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OFWAT ANNOUNCES FINAL PRICE LIMITS FOR WATER COMPANIES

Ofwat today published final price limits for the water and sewerage companies in England and Wales for the five years from 1 April 2005.

Effect on customers' bills

- Price limits of 4.2% a year on average for five years (before inflation) compared with 6.2% proposed by companies.
- Increase in average household bill of £46 (18%) from £249 this year to £295 by 2009 (before inflation) - one-third less than £72 (29%) increase sought by companies. Compares with Ofwat draft increase of £34 (13%).
- Bill increases needed to finance substantial (£16.8bn) capital programme, and higher running costs faced by efficient companies.
- Increase of 8.5% in bills in April 2005 to reflect companies' costs in 2005-06. Companies sought 12% increase.

Benefits

- Safeguards essential customers' services and the environment - requires bigger programme than in the past to maintain pipes, sewers and treatment works for the future.
- Ensures customers receive even safer, more reliable supplies of drinking water - achieved through further improvement schemes in water quality and security of supply.
- Further protection to the environment - major programme of more than 3,000 schemes to improve rivers and coastal waters, and over 500 investigations to inform decisions on future environmental protection.
- Resolve or alleviate internal flooding from overloaded sewers for all high-risk properties identified by companies.

Effect on companies

- Price limits enough to enable efficient companies to carry out and finance their functions now and in the future.
- Reductions in company proposals reflect some cuts in outputs and realistic cost assumptions.
- Demanding efficiency challenges assume all companies, especially less efficient, will improve further and faster than economy as whole. Scope for all companies to out-perform our assumptions.
- Financing assumptions appropriate for efficient companies to maintain access to the capital markets, e.g. post-tax cost of capital kept at 5.1%. Regulatory capital value estimated to rise from £35 billion to £41 billion over five years.

Philip Fletcher, Director General of Water Services, said:

"These decisions strike the right balance. They will enable water companies to meet the needs of customers and the environment whilst continuing to deliver a safe and reliable service. The price limits are as high as they need to be but no higher.

"We have considered carefully the comments made by customers, the companies, environmental groups and the City on our draft decisions published in August. And we have taken into account Ministers' final guidance.

"To protect the progress that companies have already made to customer services and the environment, and to deliver further improvements, bills will need to increase by an average £46 over the next five years. But the increase will still be one-third lower than the companies sought.

"We know these increases will be unwelcome, especially to customers on low incomes. We have challenged the companies' costs to ensure customers continue to receive value for money from their water and sewerage services. This means that by 2009 customers will be paying on average only around 7% more, before inflation, than they were in 1999.

"We have responded to the wishes of customers, WaterVoice and the sewerage companies who wanted to see further investment to deal with the scourge of sewer flooding. The new price limits will now enable companies to resolve or alleviate, by 2010, all the known high-risk problems identified in their business plans where overloaded sewers cause flooding inside properties. They will also be able to make further progress in dealing with external sewer flooding problems.

"We have confirmed a significant increase in work on maintaining pipes, sewers and treatment works. This will safeguard water companies' assets and ensure secure supplies in the future.

"We have worked closely with the environmental regulators to ensure the water companies will be able to continue to play their part in protecting the environment on a long-term sustainable basis.

"We have included almost all of the water quality and environmental schemes, and investigations, sought by Ministers. But in the small number of cases where the company proposals appear poor value for money we have asked for these to be reappraised. Our price setting regime can deal with the costs of any extra work confirmed during the 2005-10 period."

Notes to Editors:

1. The Director General of Water Services is the economic regulator of water and sewerage companies in England and Wales. He exercises his powers in a way that he judges will allow them to carry out their functions properly, and finance them.
2. The final determination document, 'Final Determination - Future water and sewerage charges 2005-10', will be available from the Ofwat library on 0121 625 1373 and on Ofwat's website www.ofwat.gov.uk.
3. The figures quoted in all the attached tables are before inflation. Tables 1 and 2 are presented in 2004-05 prices.
4. Ofwat has published ten regionalised press notices to provide more information on our final decisions for [Wales](#), and for the other nine regions in England: [Anglian](#), [Northumbrian](#), [Severn Trent](#), [South West](#), [Southern](#), [Thames](#), [United Utilities](#), [Wessex](#) and [Yorkshire](#).
5. Although this marks the end of the periodic review, companies will have until 1 February 2005 to ask the Director General to refer the price limits he has set to the Competition Commission for redetermination.
6. Ofwat published its draft price limits in August 2004. These are available on the Ofwat website www.ofwat.gov.uk.
7. Media enquiries to Ofwat Press Office on 0121 625 1416/1496/1442. Out of hours enquiries to pager: 08700 555 500 water 503/509.

Table 1 - What is driving the changes in bills?		
Average household bill in 2004-05		£249
Less	(1) past efficiency savings and outperformance	(3)
	(2) scope for reduction through future efficiency improvements	(13)
Plus	(3) maintaining base services	18
	of which (a) changes in revenue	
	(b) changes in operating costs	10
	(c) changes in capital maintenance	7
	(d) changes in impact of taxation	5
	(e) financing	2
	(4) maintaining security of supplies to all customers	11
	(5) the impact of improvements in services	33
	of which (a) drinking water quality	9
	(b) environmental improvements	21
(c) service performance	3	
Average household bill in 2009-10		£295
Change from 2004-05 to 2009-10		£46

Table 2 – Average expected household bills

Average annual household bills (£)													
Water and sewerage companies	2004-05			2005-06			2009-10			Change (from 2004-05 to 2009-10) ¹			
	Water	Sewer- age	Total	Water	Sewer- age	Total	Water	Sewer- age	Total	Water	Sewer- age	Total ¹	
												£	%
Anglian	122	172	294	133	169	302	140	173	313	18	1	20	7
Hartlepool (water only)	94	-	94	103	-	103	108	-	108	14	-	14	15
Dwr Cymru	123	163	286	144	178	323	153	199	352	30	36	65	23
Northumbrian	100	132	232	106	137	243	114	146	260	14	14	28	12
Essex & Suffolk (water only)	132	-	132	141	-	141	153	-	153	21	-	21	16
Severn Trent	116	105	221	126	119	244	133	132	265	16	27	43	20
South West	126	231	357	145	241	386	179	265	444	53	34	87	25
Southern	91	168	259	109	182	290	110	214	324	19	46	65	25
Thames	113	98	210	146	100	246	156	104	261	44	7	50	24
United Utilities	133	136	269	131	146	277	147	175	322	14	39	53	20
Wessex	126	151	276	144	157	301	170	177	347	44	26	70	25
Yorkshire	117	126	243	122	133	254	133	155	288	17	28	45	18
WaSC average (weighted)	118	132	250	131	140	271	142	155	297	24	23	47	19
Water only companies													
Bournemouth & West Hampshire	107	-	107	123	-	123	122	-	122	15	-	15	14
Bristol	108	-	108	121	-	121	122	-	122	14	-	14	13
Cambridge	91	-	91	100	-	100	101	-	101	10	-	10	11
Cholderton	136	-	136	146	-	146	166	-	166	30	-	30	22
Dee Valley	107	-	107	110	-	110	106	-	106	-1	-	-1	-1
F'stone & Dover	143	-	143	153	-	153	176	-	176	33	-	33	23
Mid Kent	131	-	131	142	-	142	151	-	151	19	-	19	15
Portsmouth	77	-	77	76	-	76	80	-	80	4	-	4	5
South East	129	-	129	148	-	148	151	-	151	21	-	21	16
South Staffs	91	-	91	100	-	100	106	-	106	15	-	15	17
Sutton & E Surrey	127	-	127	142	-	142	143	-	143	16	-	16	13
Tendring Hundred	162	-	162	159	-	159	158	-	158	-4	-	-4	-2
Three Valleys	118	-	118	134	-	134	138	-	138	20	-	20	17
WoC average (weighted)	113	-	113	126	-	126	129	-	129	16	-	16	14
Industry average (weighted)	117	132	249	130	140	270	140	155	295	23	23	46	18

¹ Changes totals may not add up due to rounding.

Table 3 - Final price limits for 2005-06 to 2009-10

Company	Annual price limits (%)					Average ¹
	2005-06	2006-07	2007-08	2008-09	2009-10	
Water and sewerage companies						
Anglian	3.8	0.0	2.8	2.7	2.7	2.4
Dwr Cymru	14.2	3.6	4.1	3.3	2.2	5.4
Northumbrian	6.5	3.7	3.2	1.0	0.6	3.0
Severn Trent	11.8	4.8	2.0	1.7	2.3	4.5
South West	12.5	9.8	9.8	1.7	1.4	6.9
Southern	12.6	3.9	3.5	5.8	2.6	5.6
Thames	14.9	2.1	1.2	1.3	1.5	4.1
United Utilities	5.0	6.4	4.4	3.5	3.0	4.5
Wessex	8.9	4.9	5.6	4.0	2.9	5.2
Yorkshire	5.5	4.9	3.6	3.6	2.1	3.9
WaSC average (weighted)	9.4	4.0	3.4	2.7	2.2	4.3
Water only companies						
Bournemouth & W Hampshire	15.9	2.2	1.6	-0.6	-2.4	3.1
Bristol	13.8	2.8	1.5	0.7	-2.3	3.2
Cambridge	11.8	1.6	0.3	-0.8	-0.3	2.4
Cholderton	7.0	7.0	5.6	0.0	0.1	3.9
Dee Valley	5.7	-1.4	0.2	0.6	-0.7	0.8
Folkestone and Dover	8.3	7.3	4.0	1.9	2.6	4.8
Mid Kent	9.0	0.5	1.9	2.6	2.7	3.3
Portsmouth	-0.7	-0.6	1.5	2.5	1.0	0.7
South East	15.8	2.3	2.2	0.5	-1.6	3.7
South Staffordshire	9.9	2.5	1.7	1.0	1.3	3.2
Sutton and East Surrey	12.9	2.0	1.1	-1.0	-1.1	2.7
Tendring Hundred	-1.8	-0.7	0.6	-0.3	-0.5	-0.5
Three Valleys	15.3	1.8	1.2	-0.2	0.1	3.5
WoC average (weighted)	12.4	1.9	1.5	0.4	-0.3	3.1
Industry average (weighted)	9.6	3.9	3.2	2.5	2.0	4.2

¹ The average for the price limits is the geometric average of the annual price limits

Table 4 - Comparison of price limits with business plans by company**Average annual price limits 2005-06 to 2009-10**

Company	Business plan	2004 Final determination	Difference
Water and sewerage companies			
Anglian	4.6	2.4	-2.2
Dwr Cymru	5.9	5.4	-0.5
Northumbrian	5.0	3.0	-2.0
Severn Trent	5.6	4.5	-1.1
South West	8.7	6.9	-1.8
Southern	7.7	5.6	-2.1
Thames	6.7	4.1	-2.6
United Utilities	7.8	4.5	-3.3
Wessex	6.5	5.2	-1.3
Yorkshire	4.3	3.9	-0.4
WaSC average (weighted)	6.3	4.3	-2.0
Water only companies			
Bournemouth & W Hampshire	3.2	3.1	-0.1
Bristol	6.2	3.2	-3.0
Cambridge	4.3	2.4	-1.9
Dee Valley	1.9	0.8	-1.1
Folkestone and Dover	8.3	4.8	-3.5
Mid Kent	4.3	3.3	-1.0
Portsmouth	3.7	0.7	-3.0
South East	5.8	3.7	-2.1
South Staffordshire	3.8	3.2	-0.6
Sutton and East Surrey	7.7	2.7	-5.0
Tendring Hundred	0.7	-0.5	-1.2
Three Valleys	6.7	3.5	-3.2
WoC average (weighted)	5.5	3.1	-2.4
Industry average (weighted)	6.2	4.2	-2.0

Table 5 - Capital investment assumptions 2005-10

	Final determinations		Total £bn
	Water £bn	Sewerage £bn	
Capital expenditure^{1 2} (five year total)			
Capital maintenance	4.2	4.2	8.4
Supply/demand balance	1.7	0.6	2.3
Quality enhancements	2.1	3.4	5.5
Enhanced service levels	-	0.6	0.6
Total	8.0	8.8	16.8
£ per property	341	391	732

1 Capital expenditure is net of grants and contributions.

2 The price base is 2002-03 prices.