed a forward-looking, risk-based approach to estimate better future levels of capital maintenance. We have incorporated this methodology into our four-stage approach for assessing future capital maintenance needs. We consulted with the industry on this approach in May 2002¹⁰ and have responded to company proposals for implementing the new approach¹¹. We believe that this is a significant step forward.

Financial affairs

Approach to depreciation

We consulted in March 2002 on our approach to depreciation¹². We want to ensure that we have a sound methodology and basis for calculation at the 2004 review. We held a workshop in April 2002 for companies and reporters. In June 2002 we published a summary of consultation responses¹³.

At the workshop in April 2002 companies raised concerns about the need to revalue their assets before the 2004 review. They felt the process to be time-consuming and expensive. We wrote to companies in August 2002¹⁴ to explain that we do not require a full revaluation, but that companies must consider the remaining lives of their assets.

Research into the cost of capital

Studies already published this year will help inform the approach that we will adopt in assessing the cost of capital at the review.

Smithers & Co Ltd study: with other regulators, we commissioned a study from financial consultants Smithers & Co Ltd to find the best current approach to estimating the cost of capital for regulated utilities. The study considered the water industry's current model: the Capital Asset Pricing Model. It also considered how different approaches handle risk, including regulatory and political risk. We published the report in February 2003¹⁵.

Oxera study: since the 1999 price review some companies have changed their capital structures. Different models have emerged, but all have involved increasing the level of debt finance on the companies' balance sheets.

We commissioned Oxera¹⁶ to research how companies might structure their capital sustainably in the long term. We published the study results in our March paper. They show that, at least in the short term, some of the new structures could deliver savings for customers by reducing the cost of capital. But we believe that some of the more highly geared companies may have significantly reduced their financial flexibility to deal with unexpected events. The Oxera report highlighted the cumulative risk of more than one company failure.

A highly geared company is one which raises a high proportion of capital through debt (borrowing) rather than through equity (shares).

Water UK's national survey of investor opinion, published in April 2003, provides important evidence on how investors view risk.

Publishing the financial model

The financial model is a tool we use to help us set price limits. Cap Gemini Ernst &

Young (CGEY) helped us to redevelop our financial model, called Aquarius 3, to make it easier for us to use and share with others. This version of the model was based on the methodology we used for the 1999 review. An independent review team from RSM Robson Rhodes audited the model before we released it in November 2002¹⁷. We gave the software to the water companies, DEFRA, Welsh Assembly Government and WaterVoice. Interested parties can purchase the model's software from CGEY. We will release an updated model in May 2003 to reflect the methodology for the 2004 review.

We published a rulebook¹⁸ and a user manual to accompany the model. We also held workshops for the companies in December 2002.

Incentives and uncertainties

Improving incentives

Incentives are a key part of this regulatory regime. We have continued our work to develop and improve these for the next review.

- We commissioned consultants to provide an initial view on the scope for future efficiency¹⁹.
- We began work on the 'cost base' – one of our tools for understanding efficiency levels in capital maintenance and capital enhancement.
- We met with companies to discuss their views on incentives and how the range of incentives interact.
- We published, in June, a summary of responses to our proposals²⁰ to refine periodic review incentives relating to bulk supplies and competition. We presented our conclusions in our methodology paper²¹.
- We published the results of our investigations into alternative ways of assessing relative efficiency²².

¹⁵ 'A study into certain aspects of the cost of capital for regulated utilities in the UK', February 2003.

¹⁶ 'The capital structure of water companies', October 2002.

¹⁷ RD 31/02, 19 November 2002.

¹⁸ RD 27/02, 4 October 2002.

¹⁹ 'Scope for efficiency improvement in the water and sewerage industries: final report for Ofwat', Europe Economics, March 2003.

²⁰ RD 20/02, 28 June 2002.

²¹ 'Setting water and sewerage price limits for 2005-10: Framework and approach', March 2003.

²² In 'Water and sewerage service unit costs and relative efficiency 2001-02', December 2002.

Uncertainties

In June 2002 we consulted on whether to change our approach in dealing with shortfalls in companies' outputs, and with new requirements placed upon them between price reviews (logging up/down)²³.

The methodology paper set out our approach to dealing with uncertainty through interim determinations and logging up.

Interim determinations this year

<<

Ofwat can reassess price limits between reviews if a company's costs or revenues change materially in specific areas. This is an interim determination. Either Ofwat or a company can initiate one.

We wrote to the companies²⁴ in May 2002 setting out our approach to interim determinations for 2002. In August 2002²⁵, we issued our interim determination model to make our calculations transparent. We discussed potential applications with three companies, and in September we received formal applications from Severn Trent Water and Yorkshire Water. In November we consulted on our draft conclusions. We met each company to review the draft decisions. The WaterVoice committees covering those companies also provided feedback. We announced new price limits for the companies on 12 December.

Actions arising from previous interim determinations

In July 2002, we modified the licences for South West Water and Dee Valley Water following their interim determinations in 2001. These changes will protect customers from paying unnecessarily high bills if the forecasts for meter uptake prove too high. The modification changes the way we calculate materiality; we now cover companies' revenue gains, as well as revenue losses and the associated change in operating costs.

²³ MD 179, 28 June 2002.

²⁴ MD 178, 1 May 2002.

²⁵ RD 23/02, 23 August 2002.

Protecting customers



Working closely with WaterVoice



The ten statutory WaterVoice committees at regional level, and the WaterVoice Council at national level, work together to represent the interests of customers. Although set up and maintained by Ofwat, they are an independent voice speaking on behalf of customers. In April 2002, they adopted the name, 'WaterVoice', designed to ensure better recognition of their role. Ofwat and WaterVoice work together within the framework of a memorandum of understanding agreed in 2002. The Director and senior Ofwat staff meet with WaterVoice regularly to make sure that we are aware of customers' concerns.

We are also jointly commissioning research into customers' views on payment and debt issues.

WaterVoice views were particularly influential in:

- considering companies' proposals for tackling sewer flooding in the period to 2005;

- reviewing companies' policies for customers with special needs;
- approving companies' charges schemes; and
- assessing the quality of services delivered to customers.

On service quality, WaterVoice's work in regularly auditing company practices continues to be important, supplementing the quantitative monitoring of service quality through the June return. We aim to ensure that the WaterVoice committees audit all companies consistently and to encourage sharing of best practice. We held a debt audit workshop in January 2003.

WaterVoice publishes its own forward programme and annual report. Visit their website at www.watervoice.org.uk

DEFRA is expected to set up the Consumer Council for Water in, or soon after, April 2005 (see Chapter 6, 'The Water Bill'). DEFRA will appoint consultants to advise on this matter. WaterVoice and Ofwat will continue to advise DEFRA and the Welsh Assembly Government.

Complaints and disputes <<

WaterVoice deals with most complaints. Ofwat settles and reviews some complaints and disputes as part of our role in ensuring that customers get a good service at a fair price from the water companies.

Ofwat dealt with 158 formal and 349 informal complaints and disputes in 2002-03. We obtained compensation and rebates amounting to £102,334. We have improved the times we take to deal with complaints.

We held a complaint workshop in May for WaterVoice members and staff and we have reviewed and updated policy advice on complaint handling.

We dealt with 8 cases alleging that companies were in breach of their statutory duty to drain their areas. In 5 cases, companies either have action in hand to deal with flooding or have completed works. 3 cases are ongoing.

We received 12²⁶ complaints that WaterVoice had been unable to resolve with the companies. We dealt with 8²⁷ complaints and supported WaterVoice's recommendations in half of them. The companies accepted our recommendations. In one case, we were unable to support WaterVoice. 9 cases are ongoing.

We dealt with 47 complaints from customers who were not satisfied with WaterVoice's investigations. Our review of these cases does not indicate any evidence of significant shortcomings by WaterVoice. We upheld 3 of these complaints and partly upheld 5. We obtained compensation or rebate for the complainant in 2 cases. 8 cases are ongoing.

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.

At our request, most companies now review their costs when customers ask

them to do so. As a result, the number of requests we receive for determinations continues to fall.

Of the 7 disputes received (3 against United Utilities), we settled 6 in favour of the customer. We required companies to make refunds to customers, ranging from 16% to 77% of the original charge (an average refund of 55%).

Of the 25 cases we referred to the companies to review their charges informally, 16 resulted in refunds to the customer.

Sewer appeals

If a company refuses to adopt a sewer as public, the applicant may appeal to the Director.

We received 21 appeals and 21 enquiries during the year. 14 appeals were resolved informally. We dismissed 2 appeals where applicants had objected to a proposal by the sewerage company for adoption of sewers and associated works. In one case we concluded that the applicant was not the owner of the sewer and was therefore not entitled to object. In the second appeal, we concluded that the company's proposal should be allowed, but that the company should pay compensation of £30,000 to the developer who had installed the sewer and pumping station.

Trade effluent appeals

Traders can appeal to the Director if a company refuses permission to discharge effluent into a public sewer.

8 cases were brought forward from last year and we have received 7 new cases. We have issued one formal determination and 8 were resolved informally or withdrawn. The remaining 6 are also likely to be resolved without the need for a hearing.

Complaints about pipe laying in streets

We received 15 complaints, none of which required formal arbitration.

²⁶ 7 of these relate to inaccurate estimated bills.

²⁷ 2 cases were carried forward from 2001-02.

Complaints about pipe laying in private land

We resolved 99 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 Government. We monitor the scheme and recommend changes.

We settled 6 disputes under the GSS, 4 in favour of the customer. We resolved a further 6 cases informally.

Special needs <<

Companies have procedures to ensure that support is available to customers with special needs; for example, the elderly, or those who are physically or mentally impaired. We have worked with WaterVoice to ensure that companies advertise these services sufficiently.

WaterVoice, on behalf of Ofwat, reviewed the way companies have implemented our revised guidelines for services to customers with special needs.

Payment options <<

We monitored the range and accessibility of payment methods offered to customers as part of the Approval of Charges Schemes process (see page 16).

We worked with Ofgem, water companies and Government to ensure that customers who wish to have water arrears deducted from their benefits continue to have access to the Direct Payments Scheme.

We also met with the Banking Code Standards Board and other regulators to discuss the introduction of the electronic payment of government benefits and tax

credits and the implications of this change for customers.

We continued to ensure that companies advertise their free meter option schemes in customer literature. Where information was missing or inaccurate, we worked with WaterVoice to ensure that companies put it right.

Customers in debt <<

At the last price review we acknowledged that the ban on domestic disconnections for debt might make it more difficult for companies to collect domestic revenue. We therefore allowed a 'notified item' on bad debt – this would allow companies to apply for an interim determination if costs rose significantly.

In the two applications that we received in September 2002, we accepted that the companies' costs associated with bad debt had risen.

We analysed debt levels further and published data²⁸. This showed that debt levels and debt recovery costs have increased across the industry since the ban on domestic disconnections became effective in July 1999.

We also issued revised debt recovery guidelines in October 2002 following the review of the guidelines in 2001-02²⁹.

Water ingress in gas mains <<

Occasionally circumstances arise where water enters the gas network. When this happens, the gas industry has procedures to safely restore gas supplies to consumers. When the water originates from the water or sewer networks it is important that the water and gas companies work together to resolve the incident safely and with minimal disruption to consumers. To facilitate this we have been working to develop a memorandum of understanding between the gas network operator (National Grid Transco) and the water companies. The working group also

²⁸ RD 26/02, 26 September 2002.

²⁹ 'Dealing with customers in debt: guidelines', October 2002.

includes representatives from WaterVoice, Energywatch, Ofgem and gas supply companies.

Approving charging schemes <<

Each company sets individual charges and publishes them in an annual charges scheme. To ensure that customers are protected, we check each scheme and the companies' principal statements and approve them before they are published.

Charges must:

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

Full details of our approach to charges schemes, together with information on charges and tariffs, are set out in our tariffs report³⁰.

We continue to review tariff policy issues. This year we looked at:

- intermediate user tariffs for non-household customers consuming less than 50MI a year;
- standby charges for customers with alternative sources of supply;
- interruptible tariffs;
- subscribed demand tariffs; and
- special agreements.

The reviews aimed to ensure that companies' tariffs were neither unduly discriminatory nor unduly preferential, and to encourage constructive debate. We published our conclusions on intermediate user tariffs in May 2002³¹. We reported the preliminary findings from our review of standby, interruptible and subscribed demand tariffs in February 2003³², inviting interested

parties to comment. And we published our review of special agreements in March 2003³³.

Vulnerable groups <<

Under government regulations, metered customers who receive specified state benefits, and who use a lot of water due to having large families or certain medical conditions, can opt for a capped tariff.

We have continued to ensure that companies advertise the availability of this tariff. Uptake has remained low.

We advised DEFRA on its review of the Vulnerable Group Regulations, including the rebalancing effect of any charges on other customers' bills.

Water Resale Order <<

The Water Resale Order 2001 protects customers who pay someone else – such as their landlord – for their water and sewerage services rather than the company direct.

This year we dealt with 66 written queries from resellers and purchasers about how charges should be set under the Order.

We seek additional powers to make resellers provide more detailed information to purchasers on how their bills are calculated. DEFRA has included provision for this in the Water Bill.

³⁰ 'Tariff structure and charges 2003-04', May 2003.

³¹ RD 16/02, 9 May 2002.

³² RD 05/03, 11 February 2003.

³³ RD 09/03, 26 March 2003.

Safeguarding quality and service



Comparative competition <<

We use comparative competition to impose on the monopoly companies pressures that would exist in an informed market for water and sewerage services. Our aim is to drive out inefficiency, poor service, poor value for money and policies that are not in tune with customer needs, whilst rewarding the efficient and top service providers.

We are all fortunate in that there are an adequate number of independent companies supplying these services in England and Wales, enabling us to promote effective comparative competition between them.

We monitor company progress in delivering the outputs and efficiencies we expected from them. We compare their performance and set challenging goals. We encourage them to outperform our expectations.

We, together with the Environment Agency and the DWI, have developed many comparative tools covering nearly all aspects of the monopoly businesses. These tools range from simple comparative

measures (of compliance with quality requirements; of service; and of average bills) through consolidated indicators (such as our overall performance index) to complex statistical models.

All of the tools we use rely on good quality and comparable information from each company. We achieve such a high standard of information through our comprehensive information requirements, and through scrutiny by reporters and auditors.

We have well established reporting procedures. We collect a great deal of information annually from the companies:

- the principal statement,
- the annual charges scheme,
- the June return.

We continue to publish our analysis in our annual performance reports. We also release the data used for the analysis, thus enabling others to review, repeat and challenge both our analysis and findings.

We published our main five annual reports, so that customers, WaterVoice and other interested parties can see how the companies are performing. They include details of regulatory and enforcement action.

- 'Tariff structure and charges 2002-03' (May 2002).
- 'Financial performance and expenditure of the water companies in England and Wales 2001-02' (August 2002).
- 'Levels of service for the water industry in England and Wales 2001-02' (August 2002).
- 'Security of supply, leakage and the efficient use of water 2001-02' (October 2002).
- 'Water and sewerage service unit costs and relative efficiency 2001-02' (December 2002).

The June return

Every June, the companies tell us what they have achieved in terms of their regulated activities, service to customers, and expenditure and performance for the preceding year. We made public the non-confidential parts of the 2002 June returns in October 2002.

We consulted users about placing the June return CD-ROM on our website. They were generally supportive. In February 2003, we placed on our website the companies' board overview tables and associated commentaries from the public versions of the 2002 returns. We will seek feedback on the pilot from users and will consider extending it.

Monitoring operating and capital maintenance expenditure and efficiency <<

We have a powerful and balanced incentive regime. The purpose of incentives is: to

improve efficiency; to improve service; to encourage companies to stay in, or to join, the industry; and to engender asset stewardship.

This year we have worked with the companies to explain, improve and test the econometric models we currently use. We held workshops with them to consider how we can improve the models we use for water operating expenditure.

We also continue to work closely with our colleagues in Scotland and Northern Ireland. We are helping Water Service Northern Ireland improve its understanding of its costs and levels of service. Further afield we have again carried out and published detailed comparative analysis of performance data from Australia and other countries.

We continue to give companies the incentive to improve their efficiency in planning and procuring capital maintenance work. We combine standard unit costs (cost base) and econometric analysis to compare the relative efficiency of companies. We use this analysis to set challenging efficiency targets, based on what the better performing companies achieve. This year, we consulted with companies and provided detailed feedback on the standard unit costs³⁴. We held a workshop to review the variables driving our capital maintenance econometric analysis.

We continue to receive many visitors from around the world with an interest in regulation. We are also often invited to share our experience with others. This year this included a contribution to the World Bank water supply programme in Brazil and visits to Romania and Sweden.

Reporters and auditors <<

The accuracy and reliability of all the information from the companies is carefully scrutinised by independent professionals called reporters. They give us confidence in the consistency and reliability of the information.

³⁴ RD 04/03, 10 February 2003.

The reporters' work this year included three key areas.

Performance monitoring information

- 2002 June returns,
- sewerage service econometric information submissions,
- 2003-04 principal statement of charges schemes,
- economic levels of leakage reports – six companies.

Regulatory information on company-specific actions

- Thames Water's progress against its leakage action plan,
- Southern Water's programme of work to meet the Urban Waste Water Treatment Directive.

Information in preparation for the periodic review

- capital maintenance econometric returns,
- capital maintenance methodology statements.

Reporters also commented on information supporting interim determination applications.

We consulted companies, current reporters and other interested parties about our proposed revision of the reporter protocol. We issued the revised protocol in March 2003. It sets out our assessment criteria for future appointments and sets a maximum duration for a reporter's tenure with a company.

We approved the appointment of one reporter and the contract extensions of three others.

We held a reporters and auditors joint workshop in December 2002. Reporters also attended the technical workshops we held in preparation for the periodic review.

We assessed the reporters' performance in 2002 and shared our findings with the water companies.

We made our annual awards to the top performing reporters: Ben Haywood Smith of Strategic Management Consultants (Yorkshire Water) and Ian Cartwright Taylor of W S Atkins (Bristol Water).

Monitoring environmental and drinking water quality <<

We have continued to work with the DWI and the Environment Agency to review and report on company performance in meeting environmental and drinking water quality standards. Last October companies were half way through the five-year £7.4 billion (May 1999 prices) programme to deliver improvements, included in price limits for 2000-05. We reported on progress in August 2002³⁵.

Along with the Agency, we met all 10 water and sewerage companies in the autumn to discuss their progress in delivering the National Environment Programme by the end of 2004-05. We continued to work with DEFRA, the Agency and companies to incorporate changes to the Programme into the monitoring regime.

We attended the two meetings of the Wessex low flow alleviation steering group. Wessex Water published the first annual report on monitoring this scheme as set down in the joint Wessex/Environment Agency/English Nature/Ofwat statement of intent in February 2003.

The Water Framework Directive

This Directive could have wide-ranging implications for all water users. We have responded to a second DEFRA consultation on this, and we gave evidence to the Environment, Food and Rural Affairs Committee of the House of Commons.

³⁵ 'Financial performance and expenditure of the water companies in England and Wales 2001-02', August 2002.

Control of odour at sewage treatment works

We have responded to the consultation from DEFRA on the statutory control of odour and other nuisance from sewage treatment works³⁶. We recommended a code of practice for the industry as an effective way to deal with these unpleasant smells. We have offered to help draft the code.

Maintaining security of supply <<

The ability to maintain water supplies is essential. This year we developed a new way to monitor companies' ability to supply customers in dry weather³⁷. This measure allows us to compare companies' performance in this key aspect of service.

Monitoring leakage and efficient use of water <<

Leakage

Leakage targets set over the last five years have brought most companies to a point where the costs of repairing leaks balances the value of the water lost. Leakage levels in the future will move in response to the need for more water or to changes in leakage control costs, including those associated with the natural and built environment.

We remain concerned about leakage at Thames Water. We have worked with DEFRA and the Environment Agency to ensure that leakage is brought under control and reduced to economic levels as quickly as possible. We set mandatory leakage targets for the Thames Water area outside London in December 2002 and for the London area in March 2003. These targets are part of an action plan that will help bring Thames' performance into line with the rest of the industry by 2006-07³⁸.

We joined with DEFRA and the Environment Agency to commission a study on leakage

target-setting and best practice. We have published the final report on our website³⁹. We will use the findings to improve the way we set and monitor targets.

We have continued to approve companies' codes of practice on leakage.

Efficient use of water

We continue to support work on promoting the efficient use of water by customers. We support the Construction Industry Research and Information Association's project on key performance indicators and benchmarking for water use in buildings.

We have worked with WaterVoice to gain a more customer-focused view of companies' efforts in this area. We are again sponsoring the economic research category in the Environment Agency's 2003 Water Efficiency Awards. The Award is for new research to improve understanding of the economics of household water efficiency initiatives.

Ensuring serviceability to customers <<

Since the last price review, we have jointly developed new serviceability indicators in association with the Environment Agency and the DWI. We consulted with the industry on these new indicators last year⁴⁰ and adopted them in our June return reporting requirements for this year⁴¹.

We published our initial serviceability assessment of company performance in August⁴² and confirmed our final assessment⁴³. We wrote to the 10 companies whose serviceability was less than stable, with our expectations for their recovery. Action plans are in place for the two companies showing a deteriorating serviceability. We will review these serviceability assessments in the light of performance shown in the 2003 June return.

³⁶ Ofwat response to DEFRA consultation on proposals for the statutory control of odour and other nuisance from sewage treatment works', March 2003.

³⁷ 'Security of supply, leakage and the efficient use of water 2001-02', October 2002.

³⁸ Appendix 4, 'Security of supply, leakage and the efficient use of water 2001-02', October 2002.

³⁹ 'Future approaches to leakage target setting for water companies in England and Wales'. Revised edition, April 2003.

⁴⁰ RD 19/01, 8 November 2001.

⁴¹ RD 15/02, 8 May 2002.

⁴² 'Financial performance and expenditure of the water companies in England and Wales 2001-02', August 2002.

⁴³ RD 35/02, 24 December 2002.

Companies' finance and mergers



The Water Industry Act 1991 requires the Director General to act in a way that he judges will enable efficient companies to carry out their functions properly and finance them, in particular by securing that they are able to earn reasonable returns on the capital they employ given the risks they face.

We held two City briefings during the year to explain our approach to regulating the water companies and to inform them about developments in the industry. As well as publishing the financial model (see Chapter 1), to increase the transparency of our decisions we published future regulatory capital values (RCVs) in March 2003⁴⁴. At the request of the City we will do this each year.

Financial restructuring <<

Since the 1999 review there has been a substantial increase in the level of gearing (ie increased level of debt in companies' balance sheets) in the water sector.

We believe that it is for the companies to manage their own capital structures. We welcome innovation directed at improving

efficiency and effectiveness. Higher ratios of debt to equity may temporarily reduce the cost of finance – an important aim in an incentive-based regime. But it could reduce the financial flexibility of companies in the future⁴⁵. We must ensure that customers are protected from undue risk. Any increase in financial risk is a matter for shareholders and lenders, not customers.

Where companies propose to outsource the majority of their operations, we are concerned to ensure that they do not compromise safety and quality.

Refinancing activity

Anglian Water Group announced in 2001 that it had decided to pursue a capital restructuring of its regulated subsidiary, Anglian Water Services Ltd. In February 2002, we consulted on the proposal to increase the level of gearing. In April 2002⁴⁶, we issued a position paper stating that the company should be allowed to proceed provided customers are protected from additional risk. In July 2002, we modified the licence of Anglian Water Services Ltd accordingly.

In August 2002, Dee Valley Water plc

⁴⁴ RD 08/03, 18 March 2003.

⁴⁵ 'The capital structure of water companies', Oxera report to Ofwat, October 2002.

⁴⁶ 'Proposals for the modification of the conditions of appointment of Anglian Water Services Ltd: a position paper by Ofwat', April 2002.

announced that it had increased its gearing. In March 2003 we consulted on modifications to the company's licence that might be appropriate to protect its customers from any potential additional risk.

Mergers

<<

We have long argued that the loss of independent companies through mergers permanently harms the whole comparative regime.

We do not and cannot block mergers. We recognise that mergers and changes in ownership can be a powerful stimulus for improved performance, particularly in poorly performing companies.

Any merger benefits need to be assessed against the detriment to the industry as a whole, not simply in relation to the customers who are directly involved. A merger could bring benefits that outweigh losing a comparator. Innovative and highly efficient management could benefit all consumers in the long run if the overall efficiency of the industry is thereby improved.

We are less convinced by arguments for mergers in terms of economies of scale; such economies – if they existed – would be clear in our statistical analysis, given the current wide range of company size. We are looking closely into this issue. We must ensure that customers' interests are protected. We look for remedies sufficient to outweigh the permanent harm of a merger to the comparative regime. If no sufficient remedies can be found, a proposed merger should not go ahead.

Our stance on challenging and testing merger proposals has been endorsed recently by the Competition Commission and Ministers.

Any decision on a merger between UK water companies remains with the Competition Commission, not Ofwat.

In the event of a proposed merger between water companies, we will:

- look with an open mind at individual propositions; and
- submit evidence to the Commission, including an assessment of the impact of the merger on the comparative regime and any benefits it may bring.

If other mergers lead to a change of ownership for a water company, we will publicly consult before advising the Director General of Fair Trading (DGFT) on issues arising.

Change of ownership for Portsmouth Water plc

On 14 March 2002, the Royal Bank of Scotland announced that its subsidiary, Drummond Capital, had reached agreement for the sale to Abbey National of its equity interest in South Downs, the ultimate holding company of Portsmouth Water plc.

We consulted in March 2002 and advised the DGFT in April 2002 on Abbey National as fit and proper owners of a water company and on licence modifications to protect customers. Modifications were made to the licence of Portsmouth Water in July 2002.

Change of ownership for Wessex Water Services Ltd

On 25 March 2002, YTL Power International (YTLPI) announced that it had made a recommended cash offer to acquire the entire issued share capital of Wessex Water Ltd, the owner of Wessex Water Services Ltd.

We consulted in April 2002 and advised the DGFT in May 2002 on YTLPI as fit and proper owners of a water company. Appropriate modifications to protect customers were made to the licence of Wessex Water Ltd in September 2002.

Changes of ownership for Southern Water plc

On 8 March 2002, First Aqua Holdings Ltd announced that it had agreed to acquire Southern Water plc. We consulted and advised the DGFT in April 2002 on First Aqua as fit and proper owners of a water company and on appropriate licence modifications. We modified Southern Water's licence in August 2002.

In May 2002 Vivendi Water UK proposed to acquire a controlling stake in First Aqua. Because Vivendi has existing water interests in England, this merger was referred to the Competition Commission in May 2002 (under section 32 of the Water Industry Act 1991).

We gave evidence to the Commission during the period of the reference and, following the Commission's report, to the DGFT in October 2002. The DGFT advised the Competition Minister on remedies in November 2002, taking into account the views of the Commission and Ofwat.

The Minister agreed with the Commission that the proposed merger was against the public interest but asked us to work with the Office of Fair Trading (OFT) to advise further on alternative remedies. Ofwat and OFT provided further advice in February 2003.

The Minister concluded that the recommendations made by Ofwat and OFT were a fair and appropriate way forward in this case. The proposed remedies took full account of Vivendi's decision, announced in February 2003, that it wished to obtain a minority holding, rather than a controlling interest, in Southern Water. The Minister concluded that the recommendations allow Vivendi to hold an interest in Southern Water, whilst ensuring that the regulatory regime will continue to operate to the benefit of consumers throughout England and Wales.

When it comes into force the Enterprise Act will make some technical changes to the merger regime but will maintain the safeguard that all qualifying mergers between two or more water companies must be referred to the Competition Commission⁴⁷.

Corporate governance <<

Where water companies are part of larger groups, we need to ensure that the aims and focus of the appointed business are not compromised by wider group considerations.

We have introduced a suite of licence conditions to ensure that good governance and management principles are applied.

We have implemented a number of licence amendments at Anglian Water this year as it has proposed to outsource a significant proportion of its operations to independent contractors. This is similar to the approach we took with Dŵr Cymru. These amendments ensure that the management of the appointed business retains control and remains accountable for the discharge of its functions.

Keeping costs transparent <<

Maintaining transparency of water companies' costs ensures that the financial ring-fence around the Appointee is effective and protects water customers from inflated bills. All costs declared by the companies must be incurred in the proper performance of delivering water and sewerage services.

Transfer pricing

Water companies are required to prevent cross-subsidy by keeping their regulated and unregulated businesses separate and by trading at arm's length from associates. We monitor the companies to ensure that cross-subsidy does not take place.

This year we visited five companies – Anglian Water, Severn Trent Water, United Utilities Water, South Staffordshire Water and Three Valleys Water – to verify that transactions with associates were conducted at arm's length in accordance with our guidance on transfer pricing (RAG 5.03). The companies are working to address issues that were identified during the visits.

⁴⁷ A mandatory reference shall only be made if the relevant turnover of the water enterprise being taken over exceeds £10m; and the relevant turnover of one or more of the water enterprises belonging to the acquirer exceeds £10m.

Some water and sewerage companies are part of multi-utility groups. Greater synergy and efficiency savings should deliver benefits to customers. Integration between water and electricity businesses should not compromise the ability of each utility to discharge its functions.

We work closely with other regulators (principally Ofgem) to ensure that costs to water customers can be separately identified from other utility costs.

Regulatory accounts <<

We require companies to publish annual regulatory accounts in accordance with our Regulatory Accounting Guidelines (RAGs) 1 to 4. In 2001, we began a review of the RAGs to make the accounts more transparent and useful. Our main proposals were:

- including the RCV in the accounts for the first time;
- requiring companies to provide more commentary and explanation of trends; and
- requiring companies to provide more information about how they incur costs in different parts of their business.

We summarised the responses to the consultation in July 2002⁴⁸. We decided to implement the first two proposals, and to work with the industry and others on the third. We issued revised RAGs in January 2003⁴⁹.

⁴⁸ RD 21/02, 31 July 2002.

⁴⁹ RD 02/03, 22 January 2003.

⁵⁰ MD 174, 20 December 2001.

⁵¹ MD 181, 3 October 2002.

⁵² MD182, 15 October 2002.

Licences <<

In December 2001 we wrote to the companies⁵⁰ about whether it would be appropriate to try to achieve greater consistency between individual company licences. In general, companies were not persuaded. Other respondents were more supportive. To implement the changes without a referral to the Competition Commission, the consent of companies is required. In the light of the responses we announced that we did not propose to seek to implement the proposed changes at that time⁵¹.

Termination period for licences

In July 2002, we consulted on proposals to reduce regulatory uncertainty in the industry by increasing the minimum ten-year notice period for terminating a company licence to 25 years. We considered that the change would contribute towards a more stable regulatory environment and ensure that companies are able to continue to access the capital markets on reasonable terms. The modification took effect in October⁵².

Price competition



PRICE COMPETITION

During the year we have worked with the Government as expert advisors on the future of price competition. This is being taken forward in the Water Bill (see Chapter 6).

Enterprise Act 2002 <<

The Enterprise Bill was enacted in November 2002. It reforms competition law and consumer law enforcement in the UK. We expect most provisions to come into force in 2003.

The Act will give us new concurrent powers with OFT to refer market investigations to the Competition Commission. We will also have the power to apply to the courts for orders disqualifying directors of companies that have committed a breach of competition law.

New licensing regime <<

The Government consulted in July 2002 on opportunities to extend competition. We published our response, welcoming the consultation and the intention to introduce water-specific legislation on competition⁵³.

Proposals in the published Water Bill for a new licensing regime will allow competitors to access an undertaker's distribution network to supply water to eligible customers, and to resell to eligible customers water that it has purchased wholesale from the undertaker.

Eligible customers are to be initially defined as non-households whose consumption is likely to be not less than 50 Ml/year at each relevant premises. There are approximately 2,000 eligible customers in England and Wales.

Common carriage <<

Common carriage and access pricing will be important in the new water supply licensing regime.

In March we published guidance on access codes for common carriage⁵⁴. This outlined what companies should include in the access codes governing the shared use of networks by other suppliers (called common carriage). Companies produced revised access codes in July 2002.

⁵³ 'Ofwat's response to DEFRA competition consultation paper', September 2002.

⁵⁴ 'Access codes for common carriage: guidance', March 2002.

In May 2002, companies published their indicative access prices. These prices indicate how much suppliers would have to pay for common carriage. Publishing them helps competitors to judge the viability of their proposals and avoids unnecessary delays.

Competition Act 1998 <<

We receive complaints under the Competition Act 1998 alleging anti-competitive behaviour and abuses by companies of dominant positions in markets. We received 13 complaints this year.

When we receive a complaint, we decide whether we have powers to consider it under the Competition Act or the Water Industry Act 1991 and, if necessary, which powers are most appropriate.

In April 2003 we published information about the complaints that we have handled this year, and policy developments⁵⁵.

Insets <<

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

We continue to work with potential applicants by advising and guiding them on the application process. The inset mechanism will continue in the new competition regime, and we are considering how to make the application process easier to use.

⁵⁵ 'Complaints considered under the Competition Act 1998', April 2003.

⁵⁶ 'Competition in providing new water mains and service pipes', March 2002.

Self-lay <<

Self-lay is where developers, or their contractors, install new water mains and service pipes instead of asking the water companies to do the work.

In March 2002, we published guidance setting out the principles that we believe should underlie companies' self-lay policies and procedures⁵⁶. Companies resubmitted their self-lay policies in July 2002 and we commented on them in March 2003.

The guidance has reduced the number of complaints we receive about self-lay. Since April 2002 we have received only one complaint, compared with 25 complaints over the previous two years.

We set up a self-lay group in May 2002. The group aims to progress policy on self-lay, including developing national levels of service and a national register of self-lay organisations.

The Water Bill proposes a statutory framework for self-lay and we will develop our policy to take account of this.

The Water Bill



WATER BILL

The Water Bill was included in the Queen's Speech in November 2002 and had its First Reading in the House of Lords in February 2003. We worked closely with DEFRA on preparing the Bill and continue to do so as it progresses through Parliament.

The Water Bill introduces important changes including:

- a regulatory authority, with a Board structure, in place of a single regulator;
- water-specific legislation for competition (see also Chapter 5);
- tougher penalties for companies that breach their licence conditions;
- an independent Consumer Council for Water;
- changes to abstraction licensing.

In April 2002 the water watchdog adopted a new name, 'WaterVoice'. We welcome this change to ensure better recognition of their role and separate voice. This paves the way for the proposed Consumer Council for Water.

The Bill introduces a regulatory authority in place of a single regulator. Our duties will change.

- The Bill creates a new 'consumer objective' for water. The Director will take on a new key duty to protect consumers' interests, including promoting effective competition.
- We will formally be required to consider the interests of people who are: disabled or sick; of pensionable age; on low incomes; living in rural areas; and customers whose premises are ineligible for supply by a licensed water supplier.
- In carrying out our duties, we must also consider consumers of other utilities who may be affected by our actions.
- We will also have a duty to contribute to achieving sustainable development.

We welcome the Bill in helping to provide clarity about the future. We support the creation of a Board structure. In many respects we are already moving in the direction proposed by Government.

- The new Ofwat Board includes four non-executive advisory directors, as well as executive directors.
- WaterVoice speaks independently of the regulator.
- We publish annual reports and consult on our forward programme each year.
- In March 2003 we consulted on a draft code of practice about how we discharge our functions⁵⁷.
- We have signed, or are developing, memoranda of understanding setting out our respective roles and working relations with WaterVoice (January 2002), the Health and Safety Executive (February 2003), the DWI, and the Environment Agency.

⁵⁷ 'A code of practice governing the discharge of Ofwat's functions', March 2003.

Communications



COMMUNICATIONS

External stakeholder survey <<

As part of our commitment to openness and transparency we commissioned an independent stakeholder survey in January 2003. It involved interviews with a representative sample of stakeholders. The interviews covered: decision making, consultation, transparency, consistency, communication, resources, planning, accountability, value for money and overall effectiveness.

The report is good news. Ofwat is seen as an effective regulator, a credible and professional organisation, and an authoritative voice on regulatory issues.

We are also seen as improving in the way we work with others. Our consultations are getting better, and we are making more use of informal workshops and meetings. We are seen as consistent and predictable in our approach. There are strong points in our communications, notably in our documents and the new website. We are seen as accountable and objective.

We have studied the feedback and identified where we can improve.

- We need to improve the transparency of our decision taking.
- We should be more outgoing, willing to engage with stakeholders, prepared to value their views and to show some flexibility.

Since the survey was carried out, we have improved transparency by publishing our methodology paper for the 2004 price review with a full response to the consultation, showing where and why we have changed our minds or confirmed our first view. We have also issued our updated financial model, Aquarius. The full stakeholder survey report is published on our website.

We welcome this independent report and accept its findings, which we shall pursue. We shall repeat the exercise, probably in 2005-06.

In all our work, and in particular in the price review, we aim to adopt efficient and transparent processes. Our new website

helps us to deliver that commitment. We also spoke at or attended some 150 conferences and workshops – and held 19 ourselves. Our forward programme workshop at Warwick University was attended by over 70 delegates this year.

Our website



We are developing our website as our main communication tool. In November, Ofwat and WaterVoice launched redesigned sites, providing easy access to information. We aim to put our documents on the web on publication day. The new sites' functions include a search engine and online forms.

Customer charter



Table 1: Performance against our standards¹

	Performance standards	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.	Achieved
Requests under the Environment Information Regulations	We will reply within 40 working days.	No requests
Complaints handled by the Director and disputes and appeals ²	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 us 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 Not achieved ⁵

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 very complicated so they are not covered by our standard complaint procedures.

³ 67% of complaints within the Director's jurisdiction were settled within 90 days.

⁴ Cases we consider under the internal review procedure are sometimes long and complicated and involve a number of different parties. Only 15% of cases this year were completed within 20 working days.

⁵ We dealt with 68% of complaints within 40 working days.

Users can also be alerted to new items posted on the website.

This year we placed a lot of information on the website for the first time:

- a 'what's new' section,
- datasets from the June return,
- the special agreements register,
- a 2004 periodic review section,
- responses to consultations.

Each year our website gets more popular.

Year	1999-00	2000-01	2001-02	2002-03
Number of hits	79,000	83,800	109,685	276,000

Publications <<

We continue to offer hard copies of our reports free of charge. We sometimes make a small charge for reports that are produced by others on our behalf.

We have reviewed the style of our publications to take account of the guidelines in 'Let's make it accessible: Improving government information for disabled people'.

We also, as a trial, produced our five main annual reports and the Ofwat annual report in black and white, rather than colour. Readers' responses indicated that the change did not reduce their understanding. We will continue to produce reports in black and white, which helps us keep costs down.

Working with Government <<

In May, the Director appeared before the Public Accounts Committee with Ofgem and Oftel, following publication of the National Audit Office's 'Pipes and wires' report. We also gave written and oral evidence on the Water Framework Directive to the Environment, Food and Rural Affairs Committee.

The Constitution Committee of the House of Lords is conducting an inquiry into the accountability of regulators to citizens and Parliament, and our written evidence is on our website.

We continue to contribute as necessary to answers to parliamentary questions. We deal directly with letters from MPs, Assembly Members and Lords and meet with them as required.

Library and information systems <<

The library acts as the public enquiry unit and as our publication sales and distribution point. This year we answered 11,570 telephone enquiries and issued 5,885 publications. We also answered 1,001 written enquiries (981 by e-mail).

We answered the one request received for information under the Open Government Code of Practice on Access of Government Information.

Freedom of Information Act 2000

Following approval from the Information Commissioner, Ofwat and WaterVoice published their Freedom of Information Act 2000 publication scheme in December 2002. Although the Information Commissioner has approved our scheme for a period of four years, we plan to review our scheme in November each year. We are preparing for January 2005 when members of the public will be able to ask us to provide any information we keep that is not exempt.

The library houses and maintains the Director's Register. This 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.

We also continued to update the Information Asset Register. This is a list of the Government's information sources and contains records of mainly unpublished information.

Visit our website at www.ofwat.gov.uk
You can contact our public enquiry unit via e-mail at enquiries@ofwat.gsi.gov.uk

Resources



We manage our resources prudently, working to deliver increasing outputs effectively.

Ofwat's structure <<

The Ofwat Board was set up in March 2002 (see Appendix 8). The Board ensures that our strategic decisions are:

- subject to prior high level internal but objective critical review,
- well informed and innovative,
- expected to deliver effective outcomes for customers and the industry.

The Board has met ten times this year. The non-executive advisory directors (NEADs) have attended as follows: John Baker 8, Martin Cave 9, Jane May 8 and Roger Munson 7⁵⁸.

The NEADs bring a new, independent outlook and challenge to our work. They take part in the Remuneration and Audit Committees.

We strengthened our organisation this year with the formation of a Corporate Finance Team, responsible for mergers, financial structures and equity/debt financing policy.

We welcomed the launch of WaterVoice in April 2002, strengthening the independent voice of the consumer. Over the year, we have provided additional resources to support the work of WaterVoice during the current price review.

Ofwat staff, recruitment and development <<

Ofwat recruits on merit through fair and open competition. This ensures opportunity for employment, regardless of race, sex, physical disability or marital status.

In order to strengthen our work on the price review and the Water Bill, we recruited 20 additional staff.

Our recruitment policy and practices are subject to external audit by the Civil Service Commissioners (to ensure that Ofwat complies with the guidance set out in its Recruitment Code), and to internal audit by a senior manager (to ensure that Ofwat's recruitment policy is being properly followed).

We undertook 62 separate recruitments. The results are summarised in Table 2.

⁵⁸Roger Munson did not join the Board until July 2002.

Table 2: Staff appointed this year

Level	Number appointed	Proportion of women (%)	Proportion from ethnic minorities (%)
Head of team/function	1	0	0
Middle management	23	52	3
Clerical and secretarial	31	87	16
TOTAL	55	70	10

Everyone was recruited through open competition, except two, who were short-term contract appointments.

No disabled candidates were recruited during this period.

Ofwat has a total staff of 233 (full-time equivalent, as at 31 March 2003) of whom:

- 61% are women;
- 15% are from ethnic minority groups;
- 7 are members of the Senior Civil Service (6 men and 1 woman);
- 5% are employed on fixed term and casual contracts;
- 10% work part-time;
- 20% work in WaterVoice offices.

Staff turnover is currently running at 11% and has fallen by 4% in the last year.

As part of our commitment to modernising government:

- we set up a staff diversity group;
- plans are in place to advertise vacancies on the Civil Service Internal Vacancies website;
- we extended our homeworking scheme.

We continue to invest in training and development. All staff completed diversity training this year. The Ofwat graduate training scheme, now entering its fifth year, continues to attract high calibre trainees. During the year we took preliminary steps towards our Investors in People re-accreditation in July 2003.

Senior management

Michael Saunders, Director of Consumer Affairs Division, retires in May 2003. He was awarded a CBE in the 2002 New Year's Honours for his services to Ofwat and the water industry. He is replaced by Tony Smith as Director of Competition and Consumer Affairs. This new title emphasises the growing importance of developing competition arising from the Water Bill.

Huw Brooker became Head of Legal Services from April 2003. He replaces Allan Merry who will retire later in the year.

We wish Mike Saunders and Allan Merry a successful retirement and thank them for their contribution over the past 13 years.

Remuneration and non-pay benefits

The salary of the Director is £133,368.

Salaries for members of the Senior Civil Service (as at 31 March 2003)

85,000 – 89,999	2
80,000 – 84,999	1
70,000 – 74,999	2
60,000 – 64,999	1
55,000 – 59,999	1

During the year, we increased paid maternity leave and annual leave allowance.

WaterVoice recruitment and development < <

Appointing WaterVoice chairmen and members

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.

One of the Code's key principles is that there should be independent scrutiny of the appointment process. This was introduced for WaterVoice chairmen's appointments in 2000, and this year the independent assessment was extended to selection panels for the appointment of WaterVoice committee members.

WaterVoice chairmen

Following an open competition, Sir James Perowne was appointed as Chairman of WaterVoice Central on 1 August 2002. He succeeded Roger Taylor who resigned because his business commitments increased.

WaterVoice members

Membership of the ten WaterVoice committees is reviewed annually. Of the 33 members whose appointments expired in April 2003, 22 were re-appointed. Three members declined re-appointment and eight members retired.

At 31 March 2003, the total membership was 139. There were 53 (38%) women and 12 (8.6%) from ethnic minority groups. This compares with the national averages for public bodies appointments for 2001-02 (the most recent data available) of 34% women and 6.2% ethnic minorities⁵⁹.

All vacancies are advertised in local newspapers and on the Ofwat website.

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

Names and biographical details of chairmen and members are published in the WaterVoice annual report and are on the WaterVoice website.

Code of Practice

WaterVoice committees, in common with other non-departmental public bodies, are subject to a government requirement to operate under a Code of Practice for

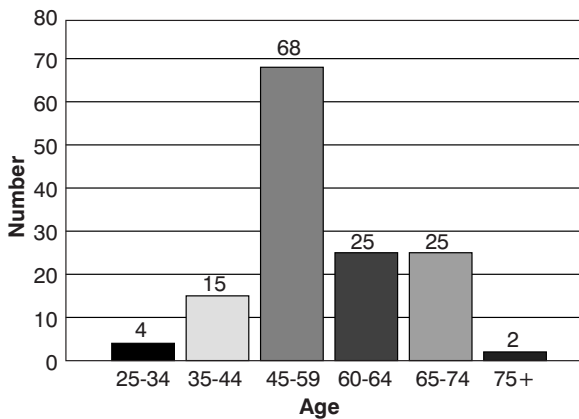
Table 3: WaterVoice chairmen as at 31 March 2003

Committee	Chairman	First appointed	Current appointment started	Appointment ends	Monthly Remuneration commitment (days)	Remuneration £
Central	Roger Taylor	26.2.01	26.2.01	31.7.02	8	20,079
	James Perowne	01.8.02	01.8.02	31.5.05	8	20,079
Eastern	Catherine Harvey	1.4.01	1.4.01	31.3.05	8	20,079
North West	Maurice Terry	26.2.97	26.2.01	25.2.05	12*	30,118
Northumbria	Andrea Cook	1.4.01	1.4.01	31.3.05	8	20,079
Southern	Richard Sturt	1.10.01	1.10.01	31.3.05	8	20,079
South West	Noel Olsen	1.4.01	1.4.01	31.3.05	8	20,079
Thames	Herman Scopes	19.4.97	1.4.01	31.3.05	8	20,079
Wales	John Ford	26.2.01	26.2.01	25.2.05	8	20,079
Wessex	Sheila Reiter	1.8.95	1.4.01	31.3.05	8	20,079
Yorkshire	Mohammed Ajeeb	26.2.01	26.2.01	25.2.05	8	20,079

* Includes four days a month as WaterVoice Council Chairman.

⁵⁹ 'Public Bodies 2002', Cabinet Office, January 2003.

Figure 2: Age profile of WaterVoice chairmen and members



members. The provisions of the Cabinet Office's Model Code are mostly covered already in WaterVoice members' appointment letters and in the members' handbook. To bring WaterVoice committees fully into line with best practice, we introduced a Code of Practice for WaterVoice members in January 2003.

Training

New WaterVoice committee members may attend the following training courses:

- Background to the water industry,
- Understanding water company accounts and the K factor, and
- Stronger voice.

This year, as a pilot, WaterVoice Eastern members attended an ACAS mediation training day aimed at helping to resolve customer complaints.

WaterVoice members give their time voluntarily. We were delighted that Nerys Biddulph – a member of WaterVoice Wales (DyfrLais Cymru) since 1993 – was honoured with an MBE in the Queen's New Year Honours. Since the committees were established, 11 members have been awarded MBEs for services to water customers.

Information and technology systems <<

E-communications is an increasingly important and efficient means of communicating. We are currently implementing a facility to transmit documents to and from companies securely. We have implemented a new document management system which will reduce the cost of storage and improve internal communications.

Office services <<

We seek to ensure that our staff work in a reasonable environment which complies with current health and safety requirements. This year we have introduced new office layouts at HQ, and ensured that contingency and security arrangements are up-to-date and tested.

Income and expenditure <<

We recovered licence fees from the companies of £11.9 million, with the balance met from the deferred income from previous years. Since 1998-99 fees recovered have been in the range of £10.9 million to £11.9 million. We continue to operate within the licence fee limits as set out in Condition N of company's licences. Our annual expenditure is agreed by HM Treasury and subject to scrutiny by Parliament.

Our financial controls are reviewed regularly by our internal audit committee and by our external auditors, the National Audit Office.

Internal audit committee

The Ofwat audit committee reviews our financial management arrangements and financial reports. It meets three times a year.

Members of the committee are John Baker (Chairman and NEAD) and Roger Munson (NEAD).

Publishing our financial statements and external audit

We produced our resource accounts for 2001-02 (as required by HM Treasury and the National Audit Office) in accordance

with the required timetable. They received an unqualified audit certificate and were published by the Stationery Office in October 2002 (HC1182).

Table 4: Estimated income and expenditure 2002-03

	£000s	£000s
Income:		
Licence fees unused from previous year	1,000	
Licence fees recovered	11,900	
Total income		12,900
Expenditure:		
Permanent staff	7,141	
Agency and secondees	213	
Personnel overheads (eg travel and subsistence, training)	931	
Consultancy projects	536	
Accommodation	1,553	
Non-cash costs (eg depreciation)	149	
Other (eg publications, computer services, stationery)	1,001	
Total expenditure		11,524
Licence fees carried forward		1,376

Licence fees exceed our expenditure, accounted for on an accruals and prepayments basis, so as to meet our cash requirements. Our audited accounts for

2002-03 will be published in October 2003. Our income and expenditure since 1999-2000 is summarised in Appendix 6.

Table 5: Summary of income and expenditure 1999-2002

	1999-2000 £000s	2000-01 £000s	2001-02 £000s
Income:			
Licence fees	11,900	10,915	11,900 ⁶⁰
Expenditure:			
Staff costs	5,981	5,897	6,407
Other administration	4,724	5,021	4,425
Total	10,705	10,918	10,832

Any underspends are offset against future licence fees.

During the year we invested £1.3 million in capital projects, including Aquarius 3, the

new website and computers. A business case must be approved for all investment. Full investment appraisals are completed for major projects.

⁶⁰ Parliamentary Vote refers to funds voted under the Government Accounting arrangements. This includes a £1,000 token vote.

Table 6: Estimated administration costs – outturn for 2001-02 and 2002-03 (by activity group)

	2001-02 £000s	2002-03 £000s
Regulatory action	5,005	5,616
External relations and legal services	1,188	1,127
Finance, human resources, office services and operations	1,482	1,416
WaterVoice and consumer representation	2,649	2,834
IT services and information management	508	531
Total	10,832	11,524

Table 7: Consultancy and professional services expenditure summary 2002-03 (company contracts costing more than £50,000, excluding VAT)

Project	Supplier
Financial model (Aquarius 3) development	Cap Gemini, Ernst & Young
Financial model (Aquarius 3) audit	RSM Robson Rhodes
Website redesign	IBM
Optional capital structures	Oxera Ltd

Risk management and RIAs

We contributed to a government-wide review of risk management, and have further developed our own procedures. Regulatory impact assessments (RIAs) are policy tools to assess the impact in terms of costs, benefits and risks of any proposed regulatory actions which affect our stakeholders. This year we published our approach to RIAs⁶¹.

Resource allocation

Our expenditure is apportioned to the outputs planned in our annual forward programme. During the year we needed to finance unplanned work including merger activity and interim determinations. A summary of resource allocation against our main outputs is set out below. Figures include an apportionment of head office overheads.

Table 8: Resource allocation against main outputs 2002-03

Price setting	27%
Safeguarding quality and protecting customers	25%
Comparative competition and company finance	11%
Competition	9%
WaterVoice	28%

Steps taken to improve our ability to respond quickly include flexible redeployment, project management and entering into framework agreements with a

number of companies in the areas of corporate finance, economics and engineering.

⁶¹ 'How we use regulatory impact assessments', July 2002.

Appendices



Appendix 1: Ofwat's milestones 2002-03

This table sets out our progress against the key milestones detailed in our forward programme.

Price setting	Date achieved
Consult on long-term capital maintenance needs	October 2002
Consult on bulk supplies, competition and periodic review incentives	March 2003
Consult on logging up process	June 2002
Update guidance on interim determinations	May 2002
Issue the spreadsheet used for interim determinations	August 2002
Workshops on the Aquarius 3 financial model	December 2002
Release of Aquarius 3 financial model	November 2002
Consult on Ofwat's approach to the periodic review 2004 and draft business plan reporting requirements	October 2002
Publish conclusions to consultation on sewer flooding	September 2002
Consultation on cost base information requirements	October 2002
Market research stage 1 – report published	November 2002
Publish decisions on Ofwat's approach to the periodic review 2004	March 2003
Issue information reporting requirements for the draft business plan	March 2003
Safeguarding quality and protecting customers	
Publish 'Tariff structures and charges'	May 2002
Hold complaints workshops	May and October 2002
Publish 'Levels of service for the water industry in England and Wales'	August 2002
Publish companies' leakage performance	July 2002
Publish 'Security of supply, leakage and the efficient use of water'	October 2002
Publish the 2002 June return	October 2002
Approve charges schemes	February 2003
Publish the results of our review of services to customers with special needs	April 2003

Comparative competition and companies' finance

Statutory consultation on any changes to companies' licences	As required
Publish 'Financial performance and expenditure of the water companies in England and Wales'	August 2002
Issue revised Regulatory Accounting Guidelines	January 2003
Issue updated reporter protocol	March 2003
Hold City briefings	March and November 2002
Publish report on international comparators	December 2002
Publish 'Water and sewerage service unit costs and relative efficiency'	December 2002
Assess reporters' performance	February 2003
Respond to financial restructuring proposals	As requested
Respond to merger proposals	As requested

Competition

Establish self-lay advisory group	February 2003
Publish first report on Competition Act 1998 casework	April 2002
Respond to Government's consultation paper on developing a new regime for competition	To government timetable
Respond to Competition Act 1998 queries	As required
Keep companies' revised access codes under review	As required
Keep companies' revised self-lay policies and procedures under review	As required
Progress development of the memorandum of understanding with the Environment Agency on abstraction licences	Ongoing

Proposed legislation

Respond to DEFRA on the Water Bill	To government timetable
Respond to the Department of Trade and Industry on the Enterprise Bill	To government timetable

Resources, staff and communications

Publish our annual report	May 2002
Publish results of publications' survey	May 2002
Develop Regulatory Impact Assessments	June 2002
Implement pay review	April to June 2002
Redesign our website	November 2002
Publish our annual accounts	October 2002
Complete diversity training	Completed by March 2003

WaterVoice Central

Customers of Severn Trent Water and South Staffordshire Water

First Floor, Chanelle House,
86 New Street, Birmingham
B2 4BA

Tel: 0121 644 5252
Fax: 0121 644 5256
Lo-call: 0845 702 3953
e-mail:
central@watervoice.org.uk

WaterVoice Eastern

Customers of Anglian Water, Cambridge Water, Essex & Suffolk Water, and Tendring Hundred Water

Carlyle House, Carlyle Road,
Cambridge CB4 3DN

Tel: 01223 323889
Fax: 01223 323930
Lo-call: 0845 795 9369
e-mail:
eastern@watervoice.org.uk

WaterVoice Northumbria

Customers of Northumbrian Water and Hartlepool Water

Eighth Floor, Northgate
House, St Augustines Way,
Darlington DL1 1XA

Tel: 01325 464222
Fax: 01325 369269
Lo-call: 0845 708 9367
e-mail:
northumbria@watervoice.org.uk

WaterVoice North West

Customers of United Utilities Water

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

Tel: 0161 236 6112
Fax: 0161 228 6117
Lo-call: 0845 705 6316
e-mail:
northwest@watervoice.org.uk

WaterVoice South West

Customers of South West Water

First Floor, Broadwalk House,
Southernhay West, Exeter
EX1 1TS

Tel: 01392 428028
Fax: 01392 428010
Lo-call: 0845 795 9059
e-mail:
southwest@watervoice.org.uk

WaterVoice Southern

Customers of Southern Water, Portsmouth Water, Mid Kent Water, Folkestone & Dover Water, South East Water

Fourth Floor (South), High
Holborn House, 52/54 High
Holborn, London WC1V 6RL

Tel: 020 7831 4790
Fax: 020 7831 7253
Lo-call: 0845 758 1658
e-mail:
southern@watervoice.org.uk

WaterVoice Thames

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
Fax: 020 7831 4850
Lo-call: 0845 758 1658
e-mail:
thames@watervoice.org.uk

WaterVoice Wales (DyfrLais Cymru)

Customers of Dee Valley Water and Dŵr Cymru Welsh Water

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

Tel: 029 2023 9852
Fax: 029 2023 9847
Lo-call: 0845 707 8267
e-mail:
wales@watervoice.org.uk

WaterVoice Wessex

Customers of Wessex Water, Bournemouth & West Hampshire Water, Bristol Water, Cholderton & District Water and Thames Water (at Tidworth)

2 The Hide Market, West
Street, St Phillips, Bristol
BS2 0BH

Tel: 0117 955 7001
Fax: 0117 955 7037
Lo-call: 0845 707 8268
e-mail:
wessex@watervoice.org.uk

WaterVoice Yorkshire

Customers of Yorkshire Water

Eighth Floor, Northgate
House, St Augustines Way,
Darlington DL1 1XA

Tel: 01325 469777
Fax: 01325 369269
Lo-call: 0845 708 9368
e-mail:
yorkshire@watervoice.org.uk

Water and sewerage companies	Auditors	Reporters
Anglian Water Services Ltd	Price Waterhouse Coopers	W S Atkins
Dŵr Cymru Cyfyngedig	Price Waterhouse Coopers	Halcrow Management Sciences
Northumbrian Water Ltd	Ernst & Young	Black & Veatch
Severn Trent Water Ltd	Price Waterhouse Coopers	Halcrow Management Sciences
Southern Water Services Ltd	Price Waterhouse Coopers	W S Atkins
South West Water Ltd	Price Waterhouse Coopers	W S Atkins
Thames Water Utilities Ltd	Price Waterhouse Coopers	W S Atkins
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	Price Waterhouse Coopers	Black & Veatch
Bristol Water plc	Price Waterhouse Coopers	W S Atkins
Cambridge Water plc	Deloitte & Touche	Black & Veatch
Dee Valley Water plc	Saffrey Champness	MWH UK Ltd
Cholderton & District Water Company Ltd	B Johnson Esq	*
Folkestone & Dover Water Services Ltd	RSM Robson Rhodes	MWH UK Ltd
Mid Kent Water plc	Deloitte & Touche	Monson Engineering Ltd
Portsmouth Water plc	Grant Thornton	Halliburton, Brown & Root Ltd
South East Water plc	Mazars Neville Russell	Strategic Management Consultants
South Staffordshire Water plc	Deloitte & Touche	Black & Veatch
Sutton & East Surrey Water plc	KPMG	Halliburton, Brown & Root Ltd
Tendring Hundred Water Services Ltd	RSM Robson Rhodes	MWH UK Ltd
Three Valleys Water plc	RSM Robson Rhodes	W S Atkins

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

Anglian Water Services Ltd

Anglian House
Ambury Road
Huntingdon
Cambridgeshire
PE18 6NZ

Telephone: 01480 323000
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: 0191 383 2222
www.nwl.co.uk

Severn Trent Water Ltd

2297 Coventry Road
Sheldon
Birmingham
B26 3PU

Telephone: 0121 722 4000
www.stwater.co.uk

Southern Water Services Ltd

Southern House
Yeoman Road
Worthing
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.south-west-water.co.uk

Thames Water Utilities Ltd

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Telephone: 0845 920 0888
www.thameswater.co.uk

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

Albion Water Ltd

Riverview House
Beavor Lane
Hammersmith
London W6 9AR

Telephone: 020 8748 0101
www.enviro-logic.com

**Bournemouth & West
Hampshire Water plc**

George Jessell House
Francis Avenue
Bournemouth 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

41 Rustat Road
Cambridge CB1 3QS

Telephone: 01223 403000
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
Clwyd
North Wales LL14 4EH

Telephone: 01978 846946

**Folkestone & Dover
Water Services Ltd**

Cherry Garden Lane
Folkestone
Kent CT19 4QB

Telephone: 01303 298800
www.fdws.co.uk

Mid Kent Water plc

High Street
Snodland
Kent ME6 5AH

Telephone: 0845 8506060
www.midkentwater.co.uk

Portsmouth Water plc

PO Box 8
West Street
Havant
Hants PO9 1LG

Telephone: 023 9249 9888
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 399200
www.thws.co.uk

Three Valleys Water plc

PO Box 48
Bishop's Rise
Hatfield
Herts AL10 9HL

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

	£000s					
	1999-00 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Estimated outturn	2003-04 Plans	2004-05 Plans
Gross administrative costs:						
Staff	5,981	5,897	6,407	7,354	-	-
Other	4,724	5,021	4,425	4,170	-	-
Total gross administration costs	10,705	10,918	10,832	11,524	12,601	14,001
Related administrative receipts from licence fees and other minor receipts	(10,750)	(11,554)	(11,563)	(11,524)	-	-
Total net administration costs	(45)	(636)	(731)	(0)	-	-
Departmental expenditure limit (DEL)	(45)	(636)	(731)	(0)	-	-

Notes:

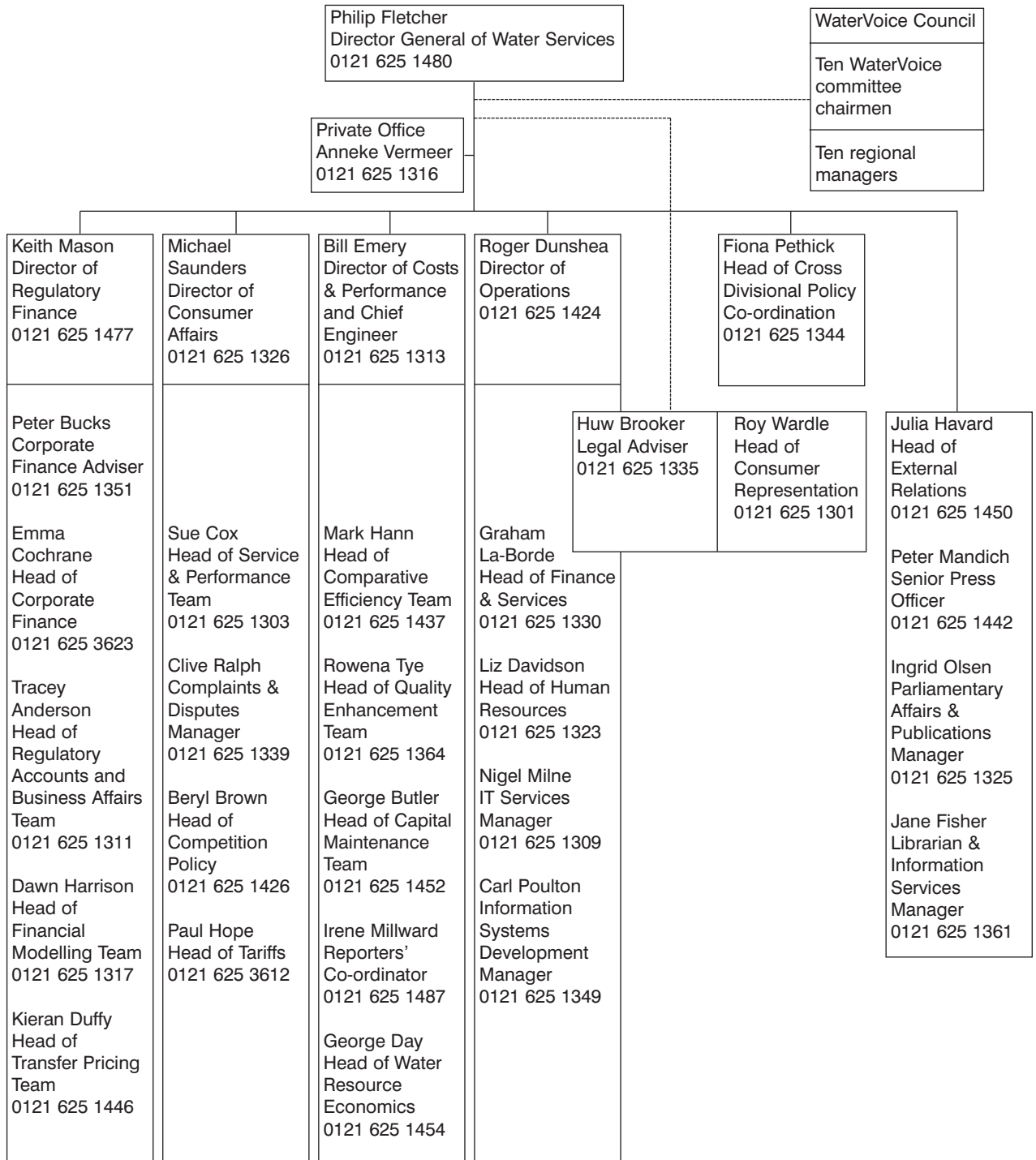
1. This table is included as a requirement stipulated by HM Treasury. Outturn figures are taken from our published Resource Accounts. We operate on the basis that licence fees recovered from the industry should cover our costs. Surpluses of income stated in 'Total net administration costs' refer to the income generated from our publications and monies recovered on behalf of the Competition Commission.
2. 2002-03 gross administration costs are based on an estimated outturn and are subject to review by audit.
3. Total net administration costs outturn for 2002-03 is expected to be nil as publication income has now been reclassified.
4. In addition to the £12.6 million in 2003-04, we expect to use £1 million of unused licence fees. This amount is not included in the table above as it is still subject to HM Treasury approval. This will bring the total estimated income to £13.6 million.

Appendix 7: Ofwat staff numbers

<<

	1995-96 Actual	1996-97 Actual	1997-98 Actual	1998-99 Actual	1999-00 Actual	2000-01 Actual	2001-02 Actual	2002-03 Actual	2003-04 Plans	2004-05 Plans
Civil Service full-time equivalents	164	183	175	176	195	202	210	231.5	237	241
Overtime	2	1	1	1	1	1	1	0	1	1
Casuals	7	4	5	7	15	6	7	1.5	4	4
Total	173	188	181	184	211	209	218	233	242	246

Appendix 8: Ofwat structure⁶²



⁶² Tony Smith succeeds Michael Saunders from May 2003 and Huw Brooker succeeds Allan Merry from April 2003.

Email: firstname.lastname@ofwat.gsi.gov.uk

Ofwat's senior management team and non-executive advisory directors

<<



Back row (from left):

Allan Merry (Legal Adviser), Roger Dunshea (Director of Operations), Michael Saunders (Director of Consumer Affairs), Bill Emery (Director of Costs & Performance and Chief Engineer), Keith Mason (Director of Regulatory Finance), Roy Wardle (Head of Consumer Representation), Julia Havard (Head of External Relations).

Front row (from left):

Martin Cave (non-executive advisory director), Roger Munson (non-executive advisory director), Philip Fletcher (Director General of Water Services), Jane May (non-executive advisory director), John Baker (non-executive advisory director).

Ofwat's Board comprises the Director General (Philip Fletcher), the four non-executive directors: (Martin Cave, Roger Munson, Jane May and John Baker), and the four executive directors: (Michael Saunders, Keith Mason, Bill Emery and Roger Dunshea).

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
05/03, C141149

Printed on recycled paper containing 75% post consumer waste and 25% Elemental Chlorine Free



Published by TSO (The Stationery Office) and available from:

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

E-mail book.orders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

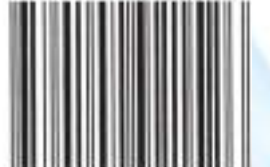
Fax orders 020 7219 3866

TSO Accredited Agents

(see Yellow Pages)

and through good booksellers

ISBN 0-10-292152-0



9 780102 921526