



**OFWAT FORWARD PROGRAMME
2004-05 to 2006-07**

March 2004

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 do 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 customers' 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 ensure 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.

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Foreword

The coming three years will mark an important period of transition for the water industry and for Ofwat. In 2004-05, the water companies will be completing a challenging programme set at the last periodic review of price limits. The same year sees the climax of the current periodic review of price limits.

In December 2004 we will set price limits for 2005 to 2010. We must set limits which enable the companies, provided they are efficient, to carry out and finance their functions. At the same time, we must protect the customers of these monopoly businesses from paying any more than is necessary to safeguard the long-term provision of essential water and waste water services. The success with which we set outputs that are achievable by efficient companies will provide the basis for the continuing success of the industry.

Our draft forward programme was published on 31 October 2003. The consultation period ran for three months and included a successful workshop with all the main stakeholders in November 2003. The responses to the consultation are summarised at appendix 1.

The effective delivery of this forward programme will depend on the expertise and hard work of all stakeholders but especially of Ofwat staff. We will continue to invest in their development and recognise the valuable contribution they each make to the work of Ofwat and WaterVoice.

Review of price limits

The few months between receiving the companies' final business plans and publishing the final determinations will be a period of intensive activity for us all.

On 11 March I received from the Secretary of State for Environment, Food and Rural Affairs and from the Welsh Assembly Government, the Principal Guidance for the price review. We discussed the implications of this delay with the companies and I am pleased that all the water companies will submit their final business plans to us by the end of April, with many still achieving the original date of 7 April 2004. As a result we have revised our timetable. We will issue draft determinations by 5 August and final determinations by 2 December. Final Ministerial guidance is expected in September 2004.

The price limits will take effect from April 2005. If any company exercises its right to refer its limits to the Competition Commission, the Commission will determine price limits for it. We will explain to the Commission the methodology and judgements that we used to reach our determinations.

At the same time we will evaluate, in consultation with all stakeholders, our approach and process adopted in the periodic review. We aim to ensure that we continue to build and improve on this fundamental regulatory control.

Water Act 2003

The Water Act 2003 received Royal Assent on 20 November. It provides for the establishment of a regulation authority to assume the statutory responsibilities of Ofwat which at present are held by me as Director General. The Department for Environment, Food and Rural Affairs (Defra) has not yet confirmed the timetable to establish the new Water Services Regulation Authority (WSRA), although it will be after the completion of the periodic review.

The Act will also separate Ofwat from WaterVoice, which already speaks independently on behalf of customers. Defra will announce the Council and Committee structure of the Consumer Council for Water as soon as these details are finalised. We will support and advise the implementation group in managing the set up arrangements for the new organisation. This is expected to be during 2005-06.

When Ofwat is reconstituted, it will be for the new Authority to decide its forward programme. However, we need to maintain regulatory certainty, consistent with our duties. This will continue for Ofwat, old and new. This forward programme therefore sets out our proposals for the whole three-year period.

We will continue to follow the principles of good regulation established by the Better Regulation Task Force, and to take account of external reports. These include the findings of Commons Select Committees, including the Public Accounts Committee, the Environment, Food and Rural Affairs Committee, and Environmental Audit Committee, and the report anticipated from the Constitution Committee of the House of Lords following its inquiry into the accountability of regulators.

We will continue to carry out our duties under the existing competition legislation, while preparing the ground for the tailor-made competition regime proposed in the Water Act, which will be subject to appropriate consultation and preparation in 2004 and take full effect in 2005.

Day-to-day regulation

On the evidence of the last three years, it is likely we will need to assess proposals from companies for structural changes in the industry, we will respond expertly and efficiently.

We will continue to monitor the progress of companies against established performance standards and targets. These range widely, for example from leakage from water pipes to telephone services by companies to their customers.

We will approach all this work in an open and transparent way. We are accountable to all our stakeholders. Our work impinges on people in almost every household and business in England and Wales.

Consumer, environmental and financial interest groups are all keenly interested in our decisions as we reach the height of activity in the five-year regulatory cycle. We work from the premise that by properly informing and consulting stakeholders they

have the best opportunity to contribute effectively and thus achieve a better outcome for all.

Philip Petersen

1 Price setting

In April 2004 we enter the final stage of the current review of price limits for the five years 2005 to 2010. We will set a separate price limit for each company for each year. Principal guidance was received more than a month later than expected and as a result, some changes will be made to the timetable given in the draft forward programme.

Most companies will provide their final business plans by 7 April, with the remainder by 30 April. Companies' annual returns for 2003-04 will be submitted in June (known as the June return). On the basis of the returns and business plans we will set out our draft determinations of price limits on 5 August 2004. Companies and others will comment on these draft determinations. We will review all comments before deciding final determinations on 2 December 2004.

1.1 Periodic review 2004

Our objective is to set price limits that are high enough to enable an efficient company to run and to finance its business but are no higher than they need to be. We will also focus on protecting the customers of these monopoly companies.

The timetable summarises our main outputs.

Assessment of draft business plans and market research	
11 March 2004	Ministers published their principal guidance on the required quality and social issues programmes for 2005-10.
Decisions and determinations	
7-30 April 2004	Companies submit their business plans.
8 June 2004	Companies submit their June return.
5 August 2004	Ofwat publishes, for consultation, draft price limits for each company.
15 September 2004	Companies respond to the draft determination consultation.
September 2004	Ministers provide final guidance.
13 October 2004	Other stakeholders respond to the draft determination consultation.
2 December 2004	Ofwat publishes final price limits for each company.
Implementation	
Jan – April 2005	Evaluation of the periodic review process.
March 2005	Companies publish their monitoring plans.
April 2005	New price limits come into effect.

1.2 Business plans

Most companies have agreed to provide their final business plans to Ofwat in April 2004. In early May they will also publish summaries of their final business plans. These plans will be used by Ofwat to produce draft determinations for each company.

1.3 June return 2004

The information that will be provided by companies in the June return 2004 is important to the price setting process. We have asked companies to submit the June return for 2003-2004, by 8 June 2004. Companies will submit sewerage service explanatory factors information as part of the June return

1.4 Draft determinations

Ofwat will publish draft determinations for consultation on 5 August 2004. Companies should respond by 15 September. The stakeholders' consultation period runs until 13 October. Companies can make written representations to the Director General in September, in advance of their meetings with him in October. Ofwat will hold City briefings in September 2004. The Director General will meet with WaterVoice Committees in October. Ofwat will consider all views expressed.

1.5 Final Ministerial guidance

Ministers have the opportunity to fine tune their earlier decisions in light of the final business plans, draft determinations and further advice from regulators. This advice will confirm quality programmes to be included in price limits. Final guidance is expected from Ministers in September 2004.

1.6 Final determinations

Ofwat will publish its final determinations on 2 December 2004.

1.7 Monitoring plans

Companies publish monitoring plans in March 2005, against which we will check progress on an annual basis.

1.8 Competition Commission references

Companies that do not accept the new price limits can request their referral to the Competition Commission within two months of the final determination. Any references will start by February 2005.

1.9 Licence modifications

We consulted in March 2004 on a number of licence modifications linked to the price review. We will review responses before deciding the way forward. We will publish our proposals with our draft determinations.

1.10 Evaluation of periodic review 2004

We will evaluate the price review project between January and April 2005. We will involve companies, stakeholders, other regulators and staff in this review. We will publish the evaluation. Our objective is to examine our:

- internal processes;
- documentation;
- information requirements and financial model;
- methodology;
- project management;
- process;
- consultation; and
- timetable.

We will publish the evaluation in 2005-06.

1.11 Interim determinations of price limits

As 2004-05 is the price setting year, according to the companies' Licences no interim determinations of price limits can be submitted. All issues relating to price limits for the year 2005-06 will be dealt with in our final determinations. We will process any applications received in subsequent years in line with the approach agreed at the 2004 periodic review.

1.12 Periodic review 2009

Our next periodic review will be in 2009. We will consult on whether to extend the period between future reviews following conclusion of the 2004 review. This consultation will include a regulatory impact assessment (RIA) covering each of the options.

2 Safeguarding customers

2.1 Companies' charges schemes

Our statutory role is to approve the 2005-06 charges schemes by February 2005. We check that the average increase in charges for each company does not exceed that company's price limit. The average increase is calculated across a basket of charges including measured and unmeasured water supply and sewerage services. Within this basket, changes in charges for any particular item may be more or less than the price limit, but charges must be neither unduly preferential nor unduly discriminatory. Charges schemes for 2005-06 will be based on our final determinations, in advance of any Competition Commission referrals. Our approach to tariff policy issues is well established and set out. We will:

- Review companies' draft charges schemes for 2005-06 and their draft principal statements in quarter 3 of 2004-05. This will involve reviewing new tariff proposals, and monitoring companies' compliance with their price limits.
- Consider new tariff proposals and monitor companies' application of price limits to their tariffs.
- Consult in November 2004 with WaterVoice committees before approving the companies' draft charges schemes.
- Publish the outcome of our review of companies' charges schemes for 2004-05 in our report 'Tariff structure and charges: 2004-05 report' in May 2004.
- Implement the changes to the measured/unmeasured household differential following the review, completed in 2003-04 and set out in RD02/04.
- Review emerging issues.

2.2 Social issues

Our objective is to encourage companies to make services accessible to those with special needs. They should also take account of the needs of those who have difficulty paying bills, particularly when developing and managing their revenue collection processes. At the same time we encourage companies to be efficient in revenue collection in the interests of customers as a whole. We will:

- Contribute to Government thinking on affordability issues.
- Monitor and publish annual data on the numbers of customers registered with companies as requiring special services.
- Monitor and publish annual data on debt levels and debt recovery procedures.
- Continue to promote good practice on social issues across the industry.
- Implement proposed new powers to require water resellers to provide information to purchasers.

2.3 Complaints and disputes

Our objective is to handle complaints promptly, efficiently and within agreed time limits, where possible.

The categories of dispute under the Water Industry Act 1991 (WIA91) which the Director General has powers to settle are:

- Connection charges (section 45).

- Drainage (section 94).
 - Public sewers (section 105).
 - Pipeline powers on private land (section 181).
- Other complaints include:
- Guaranteed standards scheme.
 - Complaints from customers who have been through the WaterVoice process and are not satisfied with the response they have received.
 - Complaints which the WaterVoice Committees have been unable to resolve with the water companies.

We will hold complaint workshops for WaterVoice staff and members in quarters 1 and 3.

2.4 Levels of service

Our objective is to safeguard the quality of service that companies provide to customers and encourage companies to make improvements where necessary. We will:

- Monitor and publish information on the levels of service provided in our report 'Levels of service for the water industry in England and Wales' in October 2004.
- Take action to secure improvements where services fall below regulatory expectations.
- As part of the periodic review, review companies' proposals for service improvements in the light of customers' priorities.
- Continue to work with companies to tackle sewer flooding in the short and longer term and to develop our understanding of the costs and benefits of such investment.
- With WaterVoice, continue to monitor more qualitative aspects of service through audits of company practices.
- With the companies and WaterVoice, develop and introduce a revised approach to measuring the quality of telephone services. In 2004-05 a survey will be commissioned to assess the quality of telephone call handling by companies.

2.5 Serviceability to customers

Our objective is to ensure the companies' water and sewerage systems continue to deliver reliable services to customers into the future. We will:

- Monitor trends in levels of service and asset performance (serviceability indicators) as reported in the June return. We will publish our analysis in 'Financial performance and expenditure of the water companies in England and Wales' published in quarter 2 of 2004-05.
- Take action in respect of companies where serviceability is marginal or deteriorating.
- Develop further our understanding of asset groups as measured by serviceability indicators and consider whether new indicators should be developed. We will co-operate with the Environment Agency (EA), the Drinking Water Inspectorate (DWI) and the companies to do this.
- Continue working with the UK Water Industry Research programme and companies to develop best practice for the use of the capital maintenance

planning common framework. This applies a risk-based approach to estimating the appropriate level of capital maintenance expenditure.

- Continue to use June return information to inform our understanding of the long-term capital maintenance requirements for each company.

2.6 Improving drinking water quality and the environment

Our objective is to monitor companies to ensure that they carry out expected work programmes. Ministers have confirmed those programmes of work that companies need to carry out to meet legally enforceable requirements for better water quality and a cleaner water environment. Price limits will assume that companies deliver these improvements. We will:

- Work with the DWI to make sure that companies carry out the expected improvements to their water treatment works and distribution systems.
- Continue to work with the EA to encourage companies to complete the projects required under the National Environment Programme on time, and that they deliver appropriate levels of environmental performance.
- Include the views of the quality regulators on companies' performance in 'Levels of service for the water industry in England and Wales' in October 2004 and in 'Financial performance and expenditure of water companies in England and Wales' in quarter 2 of 2004-05.
- Continue to work with Defra, the EA and other stakeholders on the Water Framework Directive (see 2.11).
- Seek assurances from companies that they are progressing with the early start schemes confirmed in January 2004 for inclusion in our determination.
- We will agree a Memorandum of Understanding with the DWI on how we work together.

2.7 Supply and demand for water services

Our objective is to assess companies' performance in meeting demand for water services by delivering the right blend of leakage reduction, resource development and demand management, and by promoting the efficient use of water. We will monitor:

- The companies' delivery of supply/demand balance outputs, including improvements to the security of water supplies.
- The security of supply index, which will be reported in our annual report 'Security of supply, leakage and the efficient use of water' in quarter 3 of 2004-05.
- Progress by Thames Water in improving security of supply for customers in London, in accordance with steps agreed with the company during 2003-04. We will report progress in quarter 3 of 2004-05 in our report 'Security of supply, leakage and the efficient use of water'.
- We will continue to work with companies, Defra and the EA to ensure that longer-term issues such as housing growth in the south east, or climate change, are properly reflected in companies' plans.
- We will continue to monitor meter uptake and assess trends.

2.8 Efficient use of water

Our objective is to support and monitor the industry in promoting the efficient use of water by customers. We will:

- Work with the industry, the EA and others to improve our understanding of the cost effectiveness of companies' activities to promote the efficient use of water by their customers.
- Assess how companies' business plans integrate efficient use of water activity in their plans to balance supply and demand.
- Continue to support the Ofwat economic research category in the EA's Water Efficiency Awards. We will also participate in judging entries.
- Review the companies' June returns and publish our analysis of their promotion of the efficient use of water in the 'Security of supply, leakage and efficient use of water' report in quarter 3 of 2004-05.

2.9 Leakage

Our objective is to ensure that companies carry out their duty to maintain an efficient and economic system of water supply. We will:

- Assess and report on companies' performance using leakage data in the June return 2004. We will take action against companies failing to meet their leakage targets.
- Make sure that future leakage targets continue to be based on a sound economic approach.
- Look for a consistent relationship between supply/demand balance planning and economic levels of leakage.
- Publish companies' leakage performance for 2003-04 in July 2004. We will publish further analysis in 'Security of supply, leakage and the efficient use of water' in quarter 3 of 2004-05. This will include details of leakage performance and leakage targets for 2005-06 to 2009-2010. The report will include reasons for failures by companies to meet targets and actions proposed by Ofwat for the companies to rectify the problems.
- Monitor Thames Water's progress against its mandatory leakage targets.

2.10 Customer representation – WaterVoice

WaterVoice, the independent voice of the customer, published its forward programme for 2003-04 to 2004-05 in April 2003. The new WaterVoice, once established, will publish its own forward programme.

Defra appointed consultants to undertake a study into the structure and organisation of the new WaterVoice. This was completed in January 2004. Defra will announce details of the new structure and organisation once they are finalised.

Our objectives in the lead up to separation of the new WaterVoice and Ofwat are:

- To work with WaterVoice in achieving a smooth separation of consumer representation functions from the rest of Ofwat.
- To work with WaterVoice and support Defra in setting up the new WaterVoice.

- Agree a Memorandum of Understanding with the new WaterVoice to support our working relationship. We will seek to ensure that all current activities continue to be carried out, for the benefit of customers, cost effectively and without duplication.

We will also continue to work closely with WaterVoice to co-ordinate our workplans. The WaterVoice programme for 2004-05 includes the following:

- Reporting on quality of service provided to customers based on sample audits of individual cases and other assessments of company practice.
- Providing input to the 2004 price review, particularly comments about draft determinations.
- Providing options to enhance existing levels of service measures.
- Bringing to our attention issues of customer service, which may require us to exercise our powers, or that raise broader policy issues.
- Monitoring the implementation of the vulnerable group regulations.

WaterVoice will advise us on the following issues:

- Company best practice in customer service.
- Companies' strategies and policies for the prevention of sewer flooding and the handling of incidents when they occur.
- The content and implementation of companies' water efficiency plans.
- How companies handle domestic customers in debt.
- Companies' codes of practice and complaints procedures, before we approve them.
- The development of companies' charging policies with particular reference to proposed charges schemes for 2005-06.

We will monitor any increase in the level of customer queries or complaints and respond appropriately.

2.11 Water Framework Directive

The purpose of the Water Framework Directive (WFD) is to establish a framework for the protection of inland, coastal waters and groundwaters. By 2015 EU member states must take adequate measures for all water bodies (eg rivers and lakes) to achieve good water status. This consists of good ecological and chemical status for surface waters and good chemical and quality status for groundwaters. Each state will do this by establishing a river basin district structure within which demanding environmental objectives will be set, including ecological targets for surface waters.

In the past, very little quality improvement work has been subject to thorough economic analysis. The WFD is a model for sustainable development in that it allows member states to balance environmental, economic and social considerations in the pursuit of better water quality. The WFD is the most substantial piece of EC water law to date.

The key regulations to transpose this directive came into force in January 2004. They set down key stages for implementation of the directive. The first economic analysis of water is due for completion by December 2004.

The regulations place responsibility for the economic analysis on the appropriate authority; the Secretary of State for England, and the Welsh Assembly Government for Wales. Ofwat is closely involved in this economic analysis. We will contribute directly to the Defra scoping phase of the economic analysis. This consists of two major studies on recovery of costs of water services and cost-effectiveness analysis. The outcome of this research will inform the report to be produced by Defra later in 2004.

We will work with Defra on providing the information and analysis necessary to allow Government to report to the EU Commission as required by the directive.

3 Comparative competition, industry structure and companies' finance

3.1 Comparative competition

Our objective is to promote continued improvements in company service, performance, compliance, leakage, security of supply and efficiency by the use of comparative competition. We will:

- Carry out a thorough analysis of operating and capital maintenance expenditure data provided in the June return. We will publish the results in 'Water and sewerage unit costs and relative efficiency' in January 2005.
- Continue our investigations into how companies' costs and performance compare with a sample of their international peers. The information we collect helps us to develop and improve incentives for companies to become more efficient and to provide better services to customers. We will publish the results of our work in the annual international comparisons report in March 2005.
- Continue to encourage efficient and effective procurement practices in the water industry, and to report on the industry's progress in attaining efficient procurement. We will publish the results in 'Water and sewerage unit costs and relative efficiency' in January 2005.
- Use the comparative information available to us to ensure that there are strong incentives to improve performance in the post 2005 period.

3.2 Financial performance and regulatory accounts

Our objective is to ensure that companies are operating within the expectations of the 1999 price review. In July 2004, companies will submit their regulatory accounts. These provide information on revenues, expenditure and overall financial performance. These accounts are underpinned by regulatory accounting guidelines (RAGs). We will:

- Analyse the regulatory accounts and publish our findings in 'Financial performance and expenditure of the water companies in England and Wales' in quarter 2 of 2004-05.
- Hold two City briefing seminars to explain our policies to investors and analysts. We will hold these seminars at approximately six-monthly intervals. If appropriate we will hold additional briefings for investors and analysts at key stages of the price review.
- Work with the industry and other interested parties to consider whether any changes are necessary to the regulatory accounting information from the companies. For example, the Government's proposed new statutory framework for market competition, set out in the WA03, will allow competitors to compete with appointed companies in different parts of the water supply chain. We may therefore ask companies to submit disaggregated costing information to facilitate our promotion of market competition. Any changes will not be implemented before April 2005.

3.3 Independence of the regulated business

Our objective is to safeguard the financial ring-fencing and managerial independence of the regulated businesses. These maintain the distinction between the elements of the companies that we regulate and set prices for and the elements that are outside the regulatory regime. We also ensure that only appropriate costs and revenues are taken into account when we set price limits. We will:

- Monitor compliance to ensure the financial ring-fence is maintained.
- Liaise with companies on the appointment of new non-executive directors, so as to ensure that licence requirements on their independence and experience are satisfied.

3.4 Transfer pricing

Our objective is to make sure that future price limits reflect the true operating costs of the regulated companies and that these are not inflated by cross-subsidy. This will protect customers from paying more due to cross-subsidies made to associate companies. We will:

- Monitor transactions between companies and associates and investigate areas of concern.
- Ensure companies comply with their licence requirements on arm's length trading and ring-fencing.
- Take account of material cross-subsidy identified when setting price limits for 2005-10.
- Publish a summary of our work on transfer pricing in 'Financial performance and expenditure of the water companies in England and Wales' in quarter 2 of 2004-05.

3.5 Reporters

Our objective is to make sure companies' information returns are subject to independent expert scrutiny and audit. We will:

- Continue to use suitably experienced engineering consultants to act as our independent reporters to help us obtain comparable regulatory information from each company.
- Ask reporters to assist us in special investigations, for example into economic levels of leakage.
- Support the auditors in their audit of regulatory accounts.
- Give feedback to the reporters on the performance of their work on the final business plan and June returns in quarter 3 of 2004-05.
- Continue to hold workshops and briefings for the reporters and auditors.
- Work with the companies to establish the procurement process for the next round of reporter appointments, which are due to take effect from March 2005.

3.6 Financial restructuring

Our objective is to make sure that customers of monopolies are protected from any undue additional risk arising from a particular structure. A company's particular capital structure is a matter for its management, not us. We will:

- Respond to any further restructuring proposals as they arise.
- Seek licence modifications to protect customers as appropriate.

3.7 Mergers

Our objective is to ensure that the ownership structure maintains incentives for improved efficiency and performance.

Under the current regime companies have made substantial efficiency gains to the benefit of customers and shareholders. This can in part be attributed to the success of comparative competition. A merger between two water companies would result in the loss of an independent comparator. There would also be one fewer independent management team aiming to improve returns to investors and push back the efficiency frontiers. At the same time we are open to the potential for greater efficiency from structural change.

We commissioned a report produced by Stone and Webster consultants on economies of scale. The aim of the report was to help understanding of how costs have varied with company size and the range of activities undertaken in the industry. The report was published in January 2004. It found no clear evidence of economies of scale for the water service companies. It also found significant diseconomies of scale for water and sewerage

companies although these are now declining. The current structures of water companies, which integrate water production and distribution, were seen as offering efficiency benefits. We will use the report to help inform our approach to issues relating to industry structure.

Any proposed merger between water companies is referred to the Competition Commission under the special water merger regime. In the event of a proposed merger between water companies we will:

- Continue to look with an open mind at individual propositions.
- Submit evidence to the Competition Commission including an assessment of the impact of the merger on the comparative regime and any benefits that may arise from it.
- Consider the recommendations made by the Competition Commission in developing our approach to mergers.

The Enterprise Act 2002 maintains the mandatory reference to the Competition Commission of qualifying mergers between two or more water companies but changes the threshold for qualification to one based on turnover rather than assets. The Commission must consider the effect of the merger on the ability of Ofwat to make comparisons between water companies. Except in special cases, in line with the changes to the general merger regime, Ministers will be removed from decisions on mergers. The new provisions are expected to come into force later this year.

In the event of other mergers leading to a change of ownership for a water company, we will publicly consult on the regulatory issues arising from the transaction providing advice to the Office of Fair Trading (OFT) as necessary.

4 Market competition

Our objectives are to facilitate opportunities for market competition and to challenge anti-competitive behaviour. We will:

- Implement the provisions for extending competition set out in the WA03, which include making it Ofwat's duty to 'promote' competition where appropriate.
- Continue to apply the Competition Act 1998 (CA98) to examine anti-competitive behaviour and take appropriate action where necessary.
- Publish our third annual report on CA98 complaints in quarter 1 of 2004-05.
- Process completed applications for inset appointments.

4.1 Water Act 2003: Common carriage and wholesale supplies

The WA03 received Royal Assent on 20 November 2003. We will co-ordinate communication between key stakeholders on the implementation of the competition proposals.

Our objective is to implement the new competition framework set out in the WA03. The WA03 introduces a new statutory framework for common carriage and wholesale supplies. When the relevant provisions in the WA03 are commenced, which we expect by summer 2005, prospective suppliers will be able to apply for a water supply licence. Anticipating commencement of the overall regime in autumn 2005, water supply licensees will be allowed to put their water into a water company's supply system and retail it to eligible customers (common carriage). They can also buy water from water companies and retail it to eligible customers (wholesale supplies). Water companies would be under a duty to provide access to their supply system, and provide wholesale supplies, on reasonable terms. The Government has set the threshold for competition at 50 megalitres (Ml) of water per year. This means that there are currently around 2,300 eligible large business customers.

The success of the new competition framework will rely significantly on involvement by industry stakeholders. We have set up industry advisory groups to provide expert advice and recommendations on issues central to the new regime. These include pricing for common carriage and wholesale supplies. Customers now eligible to switch suppliers will need to know how they do so. These advisory groups commenced in February 2004 and will continue to help us develop our thinking until September 2004. Following this, we will consult publicly on all aspects of the new competition framework to ensure wider views are heard.

We are also consulting on our policy proposals for standard licence conditions for water supply licensees and changes to undertakers' conditions of appointment. We will consult on the legal drafts of both early in 2005.

We will monitor how competition develops within the new legal framework taking account of the new duty to promote competition where appropriate.

The Government has committed to review the framework, including the threshold, within three years of commencement of the new competition regime.

4.2 Self-lay and requisitioning

Our objective is to implement the elements of WA03 related to self-lay and requisitioning of water mains and the requisitioning of sewers. We established a self-lay advisory group in May 2002 to develop policies for opening up the self-lay sector. We will continue to work

with this group to help us to implement WA03 provisions for self-lay and requisitioning. We will then finalise our guidance on the financial arrangements for self-lay and requisitioning agreements and the process for handling disputes and appeals. We will revise the self-lay guidance that we first issued in March 2002 to take account of WA03.

4.3 Competition Act 1998 casework

Our objective under CA98 is to consider anti-competitive behaviour and abuse of dominant positions in markets. CA98 is an instrument for guarding against anti-competitive behaviour, but it is not a tool for actively promoting market competition. The WA03, however, introduces a framework for new entrants as explained above. Consequently, in many cases we expect that licensing of new entrants under the new framework will be the focus of our work rather than CA98.

The Enterprise Act 2002 amends aspects of CA98. The OFT has published an outline of these amendments, 'How the Enterprise Act 2002 affects the Competition Act 1998', and various other guidelines on the new provisions. The OFT, Ofwat and other sector regulators who have concurrent powers to apply CA98, will publish revised guidelines on applying CA98. We expect most of the revised guidelines to be available by the end of 2004.

Our consideration of allegations will lead to various remedies. For instance the company concerned may modify its behaviour. We may also decide to publish a report on a case, issue guidance on specific issues or make an appealable decision under CA98. Our aim is to reduce the need for complaints. We will:

- Investigate where we have reasonable grounds for suspecting an infringement of CA98 and a CA98 investigation is appropriate.
- Respond promptly to queries generated by CA98.
- Make our third report on progress on CA98 complaints (from 1 April 2003 to 31 March 2004) in quarter 1 of 2004-05.
- Improve the process for dealing with complaints by learning from our experiences and those of other competition authorities, including cases decided by the Competition Appeal Tribunal.

4.4 Inset appointments

Our objective is to process efficiently applications for inset appointments. We will deal with completed applications as quickly as possible. This is normally within four months for greenfield sites and within seven months where a bulk supply or sewer connection agreement is required. We will respond promptly to enquiries about the inset process.

The inset appointment framework will operate in parallel with the new water supply licensing framework set out in the WA03.

4.5 Modernisation of EC Competition Law

Regulation 1/2003 of the Council of the European Union comes into force on 1 May 2004. It enables national competition authorities (OFT and concurrent regulators, such as Ofwat) to apply EC competition law (Articles 81 and 82 EC Treaty). It requires us to apply EC law when applying national competition law, where there is a potential effect on trade between Member States. We are working with the OFT and the other concurrent regulators to ensure the effective and appropriate implementation and application of Regulation 1/2003.

4.6 European Commission review of competition in water

In its internal market strategy for 2003–06, the European Commission announced that it would be studying competition in the water and waste water sectors in the EU with possible resulting legislative measures. We will assist the Commission and UK Government in providing expert advice on the water industry and market competition in England and Wales.

5 Water Act 2003 and other emerging issues

5.1 Water Act 2003

The WA03 received Royal Assent on 20 November 2003. It will change many important aspects of regulation of the water industry, including the framework for abstraction licensing, constitutional aspects of Ofwat and WaterVoice, and how market competition operates. Different parts of WA03 can come into effect at different times. We expect the changes to WaterVoice's constitution to be introduced during 2005-06. We expect the changes to Ofwat's constitution to follow at a later date. More details on the Consumer Council for Water (new WaterVoice) are given in 2.10.

There is a duty on Ofwat to contribute to the achievement of sustainable development contained in WA03. The implications of this duty on our work will become more apparent in the coming year.

Work arising from the implementation of WA03 in 2004-05 will be directed at the introduction of the new licensing arrangements (chapter 4) and the development of the new WaterVoice. A number of other activities arising from the WA03 will be taken forward in 2004-05. The majority of Ofwat's work to implement fully WA03 will take place once the price review is complete.

5.2 Financial penalties

We consulted in February 2004 on our new powers to impose financial penalties where companies fail to meet required standards, statutory requirements or appointment conditions. Responses to this consultation are expected in May 2004 and will be considered by enforcing authorities. A further formal consultation will take place on policy and procedures before the new powers take effect.

5.3 Memoranda of understanding

The WA03 (section 52) includes a new duty requiring water regulators to co-operate and exchange information between them. This duty relates to the Secretary of State for Environment, Food and Rural Affairs, the Welsh Assembly Government, the Environment Agency and Ofwat. Additionally there is a duty on Ofwat and the new WaterVoice to have a Memorandum of Understanding (chapter 2.10). These bodies will be required to prepare memoranda of understanding, which set out how they will co-operate. Ofwat is in the process of establishing these memoranda. We will publish each of these on our website, once agreed. The memoranda will cover such areas as how we will co-operate with one another, the exchange of information and managing matters that involve both parties.

5.4 Health and Safety Executive memorandum of understanding

Although not a statutory requirement, we have developed a memorandum of understanding with the Health and Safety Executive (HSE). We consult each other on forward work programmes and specific issues of concern as and when they arise, and ensure that information about health and safety issues and the water industry's health and safety performance is shared.

In October 2003, we provided the HSE with a report on water companies' health and safety initiatives and performance trends. In quarter 3 2004-05 we will consult with companies over future data collection for the HSE report.

5.5 Freedom of Information Act 2000

From January 2005 the Freedom of Information Act 2000 gives a general right of access to all types of recorded information that we hold. We are undertaking activities to ensure that all members of staff are aware of their responsibilities and obligations under the Act. We will prepare our policy for handling such requests by September 2004. The Information Commissioner will review our publication scheme in November 2006.

5.6 Review of information requirements

In 2004-05, we plan to review our annual information requirements with the aim of ensuring our data collection is optimal and does not place an unnecessary burden on companies.

6 Resources and accountability

6.1 Finance – Ofwat

Over the three years of this forward programme we will face a number of uncertainties over our income and expenditure requirements. These are related to the formation of the new WaterVoice, the new Authority, new duties under the WA03 and new regulatory obligations set by Defra linked to, for example, the WFD. Licence Condition N will require modification to reflect the provisions of the WA03. Depending on the Defra timetable we will consult on modifications in quarter 1 2004-05.

In October 2003 we published our draft Forward programme 2004-05 to 2006-07. This set out our estimated expenditure for 2004-05 of £14.4 million with a proposed licence fee of £13.6 million.

The draft forward programme estimate included a caveat that the costs of implementing the WFD, and WA03 would be notified to companies when Defra had confirmed its timetable and related plans. Defra has now confirmed these plans and the added expenditure in 2004-05 for implementing the first elements of work on the WFD and WA03 is £200k. This will cover the preliminary staff and consultancy costs needed to implement these new requirements. As a result, the licence fee to recover Ofwat's costs for 2004-05 will be £13.8 million.

Two companies responded to the draft forward programme consultation. One comment concerned the need for Ofwat to constrain its costs, an aim which we will continue to address.

	2003-04	2004-05
	£m	£m
Ofwat budget *	14.1	14.4
Licence fee	12.6	13.8

* Please note the budget includes non-cash items eg depreciation charges.

We will publish our annual accounts by October 2004.

We estimate our resources will be allocated to the policy areas below, which reflect our priorities for the coming year. Although resources will be redirected to the price review, much of this work will still focus on safeguarding quality, protecting customers, companies' finances and developing comparative competition. We will reallocate resources should regulatory priorities change.

Policy area	2003-04	2004-05
	%	%
Price setting	51	60
Safeguarding quality and protecting customers	25	20
Comparative competition and companies' finance	10	6
Competition	14	14
	100	100

6.2 Finance – the new WaterVoice

Specifically WA03 includes powers to set up a new independent consumer council for water (CCW), which will effectively replace WaterVoice. This move has had widespread support from the companies and Ofwat.

Defra are taking the lead on the implementation of the CCW. WA03 states that Ofwat can recover its own expenses and those of Defra and the Welsh Assembly Government, necessary to the establishment of the CCW.

Defra plan to establish the CCW during 2005-06. To meet this timetable expenses will be incurred during 2004-05 for example advertisement, recruitment and salary costs of the new council. The Ofwat draft forward programme (chapter 6.2) referred to the Defra regulatory impact assessment relating to the establishment of the CCW (July 2003), this indicated possible set-up costs of £1 million. Defra estimate the initial set-up costs that fall in 2004-05 will be £550K. Defra expect to recover this from companies during the summer of 2004, under a separate licence fee invoice. Condition N will be modified subject to consultation, to reflect the new fee recovery arrangements.

6.3 Staff management

The formation of the new WaterVoice and the new Ofwat authority will result in organisational change. We will work closely with Defra during this process and provide the necessary support and consultation arrangements with staff representatives.

We will keep staff fully informed of issues as they emerge and consult on the organisational changes. We will work with all stakeholders to meet the timetable set by Defra. During this period of transition we will take action to retain and recruit the staff needed to deliver our statutory duties.

6.4 Regulatory impact assessments (RIAs)

Where a policy development will bring about material change, we will undertake a RIA. In particular, RIAs will be used to cover the WA03 implementation.

6.5 Annual report

The Director makes an annual report to the Secretary of State for Environment, Food and Rural Affairs and the First Minister of the Welsh Assembly Government. Our annual report, published in May 2004, will set out our achievements against our programme for 2003-04.

6.6 Risk management

Over the past three years we have developed processes of risk management and corporate governance. Over the next three years these will be further strengthened, notably in response to the organisational changes linked to the formation of the new Ofwat and the new WaterVoice.

6.7 Forward programme 2005-06 to 2007-08

We will publish our draft forward programme for consultation in January 2005 when we have concluded the periodic review. Following consultation and a workshop in February 2005 we will publish our forward programme in March 2005.

7 Timetable of outputs and consultation process

7.1 The year ahead for Ofwat

The major outputs involved in achieving our key objectives for 2004-05 are included in the timetable below. We will be issuing some annual performance reports later than usual this year due to PR04 commitments.

Ofwat milestones 2004-05		
	Paragraph	Date¹
Price setting		
Companies' business plans received	1.2	7-30 April 2004
Companies' June returns received	1.3	8 June 2004
Consider responses to consultation on licence modifications	1.7	June 2004
Publish our draft determinations for consultation	1.4	5 August 2004
Publish proposals for licence modifications	1.7	5 August 2004
Receive companies' responses to our draft determination consultation	1.4	15 September 2004
Ministers' final guidance	1.5	September 2004
Receive other stakeholders' responses to our draft determination consultation	1.4	13 October 2004
Publish our final determinations	1.6	2 December 2004
Respond to any Competition Commission references	1.8	Quarter 4
Evaluate PR04 project	1.9	Quarter 4
Safeguarding customers		
Publish 'Tariff structure and charges: 2004-05 report'	2.1	May 2004
Hold complaints workshops	2.3	Quarters 1 and 3
Publish companies' leakage performance for 2003-04	2.9	July 2004
Publish 'Financial performance and expenditure of the water companies in England and Wales'	2.5, 2.6, 3.2, 3.4	Quarter 2
Publish 'Levels of service for the water industry in England and Wales'	2.4, 2.6	October 2004
Publish 'Security of supply, leakage and the efficient use of water'	2.7, 2.8, 2.9	Quarter 3
Consult WaterVoice on companies' draft charges schemes	2.1	November 2004
Review companies' draft charges schemes	2.1	Quarter 3
Approve companies' charges schemes	2.1	February 2005
Publish the numbers of customers registered with companies as requiring special needs	2.2	Annually
Publish data on debt levels and debt recovery procedures	2.2	Annually
Introduce revised approach to measuring quality of telephone services	2.4	2004-05

¹ Quarter 1 = April to June, Quarter 2 = July to September, Quarter 3 = October to December, Quarter 4 = January to March.

Conduct survey to assess quality of telephone call handling by companies	2.4	2004-05
Comparative competition and companies' finance		
Publish results of work on comparisons with international peers in annual international comparisons report	3.1	March 2005
Publish 'Water and sewerage service unit costs and relative efficiency'	3.1	January 2005
Feedback reporter performance on business plans and June returns 2004	3.5	Quarter 3
Hold City briefings	3.2	Six monthly
Hold reporter workshops	3.5	Ongoing
Appoint reporters	3.5	From March 2005
Respond to restructuring proposals	3.6	As required
Seek Licence modifications following consultation	3.6	As required
Respond to any merger proposals	3.7	As required
Market competition		
Publish third annual report on CA98 complaints	4.3	Quarter 1
Develop regime for water supply licensing industry advisory groups	4.1	September 2004
Consultation on policy proposals for proposed changes to undertakers' terms of appointment and new standard conditions for new licencees	4.1	May 2004
Consultation on legal drafts for proposed changes to undertakers' terms of appointment and new standard conditions for new licencees	4.1	Quarter 4
Consultation on all aspects of the new competition framework	4.1	Quarter 3 to quarter 4
Finalise guidance on the financial arrangements for Water Act self-lay and requisitioning and process for handling disputes and appeals	4.2	May 2004
Revise existing self-lay guidance	4.2	Quarter 4
Respond to self-lay disputes and appeals referred under WA03	4.2	As required
Respond to CA98 complaints	4.3	As required
Investigate infringements of CA98	4.3	As required
Deal with inset appointments	4.4	As required
WA03 and other emerging issues		
Consider responses to consultation on proposed policy for financial penalties	5.2	June 2004
Consult further on policy and procedures for financial penalties	5.2	Quarters 2 to 4
Publish memoranda of understanding on Ofwat website	5.3	On agreement
Consult companies on Health and Safety data collection	5.4	Quarter 3
Prepare policy for handling Freedom of Information Act 2000 requests	5.5	September 2004

Review annual information requirements	5.6	Quarter 4
Resources, accountability and external relations		
Consult on modifications to licence condition N	6.1	Quarter 1
Publish annual report	6.4	May 2004
Publish annual accounts	6.1	October 2004
Publish draft forward programme	6.6	January 2005
Hold forward programme workshop	6.6	February 2005
Publish forward programme	6.6	March 2005

Appendix 1 – Results of the forward programme consultation

1 What the consultation exercise involved

We published for consultation our draft forward programme on 31 October 2003. The consultation lasted 12 weeks. As part of the consultation we held a workshop to discuss our priorities in the years ahead.

The workshop was attended by representatives from 85 stakeholder organisations. We also received nine written responses. Appendix 4 gives details of those attending the workshop and those who provided written responses. We would like to thank presenters, respondents and delegates for their contributions.

2 Feedback from workshop and written responses

All of the feedback is useful, and many of the points made at the workshop and in written responses, are addressed in the forward programme. Our response to the feedback is given at the end of each section in this appendix. The main issues raised by stakeholders at the workshop are set out below.

3 Consumer priorities: Ofwat's role on affordability

We sought the views of our stakeholders on Ofwat's role on affordability. Concerns were expressed over the increasing importance of affordability. This is linked to probable bill rises from April 2005 and Ofwat's new duties under the WA03 on sustainability and protecting customers. Virtually all stakeholders felt that as the economic regulator we should not be considering large scale increased cross subsidies to help disadvantaged customers. Stakeholders felt that this is an issue for the Government to address through the benefits/tax system – a view which we support. They suggested, however, that we had a key role in flagging the issue to Government and in liaising with other groups who could offer solutions to the problem. Optional metering would help some customers but could also push up prices to unmeasured customers. For business customers cost reflective prices were important and they would like to see greater transparency in this regard. We should not forget that water prices affected the viability and international competitiveness of businesses.

Response

We are proposing to:

- Work with the industry to improve the information on the scale of water debt
Work is currently underway with the Water UK Debt Focus Group to obtain a more robust picture of the current water debt situation across England and Wales. This will involve ensuring that all companies report numbers in a consistent way. Amendments to the June return reporting requirements may be required in future years in order to achieve this.
- Highlight the issue to Government and assist in identifying the extent of the problem and the implications of different options
We shall: continue to ensure we keep prices as low as possible to all customers; play an active role in any working groups set up to address affordability issues; and assist in further work on affordability with the help of government departments (see paragraph 2.2)
- Remind stakeholders where the system already assists low-income customers and those who have difficulty in paying bills

This includes the following:

- the prohibition on disconnection of domestic premises for the non-payment of bills;
 - availability of a free meter option;
 - cross-subsidy inherent in the rateable value unmeasured charging system;
 - the vulnerable group tariff;
 - availability of free accessible and frequent cash payment options;
 - availability of charitable or hardship trusts in certain areas;
 - publication of the debt recovery guidelines;
 - work with Department of Work and Pensions on access to the “Water Direct” scheme (payment of bills direct from benefits); and
 - recommendations from “Paying for Water” research undertaken with WaterVoice.
- Maintain and develop constructive relationships with stakeholders who have an interest in affordability issues.

4 Overall format and content of the draft forward programme

- Ofwat should use regulatory impact assessments (RIAs) more systematically.
- Ofwat should give regulatory signals to support adoption of best practice eg on water efficiency. More can be spent if it adds to sustainability in the longer term.
- Greater emphasis is needed on the long term rather than covering only three years in the forward programme. This particularly applies to the WFD and PR09.
- CA98 cases should be handled in a reasonable timescale. Can Ofwat consider a post enquiry audit/survey to assess how cases have been conducted and what lessons can be learned?
- Ofwat should be cautious over any policy that increases risks, uncertainty and cost of capital.
- The new competition policy should be compatible with the river basin set up.
- The new WaterVoice needs a regional presence and to build on the success of the current WaterVoice.
- There may be a loss of accountability with the formation of the new Authority because there will be no DG. Decisions may take longer.
- The new memoranda of understanding need to be effective for each party.
- Although new costs may be incurred due to the formation and implementation of the CCW, Ofwat should maintain a tight pressure on costs. Guidance is required on how new licence fees will be applied; this should be cost reflective.

Response

We are committed to developing a long term strategy, and have signaled an early review of the length of PR09. Our development of the WFD is covered in 2.11. Our new responsibilities and approach to market competition are covered in chapter 4. It is our intention to maintain continuity of the processes and policy into the establishment of the CCW and Authority (5.1). We will be publishing reviews of our CA98 casework (4.3).

5 Investment and efficiency

Future Investment

- Investment needs to be geared to levels of risk, appropriate to all aspects of a company. We should have the information to demonstrate this.
- There was a call for a holistic approach to risk management by the industry.
- A decision made in one quinquennium should not lead to consequences in the next.
- Ofwat does not have a long-term plan on capital maintenance, although the common framework is a clear step in the right direction. More work is needed.

- There was a call to make cuts on quality and capital maintenance programmes. In particular to look at timings to see if work could be phased over a longer period. Schemes should not go ahead unless they are fully justified.

Efficiency

- There is some further scope for efficiency but less than in the past. Areas for further improvements had mostly been exploited and new opportunities are harder to find.
- In order to assume that the industry will outperform the economy as a whole, incentives are needed.

Response

We are committed to long term planning, continuity and risk management, see 2.5. Ofwat, is concerned about affordability (see 2.2). Along with the environmental and quality regulators and with principal guidance from Ministers, we will challenge the proposed environmental spend in final business plans. In light of the report on the potential for future efficiency, we and the industry will explore incentives for any possible further efficiency.

6 Sustainable finance

- Diversity of structures and keeping the range of markets open is a good thing.
- We can have both debt and equity. The mix is 2/3 debt and 1/3 equity. We need to keep both types of investors involved.
- The company's management should decide the structure not the regulator.
- Companies can finance the current capital programmes.
- A transparent, stable, regime is needed; we are getting there. Companies want to see credible regulation and believe that final determinations will prove it is.
- Investors do not have to invest in water. The attitude to a rights issue is different in the UK and the US. It is more of a problem in the UK. However, companies may have to make use of it.
- Programmes need to be financed at the right price and using the right source of finance.
- The customer has to pay for everything. All concepts of ability or willingness to pay come back to the customer.
- There is a concern that the quality regulators command and control the green agenda.

Response

We do not intend to change our policy on the management of companies and will maintain arms length regulation. The industry can maintain investor confidence by keeping customers on board. This can be achieved by justifying expenditure and acknowledging the importance of affordability. We will take account of the joint customer research in considering price limits that are acceptable to all stakeholders and will continue to maintain the stability of the industry.

7 Future uncertainties: key issues

- Companies consider that materiality and triviality thresholds are too high.
- Ofwat's approach to materiality and triviality needs to be consistent with cost of capital and financial ratios through stress testing.
- As long as cash flow is certain then water companies are bankable.
- Contingency funds are widely disapproved of.
- Notified items should be symmetrical.
- A list of uncertainties that need to be resolved includes:
lane rentals, capital allowances, climate change, adoption of private sewers, pensions, environmental information regulations, allocation of charges between household and

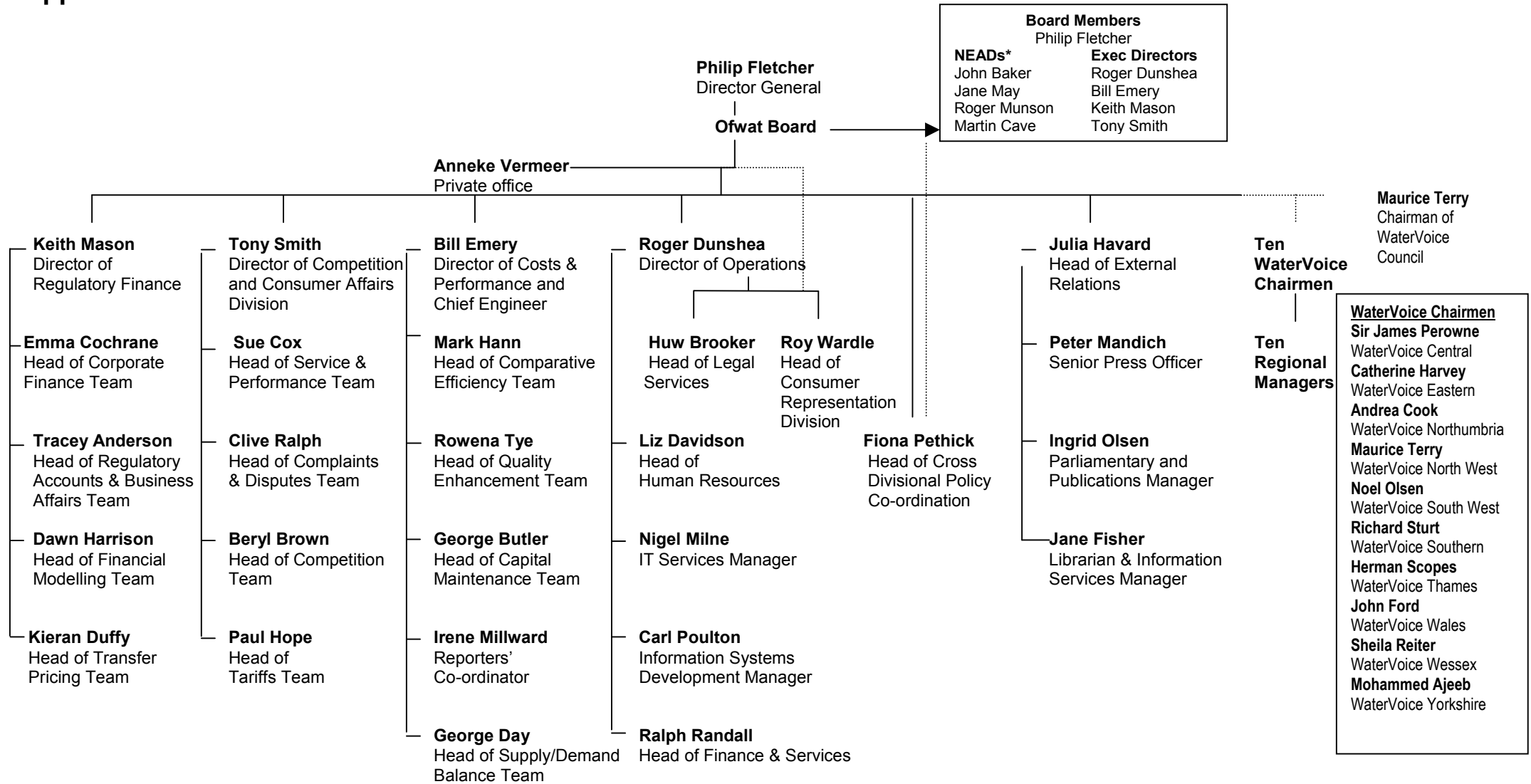
non-household customers that can be disconnected, legislation, cost of energy, insurance and abstraction licenses.

- The process of the interim determinations needs to be re-examined, with aggregation looked at more closely.

Response

We set out our approach to managing uncertainties at the price review in March 2003. We continue to consider particular issues of uncertainty and will indicate our assumed notified items with draft determinations for consultation. We are proposing some changes to materiality calculations and substantial effects clauses in our licence modifications consultation paper issued on 2 March. We will issue our conclusions on these issues in our draft determinations document.

Appendix 2 - Ofwat structure



Addresses of Ofwat staff are in the form:
firstname.surname@ofwat.gsi.gov.uk

* Non-executive advisory directors

Appendix 3 - Glossary of terms

Business plan	The business plans set out companies' overall strategies and the implications for price limits and average bills; their strategic objectives in terms of service performance, quality, environmental and other outputs; the activities necessary in the period to meet these objectives; and the scope for improvements in efficiency.
Common carriage	The shared use by other suppliers of an Appointee's network (resources, treatment works and pipes) to provide water and / or sewerage services to different customers.
Competition Act 1998 (CA98)	The Act, which took effect on 1 March 2000, prohibits agreements that prevent, restrict or distort competition and prohibits abuses of a dominant position. The Director's jurisdiction covers all commercial activities connected with the supply of water or sewerage services. It is not restricted to Appointees.
Competition Commission (CC)	Considers merger references. CC is also the body to whom companies can appeal if they wish to contest Ofwat's decisions on price limits, licence amendments and accounting guidelines. Parties can appeal to the CC on a decision made under the Competition Act 1998 by the Director in respect of agreements or conduct. Appeals can be made on the substance of decisions or on penalties imposed.
Cost of capital	The minimum return that providers of capital require to induce them to invest in or lend to a business, given its risks (also weighted average cost of capital).
Inset appointments	The mechanism by which one company can replace another to supply a specific geographical area. Insets can be granted by the Director in three circumstances: <ul style="list-style-type: none">• where the incumbent agrees to change its area;• for areas that have no public supply (greenfield site); or• for large users where demand is at least 100 megalitres of water a year in England, and 250 megalitres in Wales.
Interim determination	Condition B of the Licence allows the Director to make adjustments to a price limit in any year for certain relevant changes of circumstances. The Director may indicate his assumptions for certain 'notified items'. Significant differences from these assumptions may also trigger an interim determination. Key variations are: for changes in legal obligations placed on companies; failure to achieve legal requirements allowed for when price limits were set; and to allow for differences between the actual proceeds of surplus land and the proceeds assumed when price limits were last set.
June return	Water companies' annual report's to Ofwat detailing progress on capital expenditure programmes and key programmes to comply with legal obligations set by the Government or EU, e.g. to clean up bathing waters. Provides a framework for the submission of the majority of information required enabling Ofwat to monitor progress and compare performance between companies. Some of the

information is commercial in confidence but the majority is placed in the Ofwat library and published on a CD-ROM.

Regulatory accounts	Accounts submitted by companies to Ofwat in respect of the regulated businesses and presented on a current cost basis. They are separate from the statutory accounts (which are based on historical costs).
Ring-fencing	Licence conditions and accounting rules that allow the regulated business to be viewed and treated as an independent company. Segregating and protecting assets and resources of the regulated business from other activities of the group.
Self-lay	Where developers, or their contractors, install new water mains and service pipes instead of asking the water company to do the work.
Vulnerable Group Regulations	The Water Industry (Charges) Vulnerable Groups Regulations come into force on 1 April 2005. The Vulnerable Groups Regulations state the nature of the assistance to be provided to a prescribed class of persons (vulnerable groups) who are eligible to apply for assistance with water and sewerage charges. The regulations apply only to companies in England.
WaterVoice	In April 2002 the ten Ofwat Customer Service Committees and the Ofwat National Customer Council were renamed WaterVoice Committees and WaterVoice Council. This move reflects the developing independence of WaterVoice in representing the opinions of customers across England and Wales.

Appendix 4 - List of stakeholders who attended the workshop and those who provided written responses

Stakeholders who attended the workshop

NAME	ORGANISATION
Ackroyd, Richard	Yorkshire Water Services Ltd
Ahmed, Umer	RSM Robson Rhodes
Ajeeb, Mohammed	WaterVoice Yorkshire
Anderson, Paul	Energy Information Centre
Arnell, David	Black & Veatch
Baines, Prof Chris	Baines Environmental
Baker, Bill	NERA
Barkatullah, Nadira	London Economics
Barker, Ian	Environment Agency
Bateman, Jon	Halcrow Management Sciences
Bellis, Brynley	Dee Valley Water Plc
Binnie, Prof Chris	CIWEM
Bowhay, John	Food & Drink Federation
Bowler, Peter	Waterwatch
Braley, Stuart	Severn Trent Trust Fund/ Public Utilities Access Forum
Brodie, Ian	Friends of the Lake District
Brown, Colin	WaterVoice Northumbria
Burton, Andrew	Royal Bank of Scotland (Utilities Credit Research)
Butler, Paul	Mid Kent Water PLC
Carter, Jimmy	Mott Macdonald
Cave, Martin	NEAD
Conroy, Paul	Water Research Centre
Cooke, Tony	Bournemouth & West Hampshire Water Plc
Cowley, Tom	Cambridge Water Plc
Crichton, Pauline	Water Industry Commissioner for Scotland
Cummins, Andy	Surfers Against Sewage
Dawson, Will	WaterVoice Central
Delacour, Barrie	Southern Water Services Ltd
Dewhurst, Kevin	United Utilities Water Plc
Dobson, Ian	Chartered Institute of Purchasing and Supply
Donkin, Steve	Babtie Group
Dovey, Bill	Bournemouth & West Hampshire Water Plc
Edwards, Graham	Thames Water Utilities Ltd
Edwards, Paul	Welsh Water (Dwr Cymru Cyfyngedig)
Egerton, Dr Martin	Egerton Consulting
Elder, Alastair	Halliburton Brown & Root Services
Fielden, Piers	WaterVoice Wessex
Firth, Graham	Bristol Water Plc
Fisher, Jonathan	Environment Agency
Floate, Philip	Halcrow Management Sciences
Ford, John	WaterVoice Wales
Fordham, Peter	South West Water Ltd
Forrest, Patricia	WaterVoice Wales
Forster, Peter	National Sewerage Association
Franceys, Richard	WaterVoice Central
Gibbs, Karen	WaterVoice Southern
Goodwin, Stuart	Thames Water Utilities Ltd

Gorman, Julia	Mid Kent Water PLC
Graham, Helen	Three Valleys Water Plc
Grayson, Mike	Arup & Partner
Hall, Keith	Strategic Management Consultants
Hall, Martin	Three Valleys Water Plc
Hallam, Margaret	WaterVoice Eastern
Hardy, Richard	Surfers Against Sewage
Harley, Colin	Southern Water Services Ltd
Harrington, Roger	Bournemouth & West Hampshire Water Plc
Harris, Keith	Wessex Water Service Ltd
Harvey, Catherine	WaterVoice Eastern
Hatton, John	Fitch Ratings
Hawken, Glen	Halcrow Management Sciences
Hawkins, Jeremy	Halcrow Management Sciences
Haywood-Smith, Ben	Strategic Management Consultants
Helm, Dr Dieter	New College, Oxford
Henderson, Martin	Tendring Hundred Water Services Ltd
Hickman, Carol	Society of British Water and Wastewater Industries
Hinton, David	South East Water Plc
Holladay, Norman	Dee Valley Water Plc
Hopkinson, Laurie	WaterVoice Yorkshire
Johnson, Martin	HM Treasury
Jones, Ceri	Northumbrian Water Ltd.
Kelham, Peter	Halliburton Brown & Root Services
Kent, Nigel	MWH UK Ltd
King, Mike	Bristol Water Plc
Land, Adam	HM Treasury
Latrempolier, Franck	Europe Economics
Leech, Barbara	WaterVoice Northumbria
Leppard, Mike	Health & Safety Executive
Lewis, Chris	Chartered Institute of Purchasing and Supply
Lewis, Matt	South Staffordshire Water Plc
Linfield, Brian	WaterVoice North West
Lofthouse, Helen	Tendring Hundred Water Services Ltd
Loh, Rowan	South East Water Plc
Lumbers, Jeremy	Tynemarch Systems Engineering
Mannering, David	Anglian Water Services Ltd
Marsden, James	English Nature
Marshall, Rob	Prudential
Marshall-Lee, Robert	Newton Investment Management
Mather, Graham	European Policy Forum
Miller-Bakewell, Robert	Merrill Lynch
Mills, Philip	Water UK
Milne, Andrew	WaterVoice Thames
Mobbs, Peter	Water Research Centre
Monk, Wendy	Anglian Water Services Ltd
Morley, Steve	Cambridge Water Plc
Mullord, Paul	British Water
Munson, Roger	Non Executive Advisory Director - Ofwat
Newsome, Chris	Yorkshire Water Services Ltd
Offer, Christopher	Mott McDonald
Orr, Alison	Scottish Water
Oswald, Ken	Northumbrian Water Ltd.

Owen, Jon	Severn Trent Water Ltd
Parr, Matthew	Indepen
Perowne, Sir James	WaterVoice Central
Price, Howard	Chartered Institute of Environmental Health
Reddish, Gordon	Total Energy UK
Reeson, Stephen	Food & Drink Federation
Reid, Mike	Monson Engineering Ltd
Reiter, Sheila	WaterVoice Wessex
Richards, Keith	South West Water Ltd
Riley, Caroline	Mersey Basin Campaign
Roberts, Denise	Folkestone & Dover Water Services Ltd
Roberts, Margaret	WaterVoice South West
Roberts, Steve	Mott Macdonald
Sawdon, Roger	W S Atkins
Scopes, Herman	WaterVoice Thames
Sims, Graeme	United Utilities Water Plc
Sivell, Philip	Major Energy Users Council
Smith, John	Consultant
Smith, Neville	Portsmouth Water Plc
Sonden, Lester	Sutton and East Surrey Water Plc
Spears, Bob	Utility Consumers Consortium
Spencer, Jean	Yorkshire Water Services Ltd
Suggate, Jennifer	WaterVoice Wessex
Terry, Maurice	WaterVoice North West
Thicknes, Bill	Folkestone & Dover Water Services Ltd
Wade, Roger	Environment Agency
Watts, Comdr. Peter	WaterVoice Southern
Webb, David	North Eastern Purchasing Organisation
Weedon, Robert	Water UK
Whelan, Angela	Ecofin
Williams, Tony	Biwater Treatment
Wilson, Mark	Severn Trent Water Ltd
Wright, Catherine	Environment Agency

Stakeholders who provided a written response

PCS Trade Union
 Friends of the Lake District
 Bournemouth and West Hampshire Water
 WV Eastern
 DWI
 United Utilities
 SBWWI
 HSE
 English Nature