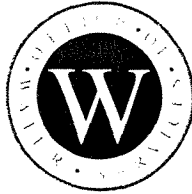


I C R Byatt
Director General



Office of Water Services
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Ref: MD37

3 October 1990

To: Managing Directors of:
Water Companies and Water and Sewerage Companies

ANNUAL REPORTS: FOLLOW-UP ACTION:

I have generally been impressed by the substantial and comprehensive Annual Reports which we have now received from the Appointed Companies. I appreciate the considerable resources which have evidently been committed to their completion. I thought that you would wish to know how I intend to respond to those reports.

No applications have been received this year for interim adjustments to K and equally I have not issued any review notices. I believe that this situation reflects a joint feeling that it is essential to view the investment needs of the industry within a medium term framework.

However it is important that Ofwat should monitor how well the individual companies are progressing with their substantial capital investment programmes. The Annual Reports indicate some slippage and reordering of priorities. We need therefore to consider whether those companies are going to experience some delay in achieving their stated objectives.

Dr Emery and his staff are arranging visits to each of the Appointed Companies to discuss the conclusions of the reports and their implications for the future. These meetings are an essential part of the reporting regime.

Dr Emery has already written to a number of companies asking them, in the light of their Annual Report, to reassess their probable investment targets and revenue requirements in the short term. Where changes in expenditure are material, companies will want to consider whether to defer a proportion of their "K" over the next one or two charging years so that their future income is brought back into balance. Such an approach is in line with our policy to encourage active management of the companies' programmes within the medium term without unnecessary recourse to formal interim adjustments.

.../...

.../...

These discussions will be strictly in confidence. Decisions by companies on their tariffs for next year will not become public knowledge until after submission of the Principal Statements by the Companies by 1 February next year.

Anneke Vermeer

ICR Byatt

Signed on behalf of
Mr J C R Byatt