

Future Charges for Water and Sewerage Services

The outcome of the Periodic Review

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CONTENTS

	Page
Foreword	1
Overview	4
1. Approach to price setting	14
2. The Director's projections	21
3. Scope for cost saving through greater efficiency	30
4. Costs of base service provision	36
5. Enhanced service levels	40
6. Supply/demand balance	42
7. Quality enhancements	45
8. Financial issues	48
9. Tariff basket and charging methods	53
Customer involvement, affordability and levels of service: Statement by the Chairmen of the ten Ofwat Customer Service Committees	55

FOREWORD

This first Periodic Review, which is a reassessment and resetting of price limits for the 31 water, and water and sewerage companies in England and Wales, has taken place within the regulatory framework laid down by Parliament.

In making my determinations, I have to act so that companies are able to operate on a sound financial basis and achieve reasonable returns. Subject to that, I must also look after the interests of customers. Achieving a balance between these duties, and between the various interests, has required careful judgement.

Price limits

Increases in prices are limited by a formula $RPI + K$ (as set out in the Licence), where the Retail Price Index (RPI) represents inflation and K is a company-specific number which limits the permitted annual increase in average charges above the rate of inflation. My determinations relate solely to K factors and to the limits on infrastructure charges which companies are able to levy on new properties connected for domestic water or sewerage services. Subject to these limits, the regulatory regime gives companies incentives to pursue their objectives, including their statutory obligations, as efficiently as possible.

A consultative process

Throughout the Periodic Review, I have been open and consultative in setting out my objectives and developing my approach to setting new price limits. In particular, I have sought to involve the companies, their customers, the quality regulators, the Secretaries of State for the Environment and for Wales, Parliament, the media and the City in this process, and encouraged proper exchanges of information between them and Ofwat.

I believe the price setting process over the last 3 years has been productive and challenging. Ofwat has worked closely with the companies throughout on both policy and technical issues, for example, in the Director General's Working Groups.

I have issued consultation papers on *The Cost of Capital* (1991), *Assessing Capital Values* (1992), *The Cost of Quality* (1992), *Paying for Quality* (1993) and *Paying for Growth* (1993). Last November I published my conclusions in the light of the responses to my consultation papers, setting out the approach to the review in *Setting Price Limits for Water and Sewerage Services*.

Involvement of customers

Customers have been more involved than ever before in influencing decisions on prices and customer service. The Customer Service Committees (CSCs), and in particular their Chairmen, have advised me on customers' views and concerns from a position of knowledge. Their role has been, I believe, a valuable innovation in regulation. Their views are set out at the end of this document.

