

Tariff structure and charges
2005-06 report

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Foreword

This report summarises companies' regulated charges for 2005-06. It describes our approach to assessing and approving companies' charges schemes, and sets out our policy on tariff issues.

In December 2004 we set new price limits for each company which apply from 1 April 2005 to 31 March 2010. The price limits are for increases on average in England and Wales of 4.2% a year before inflation over the five years. The increases are higher in 2005-06 because this is the first opportunity to adjust prices for the increased costs that the companies have incurred over the past five years. Average household bills for water and sewerage are increasing from April 2005 by £29 (11.8% including inflation) to £278. This is still £7 less than the equivalent bills in real terms for April 1999.

The reasons for the increase are set out in full in the Ofwat final determinations publication, 'Future water and sewerage charges 2005-10'. We have accepted the need for increases to meet additional unavoidable costs and new investment. But the increase has been partly offset by a stiff challenge to the companies to keep down their costs by becoming more efficient. The impact of the price limits on each customer's bill varies depending for measured customers on the amount of water they use and for unmeasured customers on the rateable value of their home.

Overall, the price limits are set as high as they need to be to enable each company to maintain the progress in service, quality and performance already achieved and to make the further advances required. At the same time, the affordability of water and sewerage bills is an issue for many customers, and especially for those on fixed incomes. Whilst we cannot set price limits on the basis of assessing affordability, they are no higher than they have to be. In December 2004, the Government published a report on affordability issues for water customers and promised further work. We will work with Defra, WaterVoice and others to contribute to this work over the coming months.

The tariffs set must conform with the price limits. We work too from the principle that bills should be broadly cost-reflective, following our statutory duty to ensure that no undue preference is shown and that there is no undue discrimination in the fixing of charges. We explain in the report how we apply these principles. For 2005, the average increases are slightly greater for measured than for unmeasured customers, in order to help achieve a fully cost-reflective balance between the two.

A handwritten signature in black ink that reads "Philip Fletcher". The signature is written in a cursive style with a large initial 'P' and 'F'.

Philip Fletcher
Director General of Water Services

Summary

Price limits and bills

- Ofwat set price limits in December 2004 for the five years 2005-10, averaging 4.2% a year before inflation.
- The average increase in price limits for 2005-06 is 9.6% (excluding inflation).
- The average increase in household water and sewerage bills from April 2005 is 11.8% including inflation.

Charges for households

- All companies have followed our guidance in making the difference between their measured and unmeasured charges reflect more closely the different costs of the two methods of charging.
- All ten water and sewerage companies have in our view established a fair balance between charges for household sewerage and for trade effluent customers.

Charges for large users

- All companies now offer reduced rate tariffs for larger users, reflecting the lower costs of supplying those customers.

Highlights for individual companies

- Dŵr Cymru has again paid a 'customer dividend' to each customer to reflect the structure of its owner as a company limited by guarantee and the progress it has made against its performance targets.
- With our approval, South West Water, Southern Water and Wessex Water have applied their price limits more evenly between their water and sewerage services, compared with our indicative split of those limits. The companies will ensure that the balance between prices for the two services is fully cost-reflective by the end of the five-year period.
- Average bills for water services range from £79 for Portsmouth Water to £163 for Tendring Hundred, with an overall average of £134. Average sewerage bills range from £102 for Thames Water to £254 for South West Water, with an overall average of £144.

1. Price limits and bills

We regulate water and sewerage charges by setting a limit on the average increase in charges that a company can impose in any year. We set this limit, for the 23 water (and sewerage) companies in England and Wales. The limit is the amount by which a company can increase (or must decrease) its overall average charge above (or below) inflation each year to finance its services and meet its legal obligations.

1.1 How price increases are controlled

Each company has a licence that provides the framework within which we carry out our regulatory duties. Condition B of the licence sets out the RPI+K+U formula for applying price limits. K is the limit we set on the increase in the overall average charge, excluding inflation, for each company for each year. A company has the option to apply its full K (or less than its full K) in any one year. If the company does not use its full K, it can carry forward this unused K to future years. This is the U in the price limit formula.

RPI measures inflation and is the percentage increase in the Retail Price Index in the year to the November before the charging year that begins on 1 April. RPI to November 2004 was 3.45%.

We require each company to produce an annual audited statement (the principal statement) so that we can check that the overall weighted average increase of the company's tariffs does not exceed the price limit.

Companies apply the price limit to the set of regulated charges – the tariff basket (see section 1.5). The tariff basket comprises the following 'basket items':

- unmeasured water;
- unmeasured sewerage;
- measured water;
- measured sewerage; and
- trade effluent.

Within the price limit companies can increase or decrease average charges for individual basket items by different amounts, as long as the overall average change is consistent with the price limit. A company can, for example, increase charges for unmeasured sewerage services by a greater percentage than charges for measured sewerage services.

1.2 Price limits for 2005-06 to 2009-10

In December 2004, we set new price limits for each company for the years 2005-06 to 2009-10. We published these and explained the reasons for our decisions in our report, 'Future water and sewerage charges 2005-10: Final determinations'. As specified under the terms of their licences, each company had the right to ask us by 1 February 2005 to refer its price limits to the Competition Commission for a re-determination. None of the companies exercised this right.

1.3 Current price limits

The price limits for 2005-06 are shown in table 1. For 2005-06, the average price limit for all companies is 9.6%, and including inflation it is 13.1%.

Table 1 Price limits in 2005-06

	Price limit excluding inflation for 2005-06 %	Price limit including inflation %	Actual increase in average charge %	Unused K carried forward %
Water and sewerage companies				
Anglian	3.80	7.25	7.25	–
Dŵr Cymru ¹	14.20	17.65	12.59	5.06
Northumbrian ²	6.50	9.95	9.92	0.03
Severn Trent	11.80	15.25	15.25	–
South West	12.50	15.95	15.95	–
Southern	12.60	16.05	16.05	–
Thames	14.90	18.35	18.35	–
United Utilities	5.00	8.45	8.45	–
Wessex	8.90	12.35	12.35	–
Yorkshire ³	5.50	8.95	8.95	–
WaSC average (weighted)	9.40			–
Water only companies				
Bournemouth & W Hampshire	15.90	19.35	19.35	–
Bristol	13.80	17.25	17.25	–
Cambridge	11.80	15.25	15.25	–
Cholderton	7.00	10.45	10.45	–
Dee Valley	5.70	9.15	9.15	–
Folkestone & Dover	8.30	11.75	11.75	–
Mid Kent	9.00	12.45	12.45	–
Portsmouth	-0.70	2.75	2.75	–
South East	15.80	19.25	19.25	–
South Staffordshire	9.90	13.35	13.35	–
Sutton & East Surrey	12.90	16.35	16.35	–
Tendring Hundred	-1.80	1.65	1.65	–
Three Valleys ⁴	15.30	18.75	18.75	–
WoC average (weighted)	12.40			
Industry average (weighted)	9.60			

Notes:

- a. Companies are permitted to increase charges, on average, by the sum of K, RPI inflation and unused K brought forward. Unused K brought forward from 2004-05 is not shown separately. Any unused K from 2004-05 was incorporated into the 2005-06 price limits.
- b. RPI inflation in the year to November 2004 was 3.45%.
1. Dŵr Cymru has deferred 5.06% of its allowable price increase for 2005-06.
2. The price limit for Northumbrian Water applies to the former Essex & Suffolk Water's area.
3. The price limit for Yorkshire Water applies to the former York Waterworks area.
4. The price limit for Three Valleys Water applies to the former North Surrey Water's area.

1.4 Change in circumstances

We set price limits to be sustainable over the five-year period. However, we recognise that unforeseen circumstances, which are outside the control of an efficient company, could result in significant changes in costs (both up and down). To deal with this, we have put in place three mechanisms to protect the companies and their customers from material changes in costs that affect the water industry between reviews.

- **Interim determinations.** These allow the companies, or us, to seek revised price limits if specified changes occur in the period since we last set price limits which have a total impact on the company amounting to at least 10% of its turnover. (See our report, 'Future water and sewerage charges 2005-10: Final determinations'.)
- **Logging up and down.** This takes account, at the start of the next price limit period, of changes in outputs required of the companies during the previous price limit period.
- **Substantial effect determinations.** These allow companies, or us, to seek revised price limits if a circumstance beyond a prudent company's control changes so that the total adverse or beneficial impact on the company amounts to at least 20% of its turnover.

1.5 The tariff basket

The tariff basket formula is a complex mechanism for weighting increases in individual tariffs. The current formula was established in the run-up to privatisation in 1989 by the then Secretaries of State for the Environment and for Wales.

Put simply, the tariff basket comprises two methods of calculating the weighted average increase – one for unmeasured charges and one for measured charges. Most of a company's charges are linked within the tariff basket as a whole, which means that changes to one basket of charges can be offset by changes to another. Similarly, changes to individual tariffs can be offset by changes to others. This is known as tariff rebalancing. We explain these issues in 'Tariff rebalancing and the tariff basket: a consultation paper', which we published in May 1997. We also explain the workings of the tariff basket more fully on our website at www.ofwat.gov.uk.

1.6 The balance between water and sewerage charges

We have a duty to ensure that companies do not show undue preference or undue discrimination in their charging policies. We interpret this to mean that, where possible, there should be no cross-subsidy between different classes of customer. Charges for

water delivered and sewage taken away should recover fairly the costs of providing each service. This is particularly important for the significant number of customers who receive their water and sewerage services from different suppliers.

We regard the balance between water and sewerage charges to be fair if the share of total revenue that companies gain from each service equals the share of total costs that they incur in providing each service. We consider that the best basis for achieving this is for water and sewerage companies to equalise the rates of return on capital employed in each service. The basis for this calculation should be the regulatory capital values for each service.

For 2005-10, we set single price limits for water and sewerage companies rather than separate water and sewerage service price limits. However, as part of our final determinations in December 2004, we published an indicative split of the price limits for the two services for each of the water and sewerage companies. The separate indicative price limits are shown in table A2 in appendix 2.

In the past, some companies have pointed out that actual expenditure on both water and sewerage services in any particular year may deviate from the forecasts made at the relevant price review. We think it is sensible for companies to follow their indicative price limits for the five-year period as a whole, rather than make year-on-year adjustments to these factors based on actual expenditure.

1.7 Companies' performance in balancing charges

Table 2 shows the indicative price limits for 2005-06 and the extent to which the companies have followed them. For the majority of the companies, we have allowed greater increases for the water service than for the sewerage service to reflect greater planned expenditure for the water service. For Thames Water, for example, the heavy weighting towards the water service reflects its overall strategy to focus on leakage and water resource development to increase its security of supply.

The table shows that most companies have closely followed their indicative price limits for 2005-06. With our approval, South West Water, Southern Water and Wessex Water have decided to apply the indicative price limits more evenly over the five-year period. They have done this to limit the volatility in water and sewerage bills over the period.

Dŵr Cymru has not utilised its full price limit for 2005-06 (see table 1). The differences between Dŵr Cymru's indicative price limits for the water and sewerage services and the actual increases in its respective average charges are consistent with its unused K of 5.06%.

Table 2 Company performance on balancing water and sewerage charges in 2005-06

		Indicative price limits for 2005-06 (including inflation)	Actual increase in average charge for 2005-06 (including inflation)	Difference (indicative increase less actual increase)
		%	%	
Water and sewerage companies				
Anglian	Water	14.15	14.22	-0.07
	Sewerage	3.05	3.05	0.00
Dŵr Cymru ¹	Water	21.45	15.85	5.60
	Sewerage	14.35	9.89	4.46
Northumbrian	Water	10.55	10.47	0.08
	Sewerage	9.25	9.22	0.03
Severn Trent	Water	12.45	12.45	0.00
	Sewerage	18.05	17.95	0.10
South West ²	Water	23.15	18.75	4.40
	Sewerage	11.15	14.05	-2.90
Southern ²	Water	25.65	16.05	9.60
	Sewerage	12.75	16.05	-3.30
Thames	Water	34.75	34.66	0.09
	Sewerage	5.65	5.54	0.11
United Utilities	Water	3.15	3.08	0.07
	Sewerage	12.85	12.82	0.03
Wessex ²	Water	20.25	14.13	6.12
	Sewerage	8.75	11.55	-2.80
Yorkshire	Water	8.85	8.85	0.00
	Sewerage	9.05	9.04	0.01

Notes:

1. Dŵr Cymru has deferred 5.06% of its price limit for 2005-06 (see table 1). The difference between the indicative price limits and actual increases in the average charges for water and sewerage services is consistent with this deferment.
2. These companies have decided, with our approval, to apply the indicative price limits more evenly over the five-year period in order to limit sharp changes in water and sewerage bills.

1.8 Average household bills

Tables 3 and 4 show details of average household bills for all companies for 2004-05 and 2005-06. The tables also show the percentage changes in average household bills for water and for sewerage services from 2004-05 to 2005-06.

We estimate the average household bill for 2005-06 in England and Wales for both water and sewerage services to be £278 (£134 for water and £144 for sewerage). This is £21 higher in real terms than in 2004-05, but still £7 lower in real terms than in 1999-2000.

The level of household bills for 2005-06 varies across England and Wales. For water, Tendring Hundred Water has the highest average bill at £163 and Portsmouth Water the lowest at £79. The level of average sewerage bills ranges from a high of £254 for South West Water to a low of £102 for Thames Water. In addition to these geographic variations, the difference between the average bill and that for an individual customer will depend, for example, on whether the customer has a measured or unmeasured supply.

Table 3 Average household bills for water 2004-05 and 2005-06

	% change in average bills 2004-05 to 2005-06		Average bill for	
	(excluding inflation)	(including inflation)	2004-05 £	2005-06 £
Water and sewerage companies				
Anglian	9.0	12.8	119	134
Dŵr Cymru ¹	11.5	15.3	123	142
Northumbrian				
Northumbrian	6.1	9.7	101	111
Essex & Suffolk	6.9	10.6	130	143
Severn Trent	7.7	11.4	116	129
South West	12.1	16.0	126	146
Southern	12.2	16.0	92	107
Thames	29.6	34.1	112	150
United Utilities	-1.3	2.1	133	136
Wessex	8.5	12.3	126	141
Yorkshire	4.7	8.3	117	126
WaSC average (weighted)	10.3	14.1	118	134
Water only companies				
Bournemouth & W Hampshire	15.8	19.8	107	128
Bristol	14.0	17.9	109	128
Cambridge	10.5	14.3	91	104
Cholderton	6.4	10.1	141	156
Dee Valley	4.1	7.7	106	115
Folkestone & Dover	5.8	9.5	140	153
Mid Kent	8.4	12.1	129	145
Portsmouth	-0.5	3.0	77	79
South East	15.2	19.2	128	153
South Staffordshire	12.6	16.5	89	104
Sutton & East Surrey	11.6	15.4	125	144
Tending Hundred	-1.1	2.3	159	163
Three Valleys	14.2	18.2	119	141
WoC average (weighted)	12.1	16.0	113	131
Industry average (weighted)	10.6	14.4	117	134

Notes:

- Average household bills are for both measured and unmeasured customers.
 - Percentage changes in average bills may not calculate exactly from the last two columns in this table due to rounding.
 - Level of bills for 2004-05 and 2005-06 are estimates based respectively on provisional and forecast data.
 - Inflation, as measured by annual changes in RPI (Retail Price Index), was 3.45% in November 2004.
- The bills are net of the dividends of £4.50 and £9 that Dŵr Cymru gave to customers in 2004-05 and 2005-06 respectively.

Table 4 Average household bills for sewerage 2004-05 and 2005-06

	% change in average bills 2004-05 to 2005-06		Average bill for	
	(excluding inflation)	(including inflation)	2004-05 £	2005-06 £
Water and sewerage companies				
Anglian	-1.2	2.2	166	170
Dŵr Cymru ¹	5.8	9.5	163	179
Northumbrian	4.9	8.5	131	142
Severn Trent	13.1	17.0	105	123
South West	7.1	10.8	230	254
Southern	11.5	15.3	166	192
Thames	2.3	5.8	96	102
United Utilities	6.7	10.3	139	154
Wessex	6.1	9.7	150	165
Yorkshire	5.1	8.7	127	138
Industry average (weighted)	5.8	9.5	132	144

Notes:

- a. Average household bills are for both measured and unmeasured customers.
 - b. Percentage changes in average bills may not calculate exactly from the last two columns in this table due to rounding.
 - c. Level of average bills for 2004-05 and 2005-06 are estimates based respectively on provisional and forecast company data.
 - d. Inflation, as measured by annual changes in RPI (Retail Price Index), was 3.45% in November 2004.
1. The bills are net of the dividends of £4.50 and £9 that Dŵr Cymru gave to customers in 2004-05 and 2005-06 respectively.

2. Approving companies' charges schemes 2005-06

The Water Industry Act 1999 (WIA99) requires all companies to have a charges scheme approved by the Director. Household customers can only be charged in accordance with an approved charges scheme¹.

2.1 Our approach to approving charges schemes

Companies are responsible for deciding individual charges. We ensure that these are consistent with:

- licence Condition B, which requires that overall changes in charges comply with price limits;
- licence Condition E, which requires that tariffs should not be unduly preferential or unduly discriminatory;
- guidance on charging matters from the Secretary of State and the Welsh Assembly Government; and
- the Director's duty to protect customers.

Within this general approach, we have emphasised the following points when approving charges schemes for 2005-06.

- Charges for water and sewerage services should recover fairly the costs of providing each service.
- Companies should maintain a fair balance between unmeasured and measured charges. Any difference, on average, between measured and unmeasured household bills should be no greater than the extra costs of providing a metered service. This difference is known as the measured/unmeasured tariff differential, and it is described in more detail in chapter 3. We set targets for each company's differential, which we discuss further below.
- Companies should maintain a fair balance between measured household sewerage charges and trade effluent charges. Differences in bills should only reflect differences in the volume and strength of the effluent. All companies are within the range we set for 2005-06 (which required that household sewerage and trade effluent charges should be within 5p/m³ of each other). Chapter 5 discusses this in more detail.
- Customers should not see significant changes in their bills from year to year if either their water use or price limits do not change markedly.

¹ This does not affect agreements made between companies and households before WIA99 took effect.

The WaterVoice Committees played an important role in advising us in the approval process for 2005-06. In particular, they:

- participated in the tariffs meetings with the companies in July, August and September 2004;
- provided comments on companies' draft charges schemes during November 2004; and
- commented on revised proposals from companies following the submission of final draft charges schemes.

2.2 Tariffs policy developments

New differential targets

In 2003-04 we reviewed the operation of the measured/unmeasured household tariff differential (see chapter 3 for an explanation of the differential and its purpose). The overall objective of this work was to make the differential more effective in ensuring a fully cost-reflective balance between measured and unmeasured charges. We reported the findings from our review, and consulted on proposed changes in the way we operate the differential, in a letter to Regulatory Directors, RD30/03. Following the consultation, we published our conclusions in RD02/04.

The changes arising from this work take effect from 2005-06. For most companies, they have resulted in greater increases in measured charges than in unmeasured charges. These increases would have been too big if we had required companies to achieve their new targets straight away. Consequently, we have asked most companies to phase in the new targets – moving part way towards them in 2005-06 before reaching them in 2006-07. However, for some companies the impact of the changes on measured charges is not significant, so they have moved directly to target. We have allowed some other companies to phase in the change over three years because the impact is more significant.

Licence modifications

In letters to Managing Directors, MD189, MD194 and MD196, we consulted on a number of proposed modifications to the water companies' licences. Amongst these proposals were the following two modifications that would affect the way that the tariff basket operates.

- To remove an unintended effect on prices where a company changes its charges with the effect that it changes the number of unmeasured properties that are subject to charges.
- To align the definition of large users to be included in the tariff basket with the definition in section 7(5)(a) of the Water Industry Act 1991 (WIA91).

We confirmed these changes in a notice published under section 13 of WIA91. All companies consented to the modifications, which took effect from 1 April 2005.

Change in large user threshold

The Government made an order under section 7(6) of WIA91 to lower the large user (inset) threshold to 50 MI/year with effect from 1 April 2005. Consequently, charges for customers whose water use exceeds this amount were excluded from the tariff basket in 2005-06, so they were not subject to our price limits. These charges are still subject to the requirement that they must be neither unduly preferential nor unduly discriminatory.

2.3 Tariff proposals modified or not approved for 2005-06

Companies have agreed to withdraw or defer a number of proposals for further consideration and possible implementation in 2006-07. These are set out below.

Household tariffs

United Utilities Water wanted to charge measured customers a fee for reverting back to an unmeasured tariff. We and WaterVoice North West opposed this charge because WIA99 gives customers the right to revert back and we thought this should be done free of charge. No other company charges customers to switch from a measured to an unmeasured tariff. United Utilities withdrew this charge.

Tendring Hundred Water proposed to compulsorily meter any kind of leisure pool regardless of its capacity. We challenged this proposal because the Regulations² state that only automatically replenishing ponds or pools with a capacity of greater than 10,000 litres can be compulsorily metered. Subsequently, the company withdrew its proposal.

² Statutory Instrument 1999 no 3442 'The Water Industry (Prescribed Conditions) Regulations 1999' (December 1999).

Mid Kent Water wanted to refund Post Office charges of £5 or more paid by senior citizens or those customers who receive a specified type of benefit. We thought that it was unduly preferential to refund the charges paid by some groups and not others. As a result, the company withdrew this proposal.

Non-household tariffs

Northumbrian Water proposed to use the surface area of non-household customers' sites as the basis for charging them for surface water drainage. We agree that this is the fairest basis on which to charge for surface water drainage (see RD31/03). But we and WaterVoice Northumbria were concerned that the company's proposals would result in unacceptably large bill increases in 2005-06 for some customers. Consequently, we have asked the company to phase in the new charges. In 2005-06 it will apply site area charges only to new customers, and to those whose sites have been substantially altered.

At our request, Bournemouth & West Hampshire Water revised its reservation tariff to ensure that it was consistent with its large user tariff. We set out our policy on reservation tariffs in RD05/03. We explained that a reservation tariff customer who uses all of the water (s)he has reserved should pay the same as a customer who buys the same volume of water at the standard non-household tariff. Bournemouth & West Hampshire Water has now satisfied our concerns on this issue.

Tendring Hundred Water agreed to reduce the volumetric rates of its seasonal tariff. The purpose of this was to ensure that non-household customers did not pay a higher unit rate for water than household customers when their demand patterns were similar to those of household customers.

General

South Staffordshire Water and Three Valleys Water wanted to introduce a charge for customers whose accounts were overdue and subsequently passed onto debt collection agencies. Both companies felt that introducing a charge would reflect the additional costs they incur with overdue accounts (for example debt collection costs), and would encourage prompt payment. We, along with WaterVoice Central and WaterVoice Thames, opposed these policies because they would simply increase the debt of customers who were genuinely having difficulty paying their bill. Both companies withdrew them.

Dŵr Cymru wanted to transfer its highway drainage charge for measured customers from the volumetric rate to the standing charge in 2005-06. However, because of potentially high bill increases for low use customers, we asked the company to phase in the transition. We agreed a two-year phasing period, the first phase being implemented this year.

For several years Sutton & East Surrey Water's charges scheme has included a £500 refundable charge for each new water main connection. This was in addition to the usual connection charge. The charge acted as a prompt for developers to provide the company with information on properties that were transferred to private owners. We interpreted this charge as an unnecessary deposit to encourage developers to supply the company with information. As a result, the company withdrew this policy.

2.4 Timing and methods of payment

We have ensured that charges schemes include the options that companies offer their customers for how and when to pay their bills. In particular, we have ensured that companies meet minimum requirements when offering suitable payment options for customers facing difficulties in budgeting for essential household bills. We expect companies to maintain acceptable payment arrangements for low income customers. This includes making it possible for customers to make cash payments free of charge at reasonably accessible locations.

In 2003 we published the results of a joint study with WaterVoice to look at customers' attitudes to paying for water³. One of the findings was that companies could do more to encourage customers to use frequent payment facilities. Along with WaterVoice, we will continue to work to ensure that water companies plan their debt management and recovery approaches to collect outstanding revenue as effectively as possible. We will also be undertaking a review of the debt guidelines in 2006.

2.5 Competition

The Water Act 2003 (WA03) amends the WIA91 to extend opportunities for competition within England and Wales. Among other things, it provides a specific framework for access to the public water supply systems of statutory water companies within England and Wales for the purpose of supplying a customer's eligible premises.

At the heart of the new competitive framework is the duty on statutory water companies to allow licensees to introduce water into their supply systems, and to give licensees wholesale supplies. Statutory water companies will therefore require access codes that set out all aspects of how they will provide access, including publishing indicative access prices. By August 2005 we will expect all statutory water companies to have published their access codes and indicative prices.

³ Accent Marketing and Research report, 'Paying for Water, Customer Research' (September 2003).

The Competition Act 1998 (CA98) came into effect on 1 March 2000. It gives the Director concurrent powers with the Office of Fair Trading to apply and enforce CA98 for the water and sewerage sectors in England and Wales. Under CA98, the Director has powers to investigate anti-competitive behaviour.

The water companies are currently subject to detailed regulation by us under their Conditions of Appointment. But this does not preclude us from looking at potentially anti-competitive behaviour that may infringe CA98 such as predatory or excessively high pricing by dominant companies.

Where a particular agreement or practice falls within the scope of WIA91 as well as CA98, we use the statutory power we judge to be most appropriate to address the specific complaint.

2.6 Optional metering entitlement

All unmeasured household customers are entitled to have a meter installed by their company free of charge. For 2005-06, we will continue to require all companies to meet a three-month timescale to install a free meter following the customer's request (a measured charges notice).

Companies must offer an assessed charge as an alternative to the customer's unmeasured tariff (see 'Assessed charges' below).

Eighteen disputes between customers and companies regarding the right to a free meter option were referred to us in 2004-05. Seven of these were resolved in favour of the customer. In ten cases, the company applied an assessed charge and the remaining request was withdrawn.

2.7 Assessed charges

Companies must offer assessed charges when it is not practical or if it is too expensive for them to install meters. They may also levy assessed charges when properties have been merged or substantially altered, which renders the original rateable values (RVs) of those properties invalid.

Companies should base their assessed charges on a proxy of the amount of water that customers are likely to use. It is for individual companies to decide how to do this. They must apply a consistent approach to all affected customers. Tables 5 and 6 show the current assessed charges that water companies offer.

Table 5 Household assessed charges for water and sewerage companies 2005-06

Water and sewerage companies	Water £/year	Sewerage £/year
Anglian ¹	–	–
Dŵr Cymru ²		
1 occupant	76.00	88.00
2 occupants	110.00	127.00
3 or more occupants	156.00	180.00
1 occupant (low user)	67.00	77.00
2 occupants (low user)	96.00	111.00
3 or more occupants (low user)	125.00	144.00
Northumbrian		
Northumbrian		
Standard	111.10	143.00
Single occupier	74.70	106.90
Essex & Suffolk		
Essex		
Standard	121.00	–
Single occupier	80.40	–
Suffolk		
Standard	155.50	–
Single occupier	100.50	–
Severn Trent		
Detached house	213.04	205.03
Semi-detached house	168.82	154.31
Other household premises	119.58	100.16
South West		
1 occupant	76.50	151.00
2 occupants	121.50	225.00
3 or more occupants	176.00	303.00
Southern		
1 bedroom	71.97	119.58
2 bedrooms	86.03	142.78
3 bedrooms	103.60	170.86
4 bedrooms	107.12	176.97
5 or more bedrooms	121.18	198.94
Thames	133.00	100.00
United Utilities		
Detached house	215.96	206.02
Semi-detached house	171.74	170.96
Other household premises	122.50	131.90
Wessex		
Band 1	103.00	114.00
Band 2	146.00	159.00
Band 3	180.00	196.00
Band 4	210.00	227.00
Band 5	236.00	254.00
Band 6	260.00	279.00
Band 7	282.00	302.00
Band 8	303.00	324.00
Yorkshire		
Yorkshire		
Detached house	138.36	144.58
Semi-detached house	116.69	123.21
Other household premises	103.50	110.20
York		
Detached house	92.38	–
Semi-detached house	78.70	–
Other household premises	69.23	–

Notes:

1. Anglian Water applies standard tariffs to its assessment of the likely consumption at the premises.
2. The assessed charges for Dŵr Cymru are net of the dividends of £4.50 and £9 that the company gave to customers in 2004-05 and 2005-06 respectively.

Table 6 Household assessed charges for water only companies 2005-06

	Fixed charge £/year	Volumetric charge p/m ³
Water only companies		
Bournemouth & W Hampshire ¹	20.00	83.47
Bristol		
1 bedroom	97.50	–
2 bedrooms	126.00	–
3 bedrooms	154.50	–
4 bedrooms	183.00	–
5 bedrooms	211.50	–
>5 bedrooms	240.00	–
Cambridge		
Detached house	130.00	–
Semi-detached house	108.00	–
Other household premises	80.00	–
Cholderton	139.00	–
Dee Valley	88.92	–
Folkestone & Dover	130.00	–
Mid Kent		
1 bedroom	102.00	–
2 bedrooms	142.00	–
3 bedrooms	182.00	–
4 bedrooms	222.00	–
5 bedrooms	262.00	–
6 bedrooms	302.00	–
Portsmouth	80.00	–
South East ²		
Eastbourne	12.00	122.16
Mid Southern	12.00	69.46
Mid-Sussex	12.00	127.66
West Kent	12.00	102.03
South Staffordshire		
Detached house	156.00	–
Semi-detached house	123.00	–
Other household premises	88.00	–
Sutton & East Surrey	114.07	–
Tendring Hundred	138.80	–
Three Valleys ³		
1-person household	72.90	–
2-person household	109.80	–
3-or more person household	142.30	–

Notes:

1. Bournemouth & West Hampshire Water's assessed charge uses the standard measured standing charge and volumetric rate and assumes a usage of 60m³ per occupant.
2. South East Water's assessed charge is based on an assessment of estimated water use, taking into account the number of people in the property and the amount of appliances in the property that use water. Assessed charges are based on a minimum estimated consumption of 45m³ per annum.
3. Three Valleys Water's assessed charge is calculated by using the standard measured standing charge and volumetric rate and assumes a consumption of 66m³ per annum for a single person household and 115m³ for a two-person household. Both of these totals are shown above. The charge for a three-person household is based on an average measured household bill, which has a consumption of 149m³.

Of the five types of assessed charge shown in the tables, the most common are a fixed charge equal to the average measured household bill and a charge based on the type of property in which the customer lives. Some companies, for example South East Water, estimate the usage of the individual customer and apply the standard metered tariffs. Some companies offer specific assessed charges for single occupiers and low users.

2.8 Compulsory metering of households

Section 144A of the WIA91 allows companies to compulsorily meter existing household customers when there is a change of occupier. This could be, for example, when customers move house or where a property has been split to create several separate new dwellings with completely new occupiers.

Subsequent regulations under the WIA99 extended the list of circumstances under which companies can compulsorily meter existing unmeasured households. These regulations apply where a customer:

- waters their garden using non hand-held apparatus, such as sprinklers;
- has a pond or swimming pool with a capacity of more than 10,000 litres that is automatically replenished;
- has a bath, spa or Jacuzzi with a capacity of more than 230 litres;
- has a particular type of shower, such as a power shower;
- has a water treatment unit that incorporates reverse osmosis; or
- lives in an area of water scarcity as determined by the Secretary of State.

Currently, no company has a water scarce area. However, we have had discussions with some companies in England considering applying for designation as water scarce areas. Folkestone & Dover Water intends to apply during 2005-06. We will advise the Secretary of State if the company makes an application.

Companies are only allowed to compulsorily meter existing unmeasured household properties when one or more of the above conditions applies and not simply if the original RV is rendered invalid. If this happens, for example where an extension has been added to an existing property or where premises have been merged without creating new occupiers, companies are allowed to charge either by notional RV or by an assessed charge.

2.9 Tariffs for vulnerable groups

The Water Industry (Charges) (Vulnerable Groups) Regulations 1999 allow for measured customers of companies operating wholly or mainly in England, who meet certain

qualifying conditions, to apply for a vulnerable group tariff. This caps their water and sewerage bill at the average household charge for their area.

Table 7 sets out the levels of the vulnerable group tariff for each company for 2004-05 and 2005-06. In line with the regulations, we required the companies to set their tariffs for 2005-06 at or as close as possible to the average household bill for each service. The table also shows the voluntary provisions made by companies operating mainly in Wales.

Table 7 Vulnerable group tariff 2004-05 and 2005-06¹

	Water (£/year)		Sewerage (£/year)	
	2004-05	2005-06	2004-05	2005-06
Water and sewerage companies				
Anglian				
Anglian	120.00	134.00	169.00	169.00
Hartlepool	90.00	102.00	–	–
Dŵr Cymru ^{2,3}	123.17	142.40	163.28	178.80
Northumbrian				
Northumbrian	101.00	111.00	131.00	142.00
Essex & Suffolk	129.00	143.00	–	–
Severn Trent	120.00	129.00	104.00	123.00
South West	128.00	146.00	233.00	254.00
Southern	91.00	107.00	166.00	192.00
Thames	107.00	145.00	96.00	100.00
United Utilities	133.00	135.00	139.00	154.00
Wessex	126.00	141.00	150.00	165.00
Yorkshire				
Yorkshire	117.00	127.00	125.00	137.00
York	85.00	89.00	–	–
Water only companies				
Bournemouth & W Hampshire	107.75	123.32	–	–
Bristol	110.00	129.00	–	–
Cambridge	94.00	104.00	–	–
Cholderton	160.00	155.00	–	–
Dee Valley ²	106.85	114.54	–	–
Folkestone & Dover	138.00	150.00	–	–
Mid Kent	133.00	149.00	–	–
Portsmouth ⁴	77.00	79.00	–	–
South East	130.00	152.00	–	–
South Staffordshire	92.00	104.00	–	–
Sutton & East Surrey	105.00	114.07	–	–
Tending Hundred	162.00	163.70	–	–
Three Valleys	116.30	142.30	–	–

Notes:

1. In line with the vulnerable group regulations, companies have been required to set the vulnerable group tariff in 2005-06 at or close to the average household bill for each service.
2. Regulations relating to vulnerable groups do not apply to any water or sewerage company whose area is wholly or mainly in Wales (Dŵr Cymru and Dee Valley Water). These companies, however, have voluntarily chosen to introduce a scheme for vulnerable customers.
3. The vulnerable group tariffs for Dŵr Cymru are net of the dividends of £4.50 and £9 (per service) that the company gave to customers in 2004-05 and 2005-06 respectively.
4. This charge applies from 1 July 2005.

Defra has recently reviewed the qualifying criteria for the vulnerable group tariff and, as a result, it has made changes and widened eligibility for the tariff. For specific details of the changes made, see individual companies' charges schemes.

2.10 Disconnection of mixed-use premises

Under the WIA91, as amended by WIA99, companies are not permitted to disconnect domestic premises for non-payment of bills. This is because no domestic dwelling should be without access to clean water, which is an essential need for health.

Our view (as set out in RD14/04) is that the water companies are not entitled to disconnect mixed-use premises for non-payment of bills where any part of the premises constitutes a private dwelling house. However, this point cannot be finally decided until the law is clarified either through precedents established in case law or through subsequent legislation.

Mixed-use premises are those with a shared supply that includes a dwelling (within the meaning of paragraph 1[1] of Schedule 4[A] of WIA91) that is occupied by a person as an only or principal home, but which is also used for a non-domestic purpose. Examples of such premises include caretakers' accommodation within an office block and public houses with residential quarters.

3. Unmeasured and measured charges

In most cases, companies charge for water and sewerage services either on the basis of:

- the RV of the property to which the company supplies services (unmeasured charges); or
- the amount of water recorded by the customer's meter (measured charges).

3.1 Unmeasured charges

In 2005-06, companies expect around 72% of household customers and around 12% of non-household customers in England and Wales to have unmeasured supplies (see table 17, chapter 4).

Following the change in the basis of local taxation, the Valuation Office did not issue new RVs after March 1990. The WIA91 allowed companies to use RVs as a basis of charging until 31 March 2000. However, the WIA99 removed this deadline and gave companies the right to continue to use RVs for unmeasured charging purposes. The Government has not, however, ruled out the introduction of other unmeasured charging arrangements in the future.

The 'Cross Government Review of Water Affordability Report' (Defra, December 2004) concluded that the Government and Ofwat should consider the case for a review of the current RV-based charging system in the light of the Lyons inquiry into local government funding.

In the meantime, we will consider companies' proposals for any major changes to the structure of unmeasured charges. Following the Secretary of State's guidance to the Director, published in February 2000, they will then be referred to the Secretary of State.

Where the RV of a property is particularly outdated (for example where premises have been extensively altered) companies may apply a notional RV charge. This is based on criteria such as the size and location of the property. Alternatively, companies can apply an assessed charge, based on a proxy of measured use.

Structure of unmeasured charges

An unmeasured bill usually comprises a fixed charge, which includes the customer-related costs of supply (for example billing), and a RV-related charge. However, some companies do not structure their unmeasured tariffs this way. Severn Trent Water and South Staffordshire Water do not include a fixed charge in the bill. Two other companies, Anglian Water in the Hartlepool area and Sutton & East Surrey Water in the northern area, charge only a fixed licence fee. In all cases the amount customers pay is unrelated to the amount of water that they use.

Tables 8 and 9 show the components of the unmeasured charge for water and for sewerage, as well as the forecast average unmeasured household bill for 2005-06 for each company.

Table 8 Unmeasured water tariffs for household customers 2005-06

	Fixed charge £/year	Rateable value charge p/£RV	Average bill in 2005-06 £
Water and sewerage companies			
Anglian			158
Anglian	95.35	41.54	
Hartlepool ¹	105.46		
Dŵr Cymru ²	95.30	53.29	153
Northumbrian ³			
Northumbrian	60.25	36.09	114
Essex & Suffolk	34.50		159
Essex		51.01	
Suffolk		89.72	
Severn Trent ⁴	–		135
Zone 1		78.08	
Zone 2		70.30	
Zone 3		68.16	
Zone 4		71.23	
Zone 5		81.87	
Zone 6		85.18	
Zone 7		85.75	
Zone 8		68.16	
South West	67.20	71.28	177
Southern	26.28	42.60	109
Thames	23.00		155
Area 1		50.81	
Area 2		51.72	
Area 3		38.88	
Area 4		46.55	
Area 5		59.79	
Area 6		51.86	
Area 7		71.25	
United Utilities ³	41.00	59.40	139
Wessex	7.00	85.08	155
Yorkshire			133
Yorkshire	27.88	83.80	
York	21.79	47.70	
Water only companies			
Bournemouth & W Hampshire	20.00	54.47	137
Bristol	21.00	61.46	133
Cambridge ³	22.00	42.10	115
Cholderton	30.15	57.00	158
Dee Valley			129
Chester	29.91	44.44	
Wrexham	75.83	47.44	
Folkestone & Dover	36.96	80.00	175
Mid Kent	47.00	58.55	156
Portsmouth ^{5, 6}	21.00	27.30	79
South East	12.00		163
Eastbourne		83.22	
Mid Southern		48.15	
Mid-Sussex		88.57	
West Kent		77.55	
South Staffordshire ⁴	–	49.85	105
Sutton & East Surrey			151
Croydon	36.00	32.01	
Northern Area ¹	132.00	–	
Southern Area	36.00	54.75	
Tendring Hundred	32.40	92.46	204
Three Valleys			148
Three Valleys	32.40		
Colne Valley		39.58	
Lee Valley		48.61	
Rickmansworth		38.51	
North Surrey	28.50	42.01	

Notes:

Bill = fixed charge + (rateable value charge x rateable value of property).

1. A fixed licence fee is levied in the Hartlepool area of Anglian Water and the Northern area of Sutton & East Surrey Water.
2. The average bill is net of the dividend of £9 that Dŵr Cymru will give to customers in 2005-06.
3. Customers who pay their bills by direct debit pay a lower fixed charge.
4. Severn Trent Water and South Staffordshire Water do not have a fixed charge for unmeasured water customers.
5. These charges apply from 1 July 2005.
6. A charge of £56.60 applies where the combined standing and rateable value charges are less than £56.60.

Table 9 Unmeasured sewerage tariffs for household customers 2005-06

	Fixed charge £/year	Rateable value charge p/£RV	Average bill in 2005-06 £
Water and sewerage companies			
Anglian	115.11	47.52	199
Dŵr Cymru ¹	115.84	71.36	199
Northumbrian ²	84.50	40.56	145
Severn Trent ³	–		125
Zone 1		71.07	
Zone 2		59.85	
Zone 3		63.04	
Zone 4		68.36	
Zone 5		79.76	
Zone 6		77.25	
Zone 7		75.29	
Zone 8		62.59	
South West	63.10	171.12	323
Southern	49.44	78.60	202
Thames	30.00		103
Area 1		28.02	
Area 2		29.04	
Area 3		18.24	
Area 4		26.19	
Area 5		34.33	
Area 6		28.41	
Area 7		39.92	
United Utilities ^{2, 3}	–	94.90	157
Wessex	7.00	95.34	178
Yorkshire	30.30	89.90	145

Notes:

Bill = fixed charge + (rateable value charge x rateable value of property).

1. The average bill is net of the dividend of £9 that Dŵr Cymru will give to customers in 2005-06.
2. Customers who pay bills by direct debit pay a lower fixed charge.
3. Severn Trent Water and United Utilities Water do not have a fixed charge for unmeasured sewerage customers.

Tables 10 and 11 provide examples of unmeasured annual water and sewerage bills for three sample levels of RV (£100, £200 and £300).

Table 10 Sample unmeasured water bills for household customers 2004-05 and 2005-06

	Annual bill in £ for properties with rateable values of					
	£100		£200		£300	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Water and sewerage companies						
Anglian						
Anglian	118.61	136.89	157.97	178.43	197.33	219.97
Hartlepool	96.55	105.46	96.55	105.46	96.55	105.46
Dŵr Cymru ¹	121.64	139.59	164.58	192.88	209.32	246.17
Northumbrian²						
Northumbrian	87.27	96.34	119.79	132.43	152.31	168.52
Essex & Suffolk						
Essex	77.37	85.51	123.54	136.52	169.71	187.53
Suffolk	112.40	124.22	193.60	213.94	274.80	303.66
Severn Trent						
Zone 1	70.05	78.08	140.10	156.16	210.15	234.24
Zone 2	63.07	70.30	126.14	140.60	189.21	210.90
Zone 3	61.15	68.16	122.30	136.32	183.45	204.48
Zone 4	63.91	71.23	127.82	142.46	191.73	213.69
Zone 5	73.45	81.87	146.90	163.74	220.35	245.61
Zone 6	76.42	85.18	152.84	170.36	229.26	255.54
Zone 7	76.94	85.75	153.88	171.50	230.82	257.25
Zone 8	61.15	68.16	122.30	136.32	183.45	204.48
South West	116.00	138.48	175.70	209.76	235.40	281.04
Southern	59.20	68.88	95.80	111.48	132.40	154.08
Thames						
Area 1	55.36	73.81	92.72	124.62	130.08	175.43
Area 2	56.03	74.72	94.06	126.44	132.09	178.16
Area 3	46.59	61.88	75.18	100.76	103.77	139.64
Area 4	52.23	69.55	86.46	116.10	120.69	162.65
Area 5	61.96	82.79	105.92	142.58	149.88	202.37
Area 6	56.13	74.86	94.26	126.72	132.39	178.58
Area 7	70.39	94.25	122.78	165.50	175.17	236.75
United Utilities ²	97.80	100.40	155.60	159.80	213.40	219.20
Wessex	81.06	92.08	155.12	177.16	229.18	262.24
Yorkshire						
Yorkshire	102.10	111.68	178.70	195.48	255.30	279.28
York	63.49	69.49	107.09	117.19	150.69	164.89
Water only companies						
Bournemouth & W Hampshire	62.92	74.47	107.34	128.94	151.76	183.41
Bristol	70.25	82.46	122.25	143.92	174.25	205.38
Cambridge ²	55.70	64.10	92.50	106.20	129.30	148.30
Cholderton	79.08	87.15	130.86	114.15	182.64	201.15
Dee Valley						
Chester	69.10	74.35	110.40	118.79	151.70	163.23
Wrexham	114.59	123.27	158.69	170.71	202.79	218.15
Folkestone & Dover	106.44	116.96	179.30	196.96	252.16	276.96
Mid Kent	93.70	105.55	145.40	164.10	197.10	222.65
Portsmouth ^{3,4}	54.80	56.60	73.00	75.60	99.00	102.90
South East						
Eastbourne	79.90	95.22	147.80	178.44	215.70	261.66
Mid Southern	51.29	60.15	90.58	108.30	129.87	156.45
Mid-Sussex	84.27	100.57	156.54	189.14	228.81	277.71
West Kent	75.27	89.55	138.54	167.10	201.81	244.65
South Staffordshire	43.85	49.85	87.70	99.70	131.55	149.55
Sutton & East Surrey						
Croydon	59.42	68.01	86.84	100.02	114.26	132.03
Northern Area	112.80	132.00	112.80	132.00	112.80	132.00
Southern Area	78.93	90.75	125.86	145.50	172.79	200.25
Tendring Hundred	120.70	124.86	210.20	217.32	299.70	309.78
Three Valleys						
Three Valleys						
Colne Valley	64.28	71.98	96.16	111.56	128.04	151.14
Lee Valley	71.56	81.01	110.72	129.62	149.88	178.23
Rickmansworth	63.42	70.91	94.44	109.42	125.46	147.93
North Surrey	60.06	70.51	95.82	112.52	131.58	154.53

Notes:

Bill = fixed charge + (rateable value charge x rateable value of property).

1. The bills are net of the dividends of £4.50 and £9 that Dŵr Cymru gave to customers in 2004-05 and 2005-06 respectively.
2. Bills do not include the discount for direct debit payers.
3. These charges apply from 1 July 2005.
4. Minimum charge applies for RV = £100.

Table 11 Sample unmeasured sewerage bills for household customers 2004-05 and 2005-06

	Annual bill in £ for properties with rateable values of					
	£100		£200		£300	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Water and sewerage companies						
Anglian	155.76	162.63	206.82	210.15	257.88	257.67
Dŵr Cymru ¹	163.06	178.20	225.02	249.56	286.98	320.92
Northumbrian ²	114.95	125.06	152.15	165.62	189.35	206.18
Severn Trent						
Zone 1	60.74	71.07	121.48	142.14	182.22	213.21
Zone 2	51.15	59.85	102.30	119.70	153.45	179.55
Zone 3	53.87	63.04	107.74	126.08	161.61	189.12
Zone 4	58.42	68.36	116.84	136.72	175.26	205.08
Zone 5	68.16	79.76	136.32	159.52	204.48	239.28
Zone 6	66.02	77.25	132.04	154.50	198.06	231.75
Zone 7	64.34	75.29	128.68	150.58	193.02	225.87
Zone 8	53.49	62.59	106.98	125.18	160.47	187.77
South West	203.86	234.22	352.82	405.34	501.78	576.46
Southern	110.91	128.04	179.01	206.64	247.11	285.24
Thames						
Area 1	54.37	58.02	80.74	86.04	107.11	114.06
Area 2	55.33	59.04	82.66	88.08	109.99	117.12
Area 3	45.17	48.24	62.34	66.48	79.51	84.72
Area 4	52.65	56.19	77.30	82.38	101.95	108.57
Area 5	60.31	64.33	92.62	98.66	124.93	132.99
Area 6	54.74	58.41	81.48	86.82	108.22	115.23
Area 7	65.58	69.92	103.16	109.84	140.74	149.76
United Utilities ²	85.10	94.90	170.20	189.80	255.30	284.70
Wessex	91.89	102.34	176.78	197.68	261.67	293.02
Yorkshire	109.75	120.20	191.85	210.10	273.95	300.00

Notes:

Bill = fixed charge + (rateable value charge x rateable value of property).

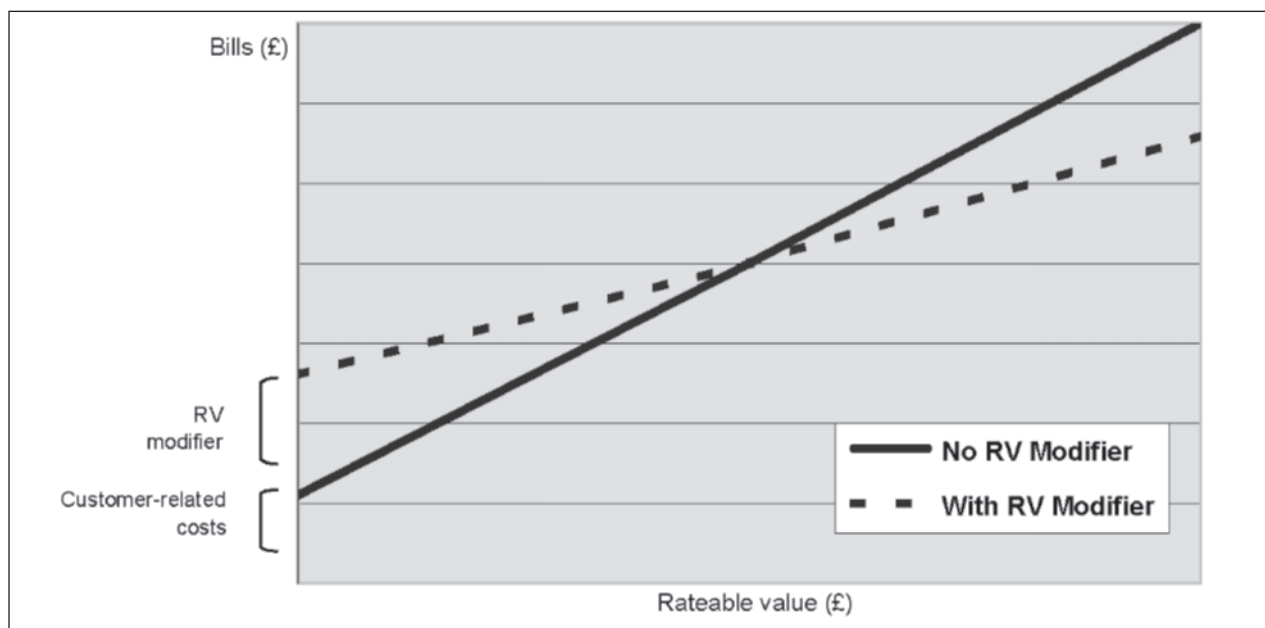
1. The bills are net of the dividends of £4.50 and £9 that Dŵr Cymru gave to customers in 2004-05 and 2005-06 respectively.
2. Bills do not include the discount for direct debit payers.

RV modifier

Unmeasured charges have been criticised because they do not accurately reflect the costs of supplying individual customers. In the long run, those costs depend largely on the amount of water that customers use. Customers whose properties have high RVs probably use more water than those with low RV properties, but water use does not necessarily rise in proportion to increases in RV. Consequently, customers with lower RVs might pay too little for the amount of water that they use, while those with higher RVs might pay too much.

To help adjust for this, some companies have lower RV-related charges but include an additional amount in the fixed charge. This charging structure reduces the range in the level of customers' bills between higher and lower RV properties. The additional fixed charge is called the 'RV modifier'. Its effect is shown in figure 1.

Figure 1 The effect of the RV modifier



In recent years most companies have increased the size of the fixed element in unmeasured household bills. Companies see this as unwinding part of the cross-subsidy that exists between low RV and high RV customers.

3.2 Rebalancing between measured and unmeasured customers

The WIA99 now gives all household customers the right to have a meter fitted free of installation charge. To avoid undue preference or undue discrimination between customer groups, companies have to adjust the balance of tariffs between measured and unmeasured customers to take account of the impact of customers switching to a meter. This is known as tariff rebalancing.

Companies can lose revenue in three ways as a result of customers switching to a meter. The loss might be because the household that switches:

- has a higher than average RV;
- used less water pre-metering than the average unmeasured user; or
- uses less water because it is measured.

The tariff basket allows companies to reset tariffs to maintain revenue when households with a higher than average RV switch to a meter. In so doing, they must comply with their price limits, and they must meet our targets on the measured/unmeasured differential (see overleaf), which we use to ensure that companies maintain a fair balance between charges for measured and unmeasured customers. This tends to

mean that companies will increase unmeasured charges, which is fair because, on average, remaining unmeasured customers have previously paid less than it costs to supply them. The same effect will continue, quite rightly, as the number of measured customers increases. So the tariff basket mechanism and the measured/unmeasured differential will continue to be fit for purpose in the future.

Where a household that switches uses less water than the unmeasured average, or where it reduces its water use, companies cannot directly recover this lost revenue. The 2004 price review allowed for this by setting price limits consistent with the projected rate of switching for each company.

We accept that there may be situations where the number of householders having meters installed might exceed that allowed for in companies' price limits. Following the price review in November 1999, we modified companies' licences to allow for this. MD157 explains this further.

Measured/unmeasured tariff differential

We expect any difference, on average, between measured and unmeasured household bills to be no greater than the extra costs of providing a metered service. These additional costs consist of:

- the cost of the meter, plus installation costs;
- the cost of creating a meter space;
- the customer-related costs of metering (such as meter reading, billing and account management); and
- the value of benefits received by metered customers but not by unmeasured customers (such as the cash flow effect of paying bills in arrears and rebates on supply pipe leakage).

Every year we estimate the sum of these additional costs for each company and require the companies to keep the difference between their measured and unmeasured household bills on average within their individual estimates. We check to ensure that individual companies have complied with this requirement by:

- applying a company's measured household charges to the average amount of water delivered by that company to an unmeasured household; and
- comparing the resulting measured household bill with a forecast of the average unmeasured household bill for that company.

The difference between these two bills (the measured/unmeasured tariff differential) should not exceed our estimated costs of providing a metered service.

RD02/04 sets out in detail our methodology for estimating the extra costs of providing a measured service and for checking that individual companies have complied with their individual measured/unmeasured tariff differential targets.

The level of a company's differential is sensitive to the average amount of water which that company delivers to an unmeasured household. This average figure may increase as a result of an underlying growth in unmeasured consumption, or as a result of unmeasured households with lower than average consumption switching to a measured basis of charging. In either case, the remaining unmeasured household customers, on average, will be making greater use of water and sewerage services. The differential ensures that, on the whole, these customers pay charges that reflect this greater use, and so it maintains fairness in charging in relation to measured household customers.

Table 12 shows the levels of the differentials for all companies in 2005-06.

Table 12 The measured/unmeasured household tariff differential for water and sewerage for all companies 2005-06

	Water	Sewerage	Total differential
	£	£	£
Water and sewerage companies			
Anglian	35	22	57
Dŵr Cymru	33	6	39
Northumbrian	26	9	35
Severn Trent	33	12	45
South West	29	37	66
Southern	27	14	41
Thames	28	10	38
United Utilities	28	9	37
Wessex	35	18	53
Yorkshire	27	12	39
WaSC average (weighted)	30	13	43
Water only companies			
Bournemouth & W Hampshire	30		
Bristol	24		
Cambridge	27		
Cholderton	22		
Dee Valley	14		
Folkestone & Dover	26		
Mid Kent	35		
Portsmouth	25		
South East	32		
South Staffordshire	29		
Sutton & East Surrey	34		
Tendring Hundred	25		
Three Valleys	32		
WoC average (weighted)	30		
Industry average (weighted)	30		

3.3 Measured charges

The measured bill has two elements:

- a standing charge, which is fixed irrespective of consumption and is the same for all customers on the tariff; and
- a volumetric charge, which varies depending on how much water is used.

To give customers sensible incentives to use water efficiently, companies should set the volumetric charge to recover the costs that they will incur over the longer term to meet demand.

The standing charge, on the other hand, should recover no more than the customer-related costs for the unmeasured service, plus the additional fixed costs associated with providing a measured service (for example meter reading).

High standing charges lessen the incentives for customers to control their consumption. They are also difficult to reconcile with the duty placed on all companies by the 1995 Environment Act, which requires them to promote the efficient use of water by their customers.

Tables 13 and 14 show the components of the measured charge for household customers, for water and sewerage, and the average measured household bill for 2005-06.

Table 13 Measured water tariffs for household customers 2005-06

	Standing charge £/year	Volumetric charge p/m ³	Average bill in 2005-06 £
Water and sewerage companies			
Anglian			116
Anglian	– Standard	24.00	102.43
	– SoLow	0.00	134.43
	– Aquacare Plus ¹	60.00	54.43
Hartlepool	– Standard	24.00	67.61
	– SoLow	0.00	99.61
	– Aquacare Plus ¹	45.00	39.61
Dŵr Cymru ²	26.00	109.61	105
Northumbrian ³	24.00		
Northumbrian		72.58	94
Essex & Suffolk			116
Essex		80.81	
Suffolk		109.69	
Severn Trent	18.24	100.49	113
South West	21.00	110.61	116
Southern	22.76	70.30	103
Thames	22.00	88.85	133
United Utilities ³	23.00	100.50	124
Wessex	17.00	112.76	116
Yorkshire			111
Yorkshire	22.49	94.20	
York	19.79	52.60	
Water only companies			
Bournemouth & W Hampshire	20.00	83.47	114
Bristol	27.00	87.43	115
Cambridge ³	24.00	70.00	94
Cholderton	21.00	94.00	139
Dee Valley	21.60		89
Chester		70.90	
Wrexham		76.76	
Folkestone & Dover	22.32	101.13	127
Mid Kent			124
– Standard	21.60	88.22	
– Low User	0.00	117.02	
– Helpu/Medico ¹	52.85	56.23	
Portsmouth ⁴	21.00	52.10	80
South East	15.00		130
Eastbourne		122.16	
Mid Southern		69.46	
Mid-Sussex		127.66	
West Kent		102.03	
South Staffordshire	22.40	70.96	100
Sutton & East Surrey	22.00		114
Northern Area		71.30	
Southern Area		92.41	
Tendring Hundred	22.80	141.70	139
Three Valleys	23.20	75.33	122

Notes:

1. The Aquacare Plus tariff of Anglian Water and the Medico tariff of Mid Kent Water are available to customers in receipt of specified benefits.
2. The average bill for Dŵr Cymru is net of the dividend of £9 that will be given to customers in 2005-06.
3. Customers who pay their bills by direct debit pay a lower standing charge.
4. These charges apply from 1 July 2005.

Table 14 Measured sewerage tariffs for household customers 2005-06

	Standing charge £/year	Volumetric charge p/m ³	Average bill in 2005-06 £
Water and sewerage companies			
Anglian			147
– Standard	62.00	103.93	
– SoLow	0.00	186.60	
– Aquacare Plus ¹	104.00	47.93	
Dŵr Cymru ²	30.00	126.41	114
Northumbrian ³	57.00	71.64	124
Severn Trent ⁴	9.24	65.92	118
South West	10.20	214.10	194
Southern	41.44	112.94	167
Thames	41.00	46.30	100
United Utilities ³	65.00	79.70	140
Wessex	32.00	117.29	133
Yorkshire	30.30	92.91	119

Notes:

The volumetric charges have been standardised to take account of different non-return to sewer assumptions for each company.

1. The Aquacare Plus tariff of Anglian Water is available only to customers in receipt of specified benefits.
2. The average bill for Dŵr Cymru is net of the dividend of £9 that the company will give to customers in 2005-06.
3. Customers who pay their bills by direct debit pay a lower standing charge.
4. Customers pay for surface water drainage through either a fixed charge related to property type:

Flat/terrace	21.72
Semi-detached	43.56
Detached	65.28

or a charge related to the RV of customers' properties:

Zone 1	24.64 p/£RV
Zone 2	20.73 p/£RV
Zone 3	21.99 p/£RV
Zone 4	23.75 p/£RV
Zone 5	27.78 p/£RV
Zone 6	26.87 p/£RV
Zone 7	26.17 p/£RV
Zone 8	21.99 p/£RV

Sewerage standing charges include an amount to recover the customer-related costs of providing the service. Additionally, the majority of sewerage companies also include within the sewerage standing charge the costs associated with providing surface water and highway drainage services. South West Water recovers the surface water drainage charge through its volumetric rate (see chapter 5). This explains why it has a measured sewerage standing charge that is significantly lower than the other water and sewerage companies. Severn Trent Water charges household customers a fixed charge for surface water drainage depending on the type of property the customer occupies. This charge is separate from the standard fixed charge and volumetric rate.

Dŵr Cymru has increased its sewerage standing charge from £11 in 2004-05 to £30 in 2005-06. This increase is the first step in the two-year phased transfer of highway drainage charges from the company's sewerage volumetric rate to the standing charge. Dŵr Cymru will continue to recover charges for the surface water drainage service through the volumetric rate.

Tables 15 and 16 show measured bills for water and for sewerage for selected consumption levels for 2004-05 and 2005-06.

Table 15 Sample measured water bills for household customers 2004-05 and 2005-06

	Annual bill in £ for annual consumption of					
	60m ³		110m ³		160m ³	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Water and sewerage companies						
Anglian¹						
Anglian	69.65	80.66	118.36	136.67	163.07	187.89
Hartlepool	52.97	59.77	87.77	98.37	118.58	132.18
Dŵr Cymru ²	72.06	82.77	118.36	137.57	164.66	192.38
Northumbrian³						
Northumbrian	59.69	67.55	92.35	103.84	125.01	140.13
Essex & Suffolk						
Essex	64.68	72.49	101.50	112.89	138.32	153.30
Suffolk	80.50	89.81	130.50	144.66	180.50	199.50
Severn Trent	69.38	78.53	112.49	128.78	155.61	179.02
South West	72.92	87.37	119.08	142.67	165.25	197.98
Southern	55.87	64.94	86.12	100.09	116.37	135.24
Thames	56.29	75.31	89.03	119.74	121.77	164.16
United Utilities ³	79.30	83.30	127.05	133.55	174.80	183.80
Wessex	75.22	84.66	123.74	141.04	172.26	197.42
Yorkshire						
Yorkshire	73.02	79.01	116.12	126.11	159.22	173.21
York	46.92	51.35	70.97	77.65	95.02	103.95
Water only companies						
Bournemouth & W Hampshire	59.91	70.08	94.42	111.82	128.93	153.55
Bristol	66.07	79.46	103.83	123.17	141.60	166.89
Cambridge ³	58.08	66.00	87.98	101.00	117.88	136.00
Cholderton	68.36	77.40	109.86	124.40	151.36	171.40
Dee Valley						
Chester	57.19	64.14	89.02	99.59	120.84	135.04
Wrexham	60.35	67.66	94.80	106.04	129.26	144.42
Folkestone & Dover	72.59	83.00	116.54	133.56	160.50	184.13
Mid Kent ¹	62.60	70.21	105.71	118.64	144.94	162.75
Portsmouth ⁴	51.24	52.26	76.44	78.31	101.64	104.36
South East						
Eastbourne	76.21	88.30	127.21	149.38	178.22	210.46
Mid Southern	49.81	56.68	78.81	91.41	107.82	126.14
Mid-Sussex	78.97	91.60	132.27	155.43	185.58	219.26
West Kent	66.12	76.22	108.72	127.23	151.32	178.25
South Staffordshire	55.89	64.98	86.05	100.46	116.21	135.94
Sutton & East Surrey						
Northern Area	55.61	64.78	86.12	100.43	116.63	136.08
Southern Area	66.47	77.45	106.03	123.65	145.59	169.86
Tending Hundred	105.23	107.82	175.42	178.67	245.61	249.52
Three Valleys	55.94	68.40	86.72	106.06	117.50	143.73

Notes:

Bill = standing charge + (consumption x volumetric charge).

1. Annual bills for 60m³ for Anglian Water and Mid Kent Water are based on their respective SoLow and Low User tariffs (see table 13).
2. The bills are net of the dividends of £4.50 and £9 that Dŵr Cymru gave to customers in 2004-05 and 2005-06 respectively.
3. Bills do not include the discount for direct debit payers.
4. Bills for year beginning 1 July 2005.

Table 16 Sample measured sewerage bills for household customers 2004-05 and 2005-06

	Annual bill in £ for annual consumption of					
	60m ³		110m ³		160m ³	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Water and sewerage companies						
Anglian ¹	106.50	111.96	167.25	176.33	216.00	228.29
Dŵr Cymru ²	80.77	105.84	142.66	169.05	204.56	232.25
Northumbrian ³	90.76	99.99	123.22	135.80	155.69	171.62
Severn Trent⁴						
With property-based surface water drainage charge						
Flat/terrace	59.21	70.51	86.05	103.47	112.89	136.43
Semi-detached	77.45	92.35	104.29	125.31	131.13	158.27
Detached	95.57	114.07	122.41	147.03	149.25	179.99
With RV-based surface water drainage charge						
Zone 4	80.71	96.29	107.55	129.25	134.39	162.21
South West	119.72	138.66	212.18	245.71	304.64	352.76
Southern	92.17	109.21	139.80	165.68	187.44	222.15
Thames	65.31	68.78	87.24	91.93	109.16	115.08
United Utilities ³	100.98	112.82	135.13	152.67	169.28	192.52
Wessex	93.14	102.37	144.10	161.02	195.05	219.66
Yorkshire	78.55	86.05	120.97	132.50	163.39	178.96

Notes:

- Bill = standing charge + (consumption x volumetric charge).
- The volumetric charges have been standardised to take account of different non-return to sewer assumptions for each company.
 - Anglian Water's annual bill for 60m³ is based on its SoLow tariff (see table 15).
 - The bills are net of the dividends of £4.50 and £9 that Dŵr Cymru gave to customers in 2004-05 and 2005-06 respectively.
 - Bills do not include the discount for direct debit payers.
 - Severn Trent Water's customers pay their surface water drainage charges through either a fixed charge related to property type or a charge based on the RVs of their properties (see footnote 4 to table 15). The bill for customers in Zone 4 is based on a RV of £200.

Standing charges for non-household customers

Except for Anglian Water (for both water and sewerage) and Northumbrian Water (for sewerage), all companies base the non-household standing charge on meter size. United Utilities Water's measured sewerage standing charge consists of either a charge based on the RV of the customer's property, or a fixed amount based on the size of the property's meter if it does not have a RV. Non-household standing charges are higher than household standing charges. This is because non-household users are billed more frequently and they tend to have larger meters, which are more expensive to maintain and replace. However, Hartlepool Water, Bristol Water and Sutton & East Surrey Water all charge non-households a uniform standing charge. Bristol and Sutton & East Surrey do not differentiate their standing charges between household and non-household users.

We provide details of non-household metered standing charges for both water and sewerage in tables C1 and C2 in appendix 4.

We expect companies' standing charges for non-households to reflect no more than the customer-related and meter-related costs associated with providing a measured supply.

We have required companies to reduce their standing charges for larger meter sizes where these are significantly above the industry average.

Four companies (United Utilities Water, Southern Water, Thames Water and Wessex Water) have non-household sewerage standing charges that are higher than average. This is because these companies include the costs of both surface water and highway drainage within the sewerage standing charge (see chapter 5). Dŵr Cymru's non-household sewerage standing charges have increased for 2005-06 because of the transfer of the highway drainage charge from the volumetric rate.

3.4 Low user tariffs

Two companies – Anglian Water (including Hartlepool Water) and Mid Kent Water – have a metered tariff for households that use relatively little water. The tariffs are structured with no standing charge and a higher than standard volumetric charge. To benefit from the tariff, customers must use no more than the break-even volume (the volume above which the tariff is no longer beneficial). This is currently 75m³ per year.

Following consultation, we set out our position on optional low user tariffs in MD165. The consultation showed that there was only limited support for such tariffs. Therefore, we are unwilling to accept new proposals from companies who wish to introduce such tariffs. However, we have not required Anglian Water or Mid Kent Water to withdraw their existing low user tariffs due to the adverse effects this would potentially create for customers currently on the tariff.

4. Metering and tariffs

We consider that metering is the fairest method of charging for water. It relates charges to the amount of water customers use and the amount of sewage they discharge and, hence, to costs. Research⁴ undertaken for us in the early 1990s found widespread customer support for the principle of paying for water according to the amount that customers use. The Government's policy document, 'Water charging in England and Wales: Decisions following consultation', issued in November 1999, acknowledged the value of metering, both as a means of managing demand and in giving customers choice in paying for water.

We consider that companies should meter where it is economic to do so, for example in:

- new properties;
- non-household properties;
- properties where there is high discretionary use of water (such as for watering gardens); and
- on change of occupancy in areas where resources are limited.

We also expect companies to install meter boxes when carrying out work on service pipes. This will enable them to fit a meter very cheaply when required at a later date. But we do not advocate universal metering because, in many areas, the extra capital and operating costs of metering might outweigh the benefits in water savings.

All companies install meters in new household properties. Most companies also meter households that use large amounts of water for non-domestic purposes, for example those with swimming pools or garden sprinklers. We support these policies, which are in line with the provisions of regulations issued in 1999⁵.

Tables 17 and 18 show the proportions of customers that companies expect to have a metered supply in 2005-06.

⁴ 'Paying for water – a time for decisions' (1991).

⁵ 'The Water Industry (Prescribed Conditions) Regulations 1999' (SI 3442, December 1999).

Table 17 Proportion of water customers taking measured supplies 2004-05 and 2005-06

	Households (%)		Non-households (%)	
	2004-05	2005-06	2004-05	2005-06
Water and sewerage companies				
Anglian	54.0	56.2	87.3	87.3
Dŵr Cymru	19.3	22.0	87.9	88.3
Northumbrian				
Northumbrian	11.2	13.1	82.3	84.0
Essex & Suffolk	34.9	37.1	91.2	91.5
Severn Trent	24.2	25.7	92.5	92.6
South West	46.8	51.6	87.1	87.3
Southern	27.4	30.7	78.3	78.3
Thames	20.6	21.7	87.7	87.8
United Utilities	17.3	19.4	89.8	90.0
Wessex	32.7	35.3	85.6	86.0
Yorkshire	27.0	28.7	85.5	85.3
WaSC average	25.9	28.4	87.8	88.1
Water only companies				
Bournemouth & W Hampshire	36.9	40.6	91.8	92.2
Bristol	22.4	24.2	82.2	83.3
Cambridge	53.6	55.5	89.5	89.8
Cholderton	13.5	13.5	61.5	94.1
Dee Valley	33.7	36.1	89.8	89.8
Folkestone & Dover	40.8	45.7	83.6	83.9
Mid Kent	32.9	35.4	91.6	92.0
Portsmouth	4.8	6.3	85.6	86.2
South East	28.9	30.8	85.0	85.0
South Staffordshire	15.2	16.5	89.3	89.6
Sutton & East Surrey	18.5	20.1	83.4	83.4
Tendring Hundred	61.3	63.2	99.2	99.3
Three Valleys	23.6	26.3	83.1	83.6
WoC average	24.6	26.8	86.2	86.5
Industry average	25.7	28.1	87.5	87.8

Note:

The percentage of metered customers for 2004-05 and 2005-06 are estimates based respectively on provisional and forecast data provided by each company.

Table 18 Proportion of sewerage customers taking measured supplies 2004-05 and 2005-06

Water and sewerage companies	Households (%)		Non-households (%)	
	2004-05	2005-06	2004-05	2005-06
Anglian	53.5	55.8	85.9	85.9
Dŵr Cymru	20.8	23.4	83.2	76.4
Northumbrian	10.9	12.9	66.6	68.2
Severn Trent	22.7	24.2	91.9	92.3
South West	48.3	53.4	85.3	85.6
Southern	26.3	29.3	78.1	78.1
Thames	20.5	22.3	84.7	84.9
United Utilities	17.4	19.5	87.9	88.1
Wessex	27.5	29.9	84.6	85.6
Yorkshire	26.6	28.3	80.5	80.3
Industry average (weighted)	25.8	28.0	84.8	84.6

Note:

The percentage of metered customers for 2004-05 and 2005-06 are estimates based respectively on provisional and forecast data provided by each company.

In 2005-06, the majority of household customers (72%) across England and Wales will remain with unmeasured water supplies. However, the proportion of customers measured by each company varies considerably. In 2005-06, Tendring Hundred Water expects to have the highest proportion of households with meters (63%) and Portsmouth Water expects to have the lowest (6%).

Since 1 April 2000, all household customers have been entitled to have a meter installed free of charge (see 'Optional metering entitlement' in chapter 2). The price limits set for 2005-10 included allowances for companies to install 1.7 million such meters in this period.

4.1 The efficient use of water

Since February 1996, companies have had a duty to promote the efficient use of water by all their customers. Companies submitted their water resource plans in April 2004, setting out how they intend to ensure sufficient water is available to meet demand. Companies have been asked to take full account of activities to promote the efficient use of water, and to consider a full range of demand management options. We expect companies to focus on the most cost-effective schemes or those that are of most benefit to customers in their initiatives to promote the efficient use of water.

We expect companies to approach metering in a way that is consistent with the existing legal framework and in a way that supports an efficient strategy for balancing supply and demand. In this context, we think that companies should seriously consider applying for water scarce area status under the WIA99, if the supply/demand balance is tight. This status would give companies increased rights to meter customers, enabling them to do so more cost effectively. It would ensure that customers are given clear

signals about the value of water in areas where resources may be limited. We provide further information on the efficient use of water in our 'Security of supply, leakage and the efficient use of water 2003-04 report' (December 2004).

4.2 Managing demand for water

Where customers are measured, tariff structures should provide customers with appropriate incentives to conserve water and to adopt other water efficiency measures.

We have emphasised the role of metering and tariffs in managing demand for water, particularly where garden watering causes seasonal peaks in demand. Summertime peak demands are largely the result of households making high discretionary use of water for non-domestic purposes, particularly garden watering. Companies should therefore meter such customers. We will make allowances in price limits for companies to implement appropriate programmes of selective metering as part of their supply/demand strategies.

4.3 Alternative measured tariffs

As metering becomes more widespread, companies may need to examine more sophisticated tariff structures. Peak demand or seasonal tariffs and subscribed demand tariffs could be part of the companies' plans for maintaining the supply/demand balance.

A peak demand or seasonal tariff has a higher volumetric charge during the summer months and a lower one for the remainder of the year. It offers an incentive to customers with high summer demand to be more efficient in their use of water. It also ensures that, should customers choose to have greater consumption during the summer, their charges will reflect the cost of meeting this demand.

Currently, only four companies offer seasonal tariffs to their non-household customers (see tables 27 and 28 in chapter 6). A number of other companies are currently considering the merits of seasonal tariffs.

Companies structure their subscribed demand tariffs to encourage customers to manage their peak consumption. The structure of these tariffs reflect the lower costs of supplying customers whose consumption is less peaky (see chapter 6 for further details). Three companies, Anglian Water, South Staffordshire Water and South East Water, currently offer subscribed demand tariffs to non-household customers.

In the longer term, when more households have meters, companies may extend these tariffs to households.

4.4 Long run marginal cost (LRMC) of supply

LRMC is a measure of the continuing cost of maintaining a balance between supply and demand. We continue to emphasise the importance of this in informing the way companies set their tariffs to take account of future demand for water and sewerage services.

The use of LRMC is particularly relevant to the balance between volumetric rates and fixed/standing charges. Volumetric rates should reflect LRMC as closely as possible to provide appropriate incentives for efficiency in the use of water and to recover the costs of continuing supply. Its use also ensures that, when their demand falls, large users enjoy bill reductions that reflect their suppliers' cost savings. We also think that a sound understanding of LRMC is important in informing decisions in other policy areas, in addition to large user tariffs. We will continue to encourage companies to improve their understanding of LRMC across their areas, and in particular marginal costs during peak or critical periods.

Company estimates of LRMC

The figures in table 19 are the most recent LRMC estimates that companies have provided. The estimates are for meeting steady demand on a company-wide or regional basis. Where companies have provided LRMC estimates only for a part of the company area, we have indicated this in the table. During the 2004 price review we asked companies to present their LRMC calculations in a standard format, but the results were mixed. Readers should interpret the figures in table 19 with caution. Where appropriate, we will challenge or seek further justification of companies' calculations.

Table 19 Long run marginal cost estimates – steady demand¹

	Resources p/m ³	Treatment p/m ³	November 2004 prices		Total LRMC ¹ p/m ³
			Bulk transport p/m ³	Local distribution p/m ³	
Water and sewerage companies					
Anglian					
Anglian ²	18	13	17	1	49
Hartlepool ²	n/s	n/s	n/s	n/s	13 to 27
Dŵr Cymru ³	n/a	n/a		n/a	n/a 51
Northumbrian	n/s	n/s	n/s	n/s	n/s
Northumbrian	5	0	0	13	18
Essex & Suffolk	n/s	n/s	n/s	n/s	n/s
Essex	40	8	0	13	61
Suffolk	13	4	0	13	30
Severn Trent ⁴	13	15	16	15	59
South West ⁵	23	23	n/a	7	54
Southern ⁵	n/s	n/s	n/s	n/s	40
Thames ⁶	18	18	2	14	52
United Utilities ⁵	22	6	12	13	53
Wessex ³	9	9	46	75	139
Yorkshire ^{5,7}	26	–	0	0	26
Yorkshire	n/s	n/s	n/s	n/s	n/s
York	n/s	n/s	n/s	n/s	n/s
Water only companies					
Bournemouth & W Hampshire ³	n/s	n/s	n/s	n/s	22
Bristol ⁷	12	–	0	0	12
Cambridge ³	4	1	8	26	38
Cholderton	n/a	n/a	n/a	n/a	n/a
Dee Valley ^{3,7}	43	–	17	–	60
Folkestone & Dover	n/a	n/a	n/a	n/a	79
Mid Kent	2	5	33	12	52
Portsmouth ³	n/s	n/s	n/s	n/s	46
South East	21	31	2	27	81
Northern	13	7	0	29	49
Southern	31	63	5	24	123
South Staffordshire	n/s	n/s	n/s	n/s	n/s
Sutton & East Surrey ⁸	42	0	n/a	27	68
Tending Hundred	n/a	n/a	n/a	n/a	n/a
Three Valleys	n/s	n/s	n/s	n/s	29
North Surrey	n/s	n/s	n/s	n/s	n/s
Three Valleys	n/s	n/s	n/s	n/s	n/s

Notes:

- All figures are rounded to the nearest p/m³. The total LRMC figure may not add up due to rounding.
 - n/a = not available.
 - n/s = not specified.
- The LRMC for steady demand is defined as the cost of an increment of load for which peak demand equals average weekly demand.
 - The company has told us that it is in the process of updating its LRMC. In the meantime, the figures we are using are around five years old, inflated to November 2004 prices. They should be treated with caution.
 - New estimate.
 - The company has told us that it is in the process of updating its LRMC, but does not anticipate material changes.
 - Inflated from November 2003 to November 2004 prices.
 - Estimated using a weighted average by Distribution Input of Average AIC for each resource zone from dry year final planning strategy.
 - Resources and treatment costs combined, and for Dee Valley, bulk transport and local distribution costs combined.
 - Submitted a revised estimate for distribution only, other figures have been inflated from November 2003 to November 2004 prices.

5. Charges for sewerage services

Charges made by companies for sewerage services cover four main activities. These are for collecting and treating:

- surface water drainage (run-off from rainwater that falls onto customers' properties);
- highway drainage (run-off from roads and pavements);
- foul sewage; and
- trade effluent.

In principle, customers who can demonstrate that they do not receive any of these services apart from highway drainage should be entitled to an appropriate reduction in charges.

5.1 Charging for surface water drainage (SWD)

Historically, companies have charged customers for SWD services in a variety of ways:

- as part of the volumetric rate;
- as a fee within the fixed charge;
- by reference to the RV of the property;
- via a charge related to property type; or
- via a charge related to the surface area drained to the public sewer.

Following our review of SWD charges, in RD35/03 we said that the fairest method of charging should accurately reflect the costs of providing the SWD service. These costs generally depend upon the surface area of the property drained to the sewer, the nature of the surface water run-off and the capacity and extent of the sewerage system.

We concluded that charging by site area was the best method of charging for SWD. We recommended that water companies consider introducing site area-based charging for SWD – particularly for non-household customers where the process is simpler to implement.

However, we also recognised that there could be considerable set up and administration costs associated with introducing site area-based SWD charges that would vary depending on the nature of the individual water companies' customer bases. Ultimately, it is for the companies to decide if the benefits of implementing site area SWD charging outweigh the costs.

Previously, only two companies charged non-households by site area – Severn Trent Water (since 1990-91) and Yorkshire Water (since 2001-02). However, from 1 April 2005, Northumbrian Water is introducing a site area-based charge for all new non-household properties and for existing non-household properties that are split or merged during the year. Site area charges will be phased in for all non-households in Northumbrian Water's area by the 2008-09 charging year.

Provision of surface water drainage rebates

In MD152 we required all water companies to offer rebates for surface water drainage to customers who do not benefit in any way from this service. All ten water and sewerage companies now do this.

We do not, however, expect companies to provide rebates retrospectively for periods before the current charging year. If companies were to provide rebates retrospectively, they would expect to backdate corresponding increases in charges for customers who are connected for surface water drainage. We do not consider this to be either practicable or desirable.

We also said in MD152 that companies must ensure that these rebate provisions are set out on household customers' bills. We have checked that all companies provide sufficient information to customers about the availability of the rebate.

Measured household customers receive the rebate in the form of either a lower standing charge or a lower volumetric charge, while unmeasured household customers receive the rebate as either a lower fixed charge or a lower RV charge. On average, however, both customer groups should receive similar reductions (see table 20 for details of these rebates).

Table 20 Surface water drainage rebates for household customers 2005-06

	Unmeasured		Measured	
	Fixed charge £/year	RV charge p/£RV	Standing charge £/year	Volumetric charge p/m ³
Water and sewerage companies				
Anglian				
– Standard	30.00	n/a	30.00	n/a
– SoLow	n/a	n/a	n/a	40.00 ¹
– Aquacare plus	n/a	n/a	30.00	n/a
Dŵr Cymru	34.00	n/a	n/a	20.73 ¹
Northumbrian	32.75	n/a	32.75	n/a
Severn Trent ²	n/a	20.73 – 27.78	43.56	n/a
South West	n/a	20.34	n/a	28.78 ¹
Southern	22.00	n/a	22.00	n/a
Thames	17.00	n/a	17.00	n/a
United Utilities	n/a	24.20	27.00	n/a
Wessex	n/a	8.48	14.00	n/a
Yorkshire	29.14	n/a	29.14	n/a

Notes:

n/a = no abatement in this element of the charge.

1. The rebates have been standardised to take account of non-return to sewer allowances.
2. The majority of Severn Trent Water's customers receive a rebate related to property type. The amount of rebate shown for measured customers is for a semi-detached property. For the remaining customers the rebate is based on property RV, which varies according to the charging area.

Generally, companies offer the rebate to non-household customers in a form similar to that offered to household customers. Non-household customers who pay a site area-based charge for SWD are exempt from paying this charge if they do not receive a surface water drainage service.

In RD35/03, we also encouraged the companies to consider giving partial rebates to non-household customers who can prove that some of their surface water drains away from the public sewer.

5.2 Charging for highway drainage

The cost of highway drainage is not related to the use that water and sewerage customers make of the sewerage system. As such, there is not one obvious correct way of recovering the costs of this service. Because highway drainage benefits all those using roads either directly or indirectly, there is a case for recovering the costs of the service from highway authorities or from users of the highway. At present, the law prevents this option.

In 'Water charging in England and Wales: Government decisions following consultation', published in November 1998, the Government indicated that there will be no change for the time being in the way in which highway drainage charges are collected. It suggested that there might be little benefit in any change and that the cost of the service would still have to be collected through other charges, such as the council tax.

5.3 Current charging methods for surface water and highway drainage

The way companies charge for surface water and highway drainage varies between measured and unmeasured, household and non-household customers. Table 21 shows the methods that companies currently employ to charge for these services.

Table 21 Charging methods for surface water and highway drainage

	Household customers						Non-household customers						
	Measured			Unmeasured			Measured			Unmeasured			
	Volumetric rate charge	Fee in standing charge	RV charge	Property type charge	Fee in standing charge	RV charge	Volumetric rate charge	Fee in standing charge	RV charge	Site area charge	Fee in standing charge	RV charge	Site area charge
Water and sewerage companies													
Anglian ¹		✓			✓			✓			✓		
Dŵr Cymru													
Surface water drainage	✓				✓		✓				✓		
Highway drainage		✓			✓			✓			✓		
Northumbrian ²		✓			✓			✓		✓		✓	
Severn Trent													
Surface water drainage			✓					✓		✓		✓	
Highway drainage ³	✓		✓		✓		✓		✓	✓		✓	
South West ⁴	✓						✓		✓		✓		
Southern		✓			✓			✓			✓		
Thames		✓			✓			✓			✓		
United Utilities ⁵		✓			✓			✓		✓		✓	
Wessex		✓			✓			✓			✓		
Yorkshire													
Surface water drainage		✓			✓			✓		✓		✓	
Highway drainage	✓						✓		✓		✓		

Notes:

1. Anglian Water's measured household customers who are on the SoLow tariff pay for surface water and highway drainage costs through the volumetric rate. All other customers pay for both services through the standing charge.
2. Northumbrian Water's measured non-household customers with an RV of less than £500 pay for SWD by means of a fixed charge. For non-household properties with an RV of more than £500, SWD is recovered through the p/£ RV charge. For non-household properties which are not on the valuation list at 31 March 1990, the company sets a notional RV. From 2005-06, Northumbrian Water will charge new non-household customers and existing non-household properties that are split or merged during the 2005-06 charging year for SWD on the basis of site area. By the 2008-09 charging year, all non-household customers will pay for SWD by property type.
3. Severn Trent Water recovers part of the charge for highway drainage from the foul sewerage element of the sewerage charge (ie the volumetric rate or rateable value charge) and part of the charge from the surface water drainage element of the sewerage charge (ie the property type or site area charge).
4. South West Water's large user customers consuming 50 Ml or more pay for SWD by means of a fixed charge equal to £13,085 per annum.
5. United Utilities Water's measured non-household customers pay for SWD via either a p/£ charge based on the charging value of the property or a fixed charge based on the size of the meter if the property has no charging value. Charging values are calculated by using rateable values and a divisor. Full details are available in United Utilities' charges scheme.

The differences in the methods are the main reason why the sewerage standing charges for measured customers vary between companies (see table 14 in chapter 3 and table C1 in appendix 5).

For customers who are not connected for foul sewerage services (that is, customers who pay only for surface water and highway drainage), currently six of the ten water and sewerage companies charge a fixed amount. This ranges from £33 (Southern Water) to £79 (Dŵr Cymru). The remaining companies make a reduction to the RV charge or apply a standing charge based on meter size.

5.4 Charging for foul sewerage

The costs of collecting, treating and disposing of foul sewage depend upon the volumes and strengths of the wastewater. But companies do not assess the strength of foul sewage for charging purposes.

Companies usually base their charges for foul sewerage for measured customers on the volumes recorded on the water meter (adjusted where appropriate for non-return to sewer allowances). Most unmeasured customers pay for foul sewerage by a charge based on the RV of their property. These charges are outlined in chapter 3.

5.5 Charging for trade effluent

The costs of collecting, treating and disposing of trade effluent also depend upon the volumes and strengths of the wastewater. But unlike for foul sewerage, companies assess for charging purposes the strength and volume of trade effluent before it enters the sewers.

Charges for trade effluent are based on the Mogden formula. This formula links charges to the characteristics (volume and strength) of the discharges from a customer's premises, which determine the level of treatment needed and therefore the costs involved. Companies calculate the average costs across their regions, so charges do not reflect the costs incurred at any one treatment works. Companies may reduce the collection charge if a discharger is connected directly to the treatment works.

United Utilities Water offers, on an optional basis, a reservation charge for trade effluent customers. The charge is in two parts:

- a fixed element to reflect the cost of infrastructure capacity reserved by the customer, based on the volume and loads specified in the customer's consent or agreement; and
- a variable element based on the actual flow and loads discharged from the customer's premises.

Details of companies' trade effluent tariffs for 2005-06 are shown in table 22.

Table 22 Trade effluent tariffs 2005-06

	Regional strengths							
	R p/m ³	V p/m ³	Bv p/m ³	M p/m ³	B' p/kg	S' p/kg	Os mg/l	Ss mg/l
Water and sewerage companies								
Anglian – Green	17.45	27.30	5.28	14.61	54.11	48.09	423	403
Dŵr Cymru	21.64	24.62	10.23	14.73	31.97	33.05	500	350
Northumbrian	23.06	11.27	6.26	–	24.50	46.01	360	182
Severn Trent	17.11	15.51	–	–	26.41	20.15	351	343
South West	45.82	42.23	–	7.69	99.95	90.85	744	489
Southern	32.70	23.87	3.90	20.72	69.71	42.10	452	512
Thames	7.67	9.42	–	–	27.14	34.43	445	336
United Utilities ¹	15.30	12.40	1.80	11.70	35.00	40.30	332	231
Wessex – Standard	42.37	19.50	–	–	41.20	49.90	802	313
Yorkshire	26.37	26.07	–	15.64	28.25	46.36	898	326

Notes:

- Trade effluent bills are calculated according to the formula: Bill = R +[(V + Bv) or M] + B(Ot/Os) + S(St/Ss).
 - Some companies apply the fixed charge for the foul sewerage service in addition to the above, even if there is no domestic strength discharge.
 - Charges for B and S are usually expressed in p/m³ relative to standard strength (concentration: usually expressed in mg/litre), which vary from company to company. To maintain comparability, the charges shown here (B' and S') are corrected for standard strength and shown as p/kg.
1. United Utilities offers a trade effluent reservation tariff to customers who wish to be charged on that basis. The tariff has two components: a reservation charge, which is based on maximum consent limits; and a volume charge, which is based on discharged volume.

Key to charges:

- R – reception and conveyance.
- V – primary treatment (V for volumetric).
- Bv – additional volume charge if there is biological treatment.
- M – treatment and disposal where effluent goes to a sea outfall.
- B – biological oxidation of settled sewage.
- B' – B charge corrected for average regional strength (ie B/Os x 1,000).
- S – treatment and disposal of primary sludge.
- S' – S corrected for average regional strength (ie S/Ss x 1,000).

Key to other terms:

- Os – COD of crude sewage after one hour quiescent settlement.
- Ss – total suspended solids (mg/litre) of crude sewage.
- Ot – chemical oxygen demand (COD) of effluent after one hour quiescent settlement at pH 7.
- St – total suspended solids (mg/litre) of trade effluent at pH 7.

The balance between trade effluent volume and strength charges

In the past few years there has been a trend for companies to adjust the relative balance of their volume and strength charges within the Mogden formula. Some companies increased their charges for reception and conveyance of trade effluent, while decreasing their charges for biological treatment and the treatment and disposal of sludge.

We accept that any such changes to the Mogden charges can be justified if they result in a more cost-reflective reception and conveyance charge on the one hand and treatment charge on the other.

For example, five companies have split the secondary treatment charge into two elements (B and Bv) to reflect the load- and volume-related costs associated with secondary treatment (see table 22). We think that this refinement has enabled companies to achieve a better balance between the different treatment elements within the current Mogden charging formula. However, we require robust calculation of the cost-reflective level for the Mogden charges to allay concerns that companies could be engaging in anti-competitive pricing for treatment services.

5.6 The balance between measured foul sewerage and trade effluent charges

We expect to see an appropriate balance between the charges for trade effluent and for domestic foul sewerage. For a given volume of effluent, differences between bills for domestic and trade sources should only be related to differences in strength. Similarly, for effluent of a given strength, differences in bills should only reflect any difference in the volume of effluent.

We use a simple test to check the balance between sewerage and trade effluent charges. We subtract a notional trade effluent charge for domestic strength effluent from the measured sewerage volumetric charge. (RD26/00 explains how we calculate the notional trade effluent charge.) We consider that domestic sewerage and trade effluent charges are broadly in balance if the difference falls within a range $\pm 5\text{p}/\text{m}^3$ (see MD152).

Table 23 shows the difference between the measured sewerage volumetric and notional trade effluent charges for sewage for 2004-05 and 2005-06. The table shows that all companies fall within our prescribed range.

Table 23 Comparison of measured household sewerage and trade effluent tariffs 2004-05 and 2005-06

	Differential reflecting average levels of treatment p/m ³	
	2004-05	2005-06
Water and sewerage companies		
Anglian ¹	5	4
Dŵr Cymru	-3	-3
Northumbrian	-1	-2
Severn Trent	2	3
South West	4	2
Southern	-1	1
Thames	-4	-4
United Utilities	4	5
Wessex	5	5
Yorkshire	-4	-4

Notes:

All figures are calculated: net of surface and highway drainage; using forecast treatment loads for 2005-06; and using assumed effluent characteristics: COD (mg/l) – 650 and SS (mg/l) for 450.

1. The differential for Anglian Water has been calculated using its Streamline Green trade effluent tariff.

5.7 Long run marginal cost of treating and disposing of trade effluent

Although often considered in the context of the water service, the use of LRMC estimates is also important⁶ when considering tariffs for sewerage services.

In RD14/01 we stated that we do not expect incumbents to reduce treatment charges artificially by comparison with conveyance charges because this could prevent further competition from emerging. Where companies propose lower treatment charges, they must be justified by proper reference to LRMCs and we expect robust calculations in such cases.

5.8 Charges for tankered domestic waste

Owners of cesspools and septic tanks employ private tanker operators to transport this waste to treatment works. The sewerage company levies a charge on the tanker operator for disposal of the waste, which the tanker operator passes on to the customer, together with its own costs. The charges made by sewerage companies to tanker operators for 2005-06 are shown in table 24.

⁶ See RD21/97, RD7/98, RD11/98 and RD30/98 for our policy on sewer connection agreements.

Table 24 Tankered domestic waste charges 2005-06

	Weak ^a £/m ³	Effluent strength Medium ^b £/m ³	Strong ^c £/m ³
Water and sewerage companies			
Anglian	6.29	6.29	6.29
Dŵr Cymru ¹	3.62	–	6.01
Northumbrian ²	1.61	9.28	9.28
Severn Trent ³	0.68	–	8.70
South West ⁴	2.00	8.69	8.69
Southern ⁵	3.35	4.89	5.92
Thames ⁶	1.02	4.20	6.94
United Utilities ⁷	6.97	6.97	6.97
Wessex ⁸	3.15	7.20	9.90
Yorkshire ⁹	1.64	5.93	22.62

Notes:

Strength thresholds vary from company to company.

1. For Dŵr Cymru the charges are for:
 - a. weak loads, suspended solids below 2,000mg/l.
 - c. strong loads, suspended solids between 2,000mg/l and 20,000mg/l.
Loads with suspended solids above 20,000mg/l will be subject to charges calculated at trade effluent rates.
2. For Northumbrian Water the charges are for:
 - a. cesspool waste only (subject to minimum charge of £14.70).
 - b. and c. septic tank or combined waste only (subject to minimum charge of £47.00).
3. For Severn Trent Water, the charges are in addition to a £5.17 fixed charge per individual tanker load and are for:
 - a. weak loads, suspended solids of less than 800mg/l.
 - c. strong loads, suspended solids of 800mg/l and above.
4. For South West Water, the charges are in addition to a £9.10 fixed charge per individual tanker load and are for:
 - a. weak loads, suspended solids below 1,000mg/l.
 - c. strong loads, suspended solids between 1,000mg/l and above.
5. For Southern Water the charges are for:
 - a. weak loads, suspended solids of less than 2,000mg/l.
 - b. indeterminable strength.
 - c. strong loads, suspended solids above 2,000mg/l.
6. For Thames Water the charges are for:
 - a. monitored loads, suspended solids of 399mg/l or less. Most cesspool effluent will be charged at the lower rate.
 - b. unmonitored loads.
 - c. monitored loads, suspended solids of 400mg/l and above.
7. For United Utilities Water, the charges are in addition to a £5.00 fixed charge per individual tanker load.
8. For Wessex Water, the charges are in addition to a £7.50 fixed charge per individual tanker load and are for:
 - a. low strength loads, suspended solids below 1,000mg/l.
 - b. medium strength loads, suspended solids between 1,000mg/l and 10,000mg/l.
 - c. high strength loads, suspended solids above 10,000mg/l.
9. For Yorkshire Water, the charges are in addition to a £6.50 standing charge per individual tanker and are for:
 - a. weak loads, suspended solids of less than 2,000mg/l.
 - b. standard loads, suspended solids of 2,000mg/l to 9,000mg/l.
 - c. strong loads, suspended solids above 9,000mg/l (discounts available for discharges at selected sites).

Sewerage companies are not obliged under WIA91 to provide this service. As such, we currently have no jurisdiction to regulate these charges, either under Condition B (relating to the tariff basket) or Condition E (relating to undue discrimination or preference). Nor do we have regulatory jurisdiction over the charges made by tanker operators.

Under CA98, we have powers concurrent with the Office of Fair Trading to investigate commercial activities connected with the provision of water and sewerage services. We may use the powers to investigate complaints about the provision of these sewerage services. We will consider whether this is an effective means of redress in individual cases.

Following the principle that charges should be cost-reflective, we think it is more appropriate for companies to offer separate charges for septic tank and cesspool waste. Eight companies have separate charges for different types of waste.

6. Large user tariffs

In response to competitive pressures, companies have continued to review how they allocate their costs between different classes of customers, and they have continued to develop tariffs for large (and intermediate) user customers. This has led some companies to re-structure their existing large user tariffs in order to align them more closely to the costs of supply, and others to introduce large user tariffs for the first time. Some companies have introduced tariffs that give incentives to customers to use water more efficiently.

6.1 Our role in regulating large user tariffs

We regulate large user tariffs to:

- prevent undue discrimination and undue preference;
- prevent potential abuses of a dominant market position and other anti-competitive behaviour; and
- ensure that tariffs are structured to send appropriate price signals.

We amended companies' licences in April 2000 to remove large users from the tariff basket. This is because we considered that these customers formed part of an emerging competitive market so their tariffs did not require the same degree of regulation as those for other groups of customers. Nevertheless, these charges are still subject to the requirement that they must be neither unduly preferential nor unduly discriminatory.

Definition of large users

Companies' licences⁷ currently define large users as customers that are, or are likely to be, supplied with not less than 50 Ml/year for companies in England. For companies largely operating in Wales the threshold is 250 Ml/year (see MD194). The wording of this part of the licence allows for an automatic adjustment of the volume threshold to the amount specified in any order that the Government makes under section 7(6) of WIA91⁸.

⁷ Section 7(a) of Condition B.

⁸ As amended by section 40 of the Competition and Service (Utilities) Act 1992.

6.2 Principles underlying large user tariffs for water

The principles underlying our approach to large user tariffs are that:

- Unit charges should not be lower for large business customers simply because they use a large amount of water.
- Charges can reflect the lower costs of providing services to large users, such as:
 - delivering large quantities of water to a single point of delivery, which does not require the use of all levels of the distribution system;
 - supplying water to customers whose peak demands do not occur during the period when the system is at peak; and
 - delivering a lower level of service to customers on an optional basis.
- Charges should provide incentives for customers to avoid wasting water.

As far as possible, we expect companies to justify large user tariffs on a robust allocation of accounting costs over the classes of customers concerned. We noted in MD159 that failure to do this will be the principal means by which we will assess abuses of market power and undue discrimination.

Large user tariffs must also be consistent with robust estimates of LRMC. This is particularly important in areas where water resources are constrained. (See chapter 4 for a discussion on LRMC.)

We monitor year-on-year changes to the difference between large user tariffs and household tariffs to ensure that the charges for both groups of customers are neither unduly preferential nor unduly discriminatory.

6.3 Structure of large user tariffs for water

All the companies, with the exception of Cholderton Water, offer a reduced tariff for large users. Most companies' large user tariffs comprise a fixed charge and a lower than standard volume-related charge. Some of these have a higher fixed charge and a lower volumetric rate for all water used. Some have a lower volumetric rate for all consumption above a certain threshold, generally with no fixed charge in addition to the standard meter-based standing charge. Both types of tariff structure minimise the incentives for customers to use more water solely to qualify for the tariff. Mid Kent Water and Portsmouth Water introduced large user tariffs for the first time this year.

Tables 25 and 26 show companies' water tariffs for large users for 2005-06.

Table 25 Large and intermediate user tariffs for water – water and sewerage companies 2005-06

Water and sewerage companies	Threshold point	Fixed charge	Maximum demand charge	Standard volumetric charge	Large and intermediate user volumetric charge	Bill saving for customer using 300 MI %
	MI	£/year	£/MI/day	p/m ³	p/m ³	
Anglian						
Orange	0.5	63		86.07	82.45	
Blue	5	495		86.07	73.81	
Industrial potable ¹	–	8,300	108,300	86.07	17.59	28
Industrial interruptible ¹	–	8,300	98,260	86.07	15.96	34
Hartlepool						
Industrial potable ¹	–	600	54,960	48.11	16.53	21
Dŵr Cymru						
Band 1	50	16,341		109.61	76.98	
Band 2	100	23,061		109.61	70.26	
Band 3	250	47,211		109.61	60.60	31
Band 4	500	70,711		109.61	55.90	
Band 5	1,000	91,211		109.61	53.85	
Northumbrian						
Northumbrian						
Focus20	20	2,230		72.58	62.34	
Focusextra	63	8,350		72.58	52.62	
Focusplus ²	183	25,900		72.58	43.03	29
Essex & Suffolk						
Essex						
Focus20	20	2,030		80.81	71.56	
Focusextra	68	7,950		80.81	62.79	
Focusplus ²	175	19,600		80.81	56.14	23
Suffolk						
Focus20	20	2,450		109.69	98.36	
Focusextra	66	10,050		109.69	86.87	
Focusplus ²	181	22,800		109.69	79.83	20
Severn Trent³						
ECO 10	(May to September)	10	2,499.96	100.49	103.33	
	(October to April)				55.33	
ECO 50 ⁴	(May to September)	50	13,112.04	100.49	74.27	
	(October to April)				39.78	
ECO 250 ⁴	(May to September)	250	8,862.00	100.49	72.77	46
	(October to April)				38.28	
ECO 250 plus ^{4,5}	(May to September)	250	8,862.00	100.49	66.58	51
	(October to April)				35.03	
South West⁶						
HW1	50	Standard		110.61	87.34	18
HW2	100	Standard		110.61	68.97	25
HW3	150	Standard		110.61	54.46	25
Southern³						
	100	14,800		70.30	55.50	14
Thames³						
Intermediate volume user	20	1,510		88.85	81.30	
Large volume user	50	8,730		88.85	66.86	
Super large volume user	250	34,831		88.85	56.42	23
United Utilities³						
Select 50	50	7,524		100.50	85.50	
Select 180	180	42,378		100.50	66.10	20
Select Plus ⁷	3,000	42,378		100.50	32.40	
Wessex						
Option 20 ⁶	20	2,000		112.76	102.19	
Option 100 ⁶	100	2,000		112.76	72.39	
Option 150 ⁶	150	2,000		112.76	58.61	23
Option 20 Managed Demand ^{5,8}	20	2,700		112.76	95.67	
Managed Demand ⁵	–	350		112.76	104.53	
Yorkshire^{8,10}						
Yorkshire						
Band 1	50	Standard		94.20	58.40	
Band 2	250	Standard		94.20	49.60	33
Interruptible Band 1	0	Standard		94.20	91.20	
Interruptible Band 2	50	Standard		94.20	55.40	
Interruptible Band 3	250	Standard		94.20	46.60	36
York						
Band 1	50	Standard		52.60	44.70	12
Interruptible Band 1	0	Standard		52.60	49.60	
Interruptible Band 2	50	Standard		52.60	41.70	18

Notes:

- a. Percentage bill reductions are based on supplies by a 150mm meter and assumes that water use is spread evenly throughout the year.
1. Anglian Water's Industrial tariffs are subscribed demand type tariffs.
2. For the Northumbrian, Essex and Suffolk areas, lower volumetric rates of 36.47 p/m³, 51.67 p/m³ and 73.39 p/m³ apply to all consumptions above 2,500 MI/a, 1,000 MI/a and 1,000 MI/a respectively.
3. Fixed charge is supplementary to the normal standing charge based on meter size.
4. Fixed charge reduces by 4p for every m³ supplied over the threshold point until it gets to zero.
5. ECO 250 plus tariff of Severn Trent and both Managed Demand tariffs of Wessex Water are interruptible tariffs.
6. The standard volumetric charge applies up to the threshold for the tariff option chosen and thereafter the large user volumetric charge for that tariff option applies.
7. A higher volumetric rate (66.10 p/m³) applies to all consumption up to 3,000 MI/a.
8. A higher volumetric rate (105.54 p/m³) applies to all consumption up to 20 MI/a.
9. This is a falling block tariff. The large user volumetric charge falls at each of the threshold points.
10. The interruptible tariff is only available to customers using over 250 MI per annum.

Table 26 Large and intermediate user tariffs for water – water only companies 2005-06

	Threshold point	Fixed charge	Maximum demand charge	Standard volumetric charge	Large and intermediate user volumetric charge	Bill saving for customer using 300 MI %
	MI	£/year	£/MI/day	p/m ³	p/m ³	
Water only companies						
Bournemouth & W Hampshire ¹						
Band 1 – Jun, Jul, Aug – other months	10	340.00		83.47	102.50	
Band 2 – Jun, Jul, Aug – other months	20	1,080.00		83.47	102.50	
Band 3 – Jun, Jul, Aug – other months	50	3,692.00		83.47	96.95	
Band 4 – Jun, Jul, Aug – other months	100	12,114.00		83.47	96.95	
Band 5 – Jun, Jul, Aug – other months	150	22,729.00		83.47	96.95	28
Band 6 – Jun, Jul, Aug – other months	300	31,036.00		83.47	96.95	
Bristol						
Band C	20	3,600.00		87.43	69.57	
Band B	100	7,600.00		87.43	65.57	
Band A	250	17,300.00		87.43	61.69	23
Band Super A	750	0.00		87.43	57.55	
Cambridge	150	Standard		70.00	52.00	26
Dee Valley (Wrexham area) ²	250	38,975.00		76.76	61.41	3
Folkestone & Dover	100	Standard		101.13	77.72	23
Mid Kent						
High season – May, Jun, Jul, Aug	50	Standard		88.22	109.00	11
Low season – other months					63.00	
Portsmouth ¹	50	4,650.00		52.10	42.80	18
South East ^{3, 4}						
Eastbourne						
InterSaver	10	194.43		122.16	113.11	
	20	797.96		122.16	110.08	
	50	3,266.98		122.16	105.14	
Saver	100	2,925.00		122.16	103.46	15
SuperEconomy	50		135,000	122.16	66.48	15
Mid Southern						
InterSaver	10	66.79		69.46	65.61	
	20	543.90		69.46	63.22	
	50	734.75		69.46	62.83	
Saver	100	5,216.00		69.46	57.17	15
SuperEconomy	50		43,193	69.46	51.89	
	70		38,043	69.46	51.89	
	100		44,480	69.46	47.13	
	250		38,043	69.46	47.13	17
Mid-Sussex						
InterSaver	10	264.79		127.66	120.04	
	20	1,329.93		127.66	114.72	
	50	3,845.46		127.66	109.69	
Saver	100	3,707.00		127.66	107.70	15
SuperEconomy	50		135,000	127.66	70.73	16
West Kent						
InterSaver	10	120.47		102.03	96.42	
	20	838.52		102.03	92.83	
	50	3,518.65		102.03	87.47	
Saver	100	2,922.00		102.03	86.37	15
SuperEconomy	50		135,000	102.03	49.40	16
South Staffordshire ³						
Medium user	50	1,500.00		68.96	66.96	
Reservation	100		60,141	68.96	34.20	27
Sutton & East Surrey						
Northern Area	250	Standard		71.30	68.85	3
Southern Area	250	Standard		92.41	68.85	25
Tendring Hundred						
Band 1 – Jun, Jul, Aug – other months	5	Standard		141.70	177.85	
Band 2 – Jun, Jul, Aug – other months	25	8,730.00		141.70	128.87	
Band 3 – Jun, Jul, Aug – other months	50	17,460.00		141.70	106.13	
Band 4 – Jun, Jul, Aug – other months	100	26,193.00		141.70	94.76	
					65.60	43
Three Valleys						
Mid User ⁵	3	Standard		75.33	69.44	
Large User ¹	50	11,505.00		75.33	46.43	33

Notes:

- Percentage bill reductions are based on supplies by a 150mm meter and assumes that water use is spread evenly throughout the year.
- Fixed charge is supplementary to the normal standing charge based on meter size.
- Dee Valley Water's fixed charge is based on meter size. For a 75mm meter it is £38,687, increasing to £38,813 for a 100 mm meter and to £38,975 for 150 mm meter.
- South East Water's SuperEconomy and South Staffordshire Water's Reservation tariffs are subscribed demand type tariffs.
- To be eligible for the InterSaver tariff the demand in August of the previous year should be no more than 10% above the average monthly consumption.
- Standing charge is £48 for meter sizes up to 28mm. All other meter sizes attract normal meter-based standing charge.

Alternative forms of large user tariffs for water

The following alternative forms of large user tariffs are currently available.

Seasonal tariffs

Seasonal tariffs consist of a higher volumetric rate in the summer months and a lower one in the winter months. Currently, only four companies (Bournemouth & West Hampshire Water, Mid Kent Water, Tendring Hundred Water and Severn Trent Water) offer seasonal tariffs to their non-household customers.

We think that the difference between the summer and winter volumetric rates should reflect the absolute difference (p/m^3) between the peak and off-peak LRMCs. But we acknowledge that other approaches may be acceptable.

This year Severn Trent Water has aligned its large user volumetric rates more closely to its LRMC. This significantly altered the balance between the fixed and volumetric charges of its large user tariffs.

Subscribed demand tariffs

This type of tariff provides customers with a strong incentive to manage their peak demands. Customers are required to notify companies of their likely maximum daily demands in advance of the charging year.

A subscribed demand tariff usually comprises three main elements:

- An annual maximum demand charge (expressed in £ per MI/d), that is generally based on a customer's maximum daily demand.
- A usage rate (p/m^3), which is applied to the volume of water that the customer uses up to the quantity which that customer has notified as its maximum daily demand.
- A penalty rate (p/m^3), which is applied to all volumes that the customer takes in excess of its notified maximum daily demand.

Because each customer has to forecast its maximum daily demand at the beginning of the year, customers need to talk to their supplier about likely future demand. Companies say they have found this dialogue useful as a means of establishing a serious discussion about water use (and the potential for water conservation) with their large users.

Three companies (Anglian Water, South East Water and South Staffordshire Water) currently offer subscribed demand tariffs.

Interruptible tariffs

Interruptible tariffs enable commercial customers to take the risk of occasional interruptions to supply in exchange for lower tariffs. To date, only four companies (Severn Trent Water, Yorkshire Water, Anglian Water and Wessex Water) offer interruptible tariffs. Both Severn Trent Water and Yorkshire Water offer an interruptible tariff to customers using not less than 250 MI/year who are prepared to interrupt their supplies on a medium-term (24 hours) basis. Anglian Water and Wessex Water offer interruptible tariffs for customers who are prepared to accept a short-term (four hours) interruption.

We have agreed operating rules with these companies to ensure that interruptible customers are capable of managing supply interruptions. For example, we encourage companies to conduct at least one test interruption per customer per year.

Reservation charges for stand by supplies

Customers who have access to another supply (for example a borehole or on-site effluent treatment plant) may only require back-up from the incumbent for potential outage in their own water resource/treatment systems. These customers have particular cost characteristics and, as a distinct customer class, may require a dedicated suite of reservation or stand by charges.

Companies charge for stand by supplies by using one of the following methods:

- a fixed standing charge (£/year) related to meter size⁹;
- a volume related charge (p/m³) that companies apply to the volume reserved by customers over the whole year (possibly split between peak and off-peak seasons); and
- a specific reservation charge (£/MI/d) based on customers' maximum daily demands.

Currently, seven companies offer standard reservation tariffs to their customers (see table 27). Other companies may be willing to offer reservation tariffs by special agreement.

Severn Trent Water and Yorkshire Water calculate their reservation charges by applying a volumetric charge to the volume reserved by customers. The other three companies (Anglian Water, Bournemouth & West Hampshire Water, United Utilities and Wessex Water) base their charge on customers' maximum daily demands, like a subscribed demand tariff.

Bournemouth & West Hampshire Water offers a surplus capacity charge for customers with oversized meters, whose demand levels may be unpredictable.

⁹ The standing charge can be viewed as a form of fixed reservation charge where the maximum daily demand is effectively determined by the size of the meter.

Table 27 Non-household reservation (stand by) charges for water 2005-06

Companies	Reserved capacity charges				Capacity usage charges		
	Threshold volume (MI/year)	Applicable up to threshold point	Applicable after threshold point (MI/day)	Fixed (£/year)	Threshold volume (MI/year)	Applicable up to threshold point p/m ³	Fixed (£/year)
Anglian		£108,300 per MI/day		8,300.00		17.59	
Hartlepool		£54,960 per MI/day		600.00		16.53	
Bournemouth & W Hampshire ^{1,2}							
Band 1 – Jun, Jul, Aug	10	£53,793 per MI/day				100.29	
– other months						42.00	
Band 2 – Jun, Jul, Aug	20	£53,793 per MI/day				100.29	
– other months						51.61	
Band 3 – Jun, Jul, Aug	50	£52,002 per MI/day				96.95	
– other months						44.05	
Band 4 – Jun, Jul, Aug	100	£52,002 per MI/day				96.95	
– other months						38.57	
Band 5 – Jun, Jul, Aug	150	£52,002 per MI/day				96.95	
– other months						33.50	
Band 6 – Jun, Jul, Aug	200	£52,002 per MI/day				96.95	
– other months						30.45	
Band 7 – Jun, Jul, Aug	250	£52,002 per MI/day				96.95	
– other months						29.30	
Band 8 – Jun, Jul, Aug	300	£52,002 per MI/day				96.95	
– other months						26.42	
Severn Trent ¹							
Band 1 – May to September	0	101.35 p/m ³				36.66	
– October to April		36.66 p/m ³					
Band 2 – May to September	10	75.66 p/m ³		1,600.44		27.67	899.52
– October to April		27.67 p/m ³					
Band 4 ^{3,4} – May to September	50	54.38 p/m ³		8,325.36		19.89	4,787.04
– October to April		19.89 p/m ³					
Band 5 ⁴ – May to September	250	53.63 p/m ³		5,200.32		19.14	3,662.04
– October to April		19.14 p/m ³					
Three Valleys							
United Utilities ¹							
Band 1	Up to 0.137 MI/day	£56,036 per MI/day				84.40	
Band 2	Up to 0.493 MI/day	£56,036 per MI/day		7,148.00		70.10	
Band 3	Up to 1.370 MI/day	£56,036 per MI/day		41,319.00		50.90	
Wessex ⁵							
Option 1	Up to 0.055 MI/day	£130,743 per MI/day	£118,482	2,700.00	Up to 20	76.94	69.72
Option 2	Up to 0.274 MI/day	£130,743 per MI/day	£83,937	2,700.00	Up to 100	76.94	49.40
Option 3	Up to 0.411 MI/day	£130,743 per MI/day	£67,958	2,700.00	Up to 150	76.94	39.99
Yorkshire							
Band 1	0	28.04 p/m ³				66.16	
Band 2	50	28.04 p/m ³				30.36	
Band 3	250	28.04 p/m ³				21.56	

Charges will be by special agreement with the company

Notes:

- a. Customers are required to reserve their annual demand in advance, at the beginning of the year. Different charges apply if customers use more than this reserved amount.
- 1. Charges are additional to normal standing charge based on meter size.
- 2. Reserve capacity charge is discounted at the rate of 1/365 per day if reserved capacity is not called upon during the 92-day peak period from June to August inclusive.
- 3. Reserved capacity fixed charge reduces to nil by 2.5p for each cubic metre in excess of the threshold volume.
- 4. Capacity usage fixed charge reduces to nil by 1.5p for each cubic metre in excess of the threshold volume.
- 5. Customers must elect to pay both the Reserved Capacity and Usage Capacity charges on the same option.

6.4 Large user tariffs for non-potable water

Some companies supply non-potable water to industrial customers. The charges for these supplies are shown in table 28.

We accept that the volumetric charge for non-potable water will be lower than that for a comparable potable supply because it does not include the cost of treatment to potable standard.

Table 28 Comparison of non-potable water volumetric charges with standard and large user potable water volumetric charges 2005-06

Company	Non-potable p/m ³	Standard potable p/m ³	Large user potable p/m ³
Anglian			
Orange	74.21	86.07	82.45
Blue	66.43	86.07	73.81
Industrial ¹	16.17	86.07	17.59
Industrial Plus ¹	7.88	86.07	–
Dee Valley (Wrexham area) ²	48.38	76.76	61.41
Dŵr Cymru ³			
Standard	84.00	109.61	109.61
Band 1	51.37	109.61	76.98
Band 2	44.65	109.61	70.26
Band 3	34.99	109.61	60.60
Band 4	30.29	109.61	55.90
Band 5	28.24	109.61	53.85
Northumbrian ^{4,5}	15.22	72.58	43.03
Sutton & East Surrey ²			
Northern area	62.00	71.30	68.85
Southern area	62.00	92.41	68.85
United Utilities ^{6,7}	32.40	100.50	66.10

Notes:

1. In addition to the volumetric rate, large user potable water customers pay a maximum daily demand charge of £108.30 per m³ and non-potable customers pay a maximum daily demand charge of £99.53 per m³.
2. Dee Valley Water and Sutton & East Surrey Water's large user potable volumetric charges apply to water supplies of at least 250 Ml/year.
3. There are separate volumetric charges for the supply of partially treated water.
4. Non-potable water volumetric charge apply to supply of partially treated water from Teesside Industrial Raw Water system.
5. The large user potable water volumetric charge shown is that for the Focus plus tariff.
6. The large user potable water volumetric charge shown is that for the Select 180 tariff.
7. Optional reservation charges for non-potable supply available: a capacity charge of £25,631 Ml/day and a usage charge of 25.10 p/m³ up to reserved amount and 32.40 p/m³ over reserved amount apply.

6.5 Large user tariffs for foul sewage and trade effluent

The principles that companies should apply when setting large user tariffs for water should also apply when they set large user tariffs for foul sewage or trade effluent. So it is likely that companies would justify a large user tariff for foul sewage/trade effluent on the basis that large customers make less use of the reception and conveyance part of the service. This is consistent with the way large user tariffs for water have developed. In structuring the tariff, companies should refer to the LRMC of collecting and treating sewage, as outlined in chapter 5.

Large user foul sewerage tariffs

All of the water and sewerage companies, except for United Utilities Water and Northumbrian Water offer large user tariffs for foul sewage (see table 29). With the exception of Wessex Water, these companies offer a simple two-part tariff. Wessex Water's tariff is the same as the one it offers to its large trade effluent customers.

Table 29 Large and intermediate user tariffs for sewerage – water and sewerage companies 2005-06

Water and sewerage companies	Threshold point	Fixed charge	Standard volumetric charge	Large and intermediate user volumetric charge	% bill saving for customer using 300 MI
	MI	£/year	p/m ³	p/m ³	
Anglian					
Orange	0.5	136	100.04	96.17	4
Blue	5	261	100.04	93.93	6
Industrial	–	1,575	100.04	91.53	8
Dŵr Cymru					
	100	Standard	126.41	119.19	6
Severn Trent^{1, 2}					
Band 1	50	Standard	65.92	64.06	
Band 2	250	Standard	65.92	61.05	3
South West^{3, 4, 5}					
HS1	50	15,150	214.10	173.66	16
HS2	100	15,150	214.10	162.51	18
Southern					
	135	45,200	116.00	84.17	14
Thames					
	106	9,911	46.30	36.95	13
Wessex⁶					
			117.29		33
Yorkshire^{1, 2}					
Band 1	50	Standard	88.73	70.11	
Band 2	250	Standard	88.73	63.94	18

Notes:

- Percentage bill reductions are based on drainage by a 150mm meter.
- The sewerage volumetric charges have been standardised to take account of companies' non-return to sewer assumptions.
- The % bill savings assume that the standard non-return to sewer allowances apply.
 - This is a falling block tariff. The large user volumetric charge falls at each of the threshold points.
 - In addition to a standing charge Severn Trent Water and Yorkshire Water apply a site area-based banded charge to recover costs for surface water and highway drainage. The percentage bill saving assumes a site area of 15,500m².
 - The standard volumetric charge applies up to the threshold for the tariff option chosen and thereafter the large user volumetric charge for that tariff option applies.
 - Fixed charge is supplementary to the normal standing charge based on meter size.
 - Fixed charge recovers surface water drainage costs only.
 - Customers can opt to pay under Waste Tariff 80 – a Mogden-based tariff (see table 30) if the bill saving is for a Waste tariff customer discharging average strength effluent (COD = 802 mg/l, SS = 313 mg/l).

Large user trade effluent tariffs

Six of the companies that offer large user sewerage tariffs also offer large user tariffs for trade effluent customers (see table 30). Three of these companies (Dŵr Cymru, Severn Trent Water and Yorkshire Water) offer a reduced charge for collection (that is, a lower 'R' charge). The other three companies (Anglian Water, Thames Water and Wessex Water) offer reduced charges for both collection and treatment (that is, a lower 'R', 'V', 'B' and 'S' charges).

United Utilities offers a reservation tariff to trade effluent customers who wish to be charged on that basis. The tariff has two components:

- a reservation charge, which is based on maximum consent limits; and
- a volume charge, which is based on discharged volume.

Table 30 Large user trade effluent tariffs 2005-06

	Threshold	Fixed charge £/year	Regional strengths							
			R p/m ³	V p/m ³	Bv p/m ³	M p/m ³	B' p/kg	S' p/kg	Os mg/l	Ss mg/l
Water and sewerage companies										
Anglian										
– Orange	–		15.98	25.02	4.83	13.40	49.58	44.10	423	403
– Blue	–		15.49	24.24	4.69	12.98	48.04	42.68	423	403
– Industrial	–		11.97	18.74	3.62	10.05	37.15	33.00	423	403
Dŵr Cymru	above 100 MI/a		14.04		all other charges as standard				500	350
Severn Trent										
	up to 50 MI/a		17.11						351	343
	up to 250 MI/a		15.25		all other charges as standard				351	343
	above 250 MI/a		12.24						351	343
Thames	bill > £53,000	10,602	6.14	7.54	–	–	21.71	27.53	445	336
Wessex – Waste 80 tariff										
	up to 80 MI/a		46.14	15.27	–	–	33.55	39.74	802	313
	above 80 MI/a		18.28	15.27	–	–	33.55	39.74	802	313
Yorkshire										
	up to 50 MI/a		26.37						898	326
	up to 250 MI/a		14.58		all other charges as standard				898	326
	above 250 MI/a		9.94						898	326

Notes:

- a. Some companies apply the fixed charge for the foul sewerage service in addition to the above, even if there is no domestic strength discharge.
- b. Charges for B and S are usually expressed in p/m³ relative to standard strength (concentration: usually expressed in mg/litre), which vary from company to company. To maintain comparability, the charges shown here (B' and S') are corrected for standard strength and shown as p/kg.

Key to charges:

- R – reception and conveyance.
 V – primary treatment (V for volumetric).
 Bv – additional volume charge if there is biological treatment.
 M – treatment and disposal where effluent goes to a sea outfall.
 B – biological oxidation of settled sewage.
 B' – B charge corrected for average regional strength (ie B/Os x 1,000).
 S – treatment and disposal of primary sludge.
 S' – S corrected for average regional strength (ie S/Ss x 1,000).

Key to other terms:

- Os – COD of crude sewage after one hour quiescent settlement.
 Ss – total suspended solids (mg/litre) of crude sewage.
 Ot – chemical oxygen demand (COD) of effluent after one hour quiescent settlement at ph 7.
 St – total suspended solids (mg/litre) of trade effluent at ph 7.

6.6 Special agreements and bulk supplies

Companies have the right to fix charges to non-household customers for any services provided in the course of carrying out their functions by or in accordance with agreements with the persons to be charged. These arrangements are commonly called special agreements.

With this kind of arrangement, a customer typically pays a non-standard charge to reflect its individual circumstance. For example, the customer may have made an initial capital contribution to the company.

Although special agreements are outside the tariff basket, those agreed or renewed since 1989 are subject to Condition E. This ensures that companies do not show undue preference or undue discrimination to any customer. We consider that a special agreement satisfies Condition E if the difference between the charges contained within it and other tariffs reflects the difference in service that the customer receives, making adjustments for any contributions the customer may have made in the past.

The CA98 applies to all special agreements regardless of when they were agreed.

For transparency, each April we place details (excluding the customer's name) of special agreements on a register in our library. The register also contains details of bulk supply agreements between companies and is updated each October.

We set out our policy on special agreements in RD09/03.

7. Other charges

7.1 Connection charges

Customers pay a connection charge to cover the direct costs of work and materials required to connect a property to a company's water main or sewer. Companies will generally permit customers to make the connection to the sewer themselves. If a company insists on doing the work, we can determine a reasonable connection charge. We have received only sixteen complaints about sewer connection charges to date.

Most companies, however, insist on making the physical connection to the company water main, although customers may be allowed to do some of the preparation, such as the excavation, pipelaying and reinstatement work. A few companies allow developers to make connections in accordance with appropriate standards.

We do not approve connection charges, but we have powers to settle disputes between customers and companies about charges for connections to the water supply. We have decided 305 cases to date. At our request, companies have reviewed their connection charges and these now more properly reflect costs. In addition, most companies now undertake meaningful reviews of their costs when customers ask them to do so. As a result, the number of requests we receive for determinations remains low. During 2004-05, we needed to make only five determinations, and in all of these the companies were found to have charged excessively.

The WA03 changed the way in which water and sewerage companies can reach agreement with developers about installing new pipework. The WA03 amended the WIA91 with effect from 28 May 2004. It introduced a formal basis for deriving single lump sum charges for the mains and sewers that the companies lay, and formal provisions for companies to adopt the water mains for domestic supplies that developers or their contractors lay themselves ('self-lay'). It also introduced formal provisions for the requisition of lateral drains. We have powers to determine disputes about:

- the charges that the companies make;
- refusal by the companies to adopt self-lay mains; and
- the terms and conditions of the agreements for adopting self-lay mains, including payment for the asset by the company.

We published guidance about the financial arrangements for self-lay and requisitioning agreements¹⁰ in May 2004. We have received only one formal complaint to date.

7.2 Infrastructure charges

Companies can raise infrastructure charges for connecting premises for domestic purposes to a public water main or to a public sewer for the first time. We set an upper limit on this charge. At the 2004 price review, we set the maximum infrastructure charge at £260.15 for each service for 2005-06, to be indexed subsequently each year in line with inflation.

Where a supply is provided by a single, larger (non-standard) service pipe, for example a hotel or block of flats where a management company is responsible for water charges, the infrastructure charges are calculated by reference to the number and type of water fittings.

7.3 Miscellaneous charges

Many companies include a number of non-standard charges within their approved charges schemes. These 'miscellaneous charges' cover a variety of services which companies may provide as a water undertaker, but which are not included within the tariff basket. Examples include:

- charges for voluntary disconnection and reconnection;
- non-domestic meter installations;
- meter testing;
- hydrant installation; and
- standpipe hire.

While we have not formally investigated these charges we monitor them to ensure that they are broadly cost-reflective. We will consider challenging a company if a complaint is received.

¹⁰ 'Guidance on financial arrangements for self-lay and requisitioning agreements' (May 2004).

Appendix 1: List of MD and RD letters mentioned in the report

MD letters

- MD152 – ‘Approval of companies’ charges schemes in 2000-01’ (September 1999).
- MD157 – ‘Licence modification – Condition B’ (January 2000).
- MD159 – ‘LRMC and regulatory framework’ (February 2000).
- MD165 – ‘Approval of companies’ charges schemes in 2001-02’ (September 2000).
- MD189 – ‘Proposed licence modifications consultation’ (March 2004).
- MD194 – ‘Proposed licence modifications: Conclusions’ (August 2004).
- MD196 – ‘Proposed licence modification: Tariff basket headroom effect’ (August 2004).

RD letters

- RD21/97 – ‘Bulk supply and sewerage connection agreements’ (November 1997).
- RD7/98 – ‘The Director’s conclusions on RD21/97: Bulk supply and sewer connection agreements’ (March 1998).
- RD11/98 – ‘Determining sewer connection agreements’ (March 1998).
- RD30/98 – ‘The Director’s conclusions on RD11/98: Determining sewer connection agreements’ (September 1998).
- RD26/00 – ‘The household sewerage/trade effluent differential: confirmation of adjustments to Ofwat methodology’ (December 2000).
- RD14/01 – ‘Approval of companies’ charges schemes 2002-03: Tariff policy issues’ (September 2001).
- RD05/03 – ‘Tariff policy issues’ (February 2003).
- RD09/03 – ‘Special agreements’ (March 2003).
- RD30/03 – ‘Measured/unmeasured tariff differential’ (August 2003).
- RD31/03 – ‘Non-household tariff policy’ (August 2003).
- RD35/03 – ‘Surface water drainage – charging policy’ (September 2003).
- RD02/04 – ‘Measured/unmeasured tariff differential: conclusions’ (January 2004).
- RD14/04 – ‘Disconnection of mixed-use premises for non-payment of water charges – guidance to water companies’ (August 2004).

Appendix 2: Price limits

Table A1 Price limits for 2005-06 to 2009-10

	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
Dŵr Cymru	14.2	3.6	4.1	3.3	2.2
Northumbrian ¹	6.5	3.7	3.2	1.0	0.6
Severn Trent	11.8	4.8	2.0	1.7	2.3
South West	12.5	9.8	9.8	1.7	1.4
Southern	12.6	3.9	3.5	5.8	2.6
Thames	14.9	2.1	1.2	1.3	1.5
United Utilities	5.0	6.4	4.4	3.5	3.0
Wessex	8.9	4.9	5.6	4.0	2.9
Yorkshire ²	5.5	4.9	3.6	3.6	2.1
WaSC average (weighted)	9.4	4.0	3.4	2.7	2.2
Water only companies					
Bournemouth & W Hampshire	15.9	2.2	1.6	-0.6	-2.4
Bristol	13.8	2.8	1.5	0.7	-2.3
Cambridge	11.8	1.6	0.3	-0.8	-0.3
Cholderton	7.0	7.0	5.6	0.0	0.1
Dee Valley	5.7	-1.4	0.2	0.6	-0.7
Folkestone & Dover	8.3	7.3	4.0	1.9	2.6
Mid Kent	9.0	0.5	1.9	2.6	2.7
Portsmouth	-0.7	-0.6	1.5	2.5	1.0
South East	15.8	2.3	2.2	0.5	-1.6
South Staffordshire	9.9	2.5	1.7	1.0	1.3
Sutton & East Surrey	12.9	2.0	1.1	-1.0	-1.1
Tending Hundred	-1.8	-0.7	0.6	-0.3	-0.5
Three Valleys ³	15.3	1.8	1.2	-0.2	0.1
WoC average (weighted)	12.4	1.9	1.5	0.4	-0.3
Industry average (weighted)	9.6	3.9	3.2	2.5	2.0

Notes:

1. The price limit for Northumbrian Water applies to the former Essex & Suffolk Water's area.
2. The price limit for Yorkshire Water applies to the former York Waterworks area.
3. The price limit for Three Valleys Water applies to the former North Surrey Water's area.

Table A2 Indicative split of price limits 2005-06 to 2009-10

	2005-06		2006-07		2007-08		2008-09		2009-10	
	Water %	Sewerage %	Water %	Sewerage %	Water %	Sewerage %	Water %	Sewerage %	Water %	Sewerage %
Water and sewerage companies										
Anglian	10.7	-0.4	1.0	-0.7	3.8	2.3	2.5	2.7	2.7	2.7
Dŵr Cymru	18.0	10.9	2.1	4.8	2.9	5.1	2.7	3.7	1.6	2.6
Northumbrian	7.1	5.8	4.0	3.3	3.5	2.8	1.0	1.0	0.2	1.2
Severn Trent	9.0	14.6	3.5	6.1	1.4	2.6	1.4	2.1	2.4	2.3
South West	19.7	7.7	12.4	8.1	12.2	8.0	2.6	0.9	2.4	0.6
Southern	22.2	9.3	1.0	4.9	-0.2	4.9	1.0	7.6	-0.1	3.5
Thames	31.3	2.2	3.7	0.7	2.2	0.1	1.2	1.3	0.7	2.1
United Utilities	-0.3	9.4	6.1	6.8	3.6	5.0	2.5	4.2	1.9	3.7
Wessex	16.8	5.3	7.7	3.6	7.7	4.6	4.6	3.7	1.8	3.5
Yorkshire	5.4	5.6	4.7	5.1	2.7	4.5	2.5	4.6	0.7	3.4

Appendix 3: Number of customers

Table B1 Water customers 2005-06

	Unmeasured supplies		Metered supplies		% metered	
	Households	Non-households	Households	Non-households	Households	Non-households
	(000s of customers)					
Water and sewerage companies						
Anglian	797.1	15.7	1,024.5	108.1	56.2	87.3
Dŵr Cymru	912.6	11.7	257.3	87.9	22.0	88.3
Northumbrian						
Northumbrian	901.7	9.5	136.3	49.6	13.1	84.0
Essex & Suffolk	437.0	3.5	258.0	37.7	37.1	91.5
Severn Trent	2,256.0	17.0	779.0	212.0	25.7	92.6
South West	314.4	9.7	335.1	67.1	51.6	87.3
Southern	652.4	14.2	289.5	51.4	30.7	78.3
Thames	2,538.0	25.1	702.7	181.2	21.7	87.8
United Utilities	2,221.9	20.3	534.8	182.1	19.4	90.0
Wessex	313.2	7.3	170.9	45.0	35.3	86.0
Yorkshire	1,355.4	19.1	545.9	110.9	28.7	85.3
WaSC total	12,699.6	153.1	5,034.1	1,133.0	28.4	88.1
Water only companies						
Bournemouth & W Hampshire	102.9	1.2	70.3	13.8	40.6	92.2
Bristol	334.1	6.2	106.6	30.8	24.2	83.3
Cambridge	49.8	1.0	62.0	9.1	55.5	89.8
Cholderton	0.6	0.0	0.1	0.0	13.5	94.1
Dee Valley	67.6	0.8	38.2	7.4	36.1	89.8
Folkestone & Dover	36.0	0.8	30.2	4.3	45.7	83.9
Mid Kent	143.2	1.8	78.5	20.6	35.4	92.0
Portsmouth	257.5	2.5	17.2	15.3	6.3	86.2
South East	378.3	6.2	168.0	35.1	30.8	85.0
South Staffordshire	417.7	3.8	82.6	32.4	16.5	89.6
Sutton & East Surrey	200.1	2.6	50.3	13.3	20.1	83.4
Tendring Hundred	23.9	0.0	41.1	4.9	63.2	99.3
Three Valleys	856.4	10.2	306.3	51.7	26.3	83.6
WoC total	2,868.2	37.1	1,051.5	238.7	26.8	86.5
Industry total	15,567.8	190.2	6,085.6	1,371.7	28.1	87.8

Notes:

- Figures are based on forecast data for 2005-06.
- The totals may not add up due to rounding.

Table B2 Sewerage customers 2005-06

	Unmeasured supplies		Metered supplies		% metered	
	Households	Non-households	Households	Non-households	Households	Non-households
	(000s of customers)					
Water and sewerage companies						
Anglian	1,045.8	17.2	1,322.1	105.2	55.8	85.9
Dŵr Cymru	938.5	19.9	287.5	64.3	23.4	76.4
Northumbrian	936.7	22.4	138.1	48.1	12.9	68.2
Severn Trent	2,584.0	20.0	827.0	239.0	24.2	92.3
South West	278.9	6.8	319.3	40.7	53.4	85.6
Southern	1,196.7	21.6	497.0	76.8	29.3	78.1
Thames	3,895.5	45.1	1,115.4	254.0	22.3	84.9
United Utilities	2,200.6	20.6	532.8	152.5	19.5	88.1
Wessex	698.8	12.1	298.5	71.8	29.9	85.6
Yorkshire	1,374.2	21.8	543.5	88.7	28.3	80.3
Industry total	15,149.8	207.5	5,881.2	1,141.0	28.0	84.6

Notes:

- Figures are based on forecast data for 2005-06.
- The totals may not add up due to rounding.

Appendix 4: Volumetric and standing charges for measured customers

Table C1 Measured water tariffs for non-household customers 2005-06

	Meter size – £/year													Volumetric charge p/m ³ (20")		
	12mm (1/2")	20mm (3/4")	25mm (1")	32mm (1 1/4")	40mm (1 1/2")	50mm (2")	65mm (2 1/2")	75mm (3")	100mm (4")	125mm (5")	150mm (6")	200mm (8")	250mm (10")		300mm (12")	500mm (20")
Water and sewerage companies																
Anglian	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Anglian ¹	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Hartlepool ²	35.00	35.00	35.00	–	35.00	35.00	–	35.00	35.00	–	35.00	35.00	35.00	35.00	35.00	48.11
Dŵr Cymru	26.00	26.00	66.00	115.00	213.00	318.00	425.00	564.00	670.00	864.00	864.00	864.00	864.00	864.00	864.00	109.61
Northumbrian																
Northumbrian	24.00	24.00	58.75	100.50	128.75	216.00	368.50	368.50	368.50	368.50	368.50	368.50	368.50	368.50	368.50	72.58
Essex & Suffolk	24.00	24.00	58.75	100.50	128.75	216.00	368.50	368.50	368.50	368.50	368.50	368.50	368.50	368.50	368.50	80.81
Essex																
Suffolk	18.24	26.88	36.48	–	51.12	70.44	–	108.96	183.84	–	423.24	533.04	643.08	701.16	–	109.69
Severn Trent	21.00	21.00	27.60	34.20	34.20	57.84	57.84	62.28	66.00	74.52	74.52	74.52	74.52	74.52	74.52	100.49
South West	22.76	22.76	57.00	57.00	118.00	173.00	–	321.00	399.00	–	598.00	598.00	598.00	598.00	598.00	70.30
Southern	22.00	50.00	88.00	138.00	198.00	352.00	550.00	860.00	860.00	860.00	860.00	860.00	860.00	860.00	860.00	88.85
Thames	40.00	58.00	70.00	70.00	98.00	147.00	–	481.00	822.00	–	1,409.00	1,409.00	1,409.00	1,409.00	1,409.00	100.50
United Utilities	17.00	17.00	70.00	70.00	70.00	70.00	70.00	70.00	70.00	70.00	70.00	70.00	70.00	70.00	70.00	112.76
Wessex																
Yorkshire	22.49	59.59	95.67	116.45	158.54	223.60	–	365.74	491.48	–	758.82	758.82	758.82	758.82	758.82	94.20
York	19.79	23.77	24.76	26.74	32.69	57.44	–	93.10	121.82	–	259.48	259.48	259.48	259.48	259.48	52.60
Water only companies																
Bournemouth & W Hampshire	20.00	20.00	58.50	–	168.50	287.50	–	351.00	411.00	–	495.00	–	–	–	–	83.47
Bristol ³	27.00	27.00	27.00	–	27.00	27.00	–	27.00	27.00	–	27.00	27.00	27.00	27.00	27.00	87.43
Cambridge	24.00	24.00	26.00	40.00	53.00	80.00	–	134.00	174.00	–	882.00	–	–	–	–	70.00
Cholderton	21.00	21.00	84.00	–	189.00	–	–	–	–	–	–	–	–	–	–	94.00
Dee Valley	21.60	23.00	59.00	82.00	126.00	174.00	–	312.00	438.00	–	600.00	690.00	–	–	–	70.90
Chester																
Wrexham	30.68	49.12	98.20	147.12	230.76	302.00	–	690.84	1,052.56	–	–	–	–	–	–	76.76
Folkestone & Dover	24.00	29.40	34.20	–	45.00	138.00	138.00	177.00	210.00	–	369.00	–	–	–	–	101.13
Mid Kent	21.00	29.00	76.00	–	142.00	180.00	–	256.00	631.00	–	1,376.00	2,680.00	–	6,400.00	–	88.22
Portsmouth ³	15.00	15.00	15.00	120.00	170.00	300.00	500.00	600.00	700.00	700.00	700.00	700.00	700.00	700.00	700.00	52.10
South East	15.00	15.00	15.00	120.00	170.00	300.00	500.00	600.00	700.00	700.00	700.00	700.00	700.00	700.00	700.00	122.16
Eastbourne																
Mid Southern	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	69.46
Mid-Sussex	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	127.66
West Kent	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	102.03
South Staffordshire	22.40	59.00	94.00	127.00	159.00	194.00	–	275.00	380.00	–	485.00	640.00	–	1,195.00	–	68.96
Sutton & East Surrey ²	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	–
Northern Area																
Northern Area	71.30	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Southern Area	92.41	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Tendring Hundred	22.80	30.00	76.20	–	151.20	301.20	–	765.00	765.00	–	765.00	–	–	–	–	141.70
Three Valleys	23.20	23.20	23.20	94.00	157.00	182.00	219.00	268.00	313.00	–	400.00	400.00	400.00	400.00	400.00	75.33
Minimum	15.00	15.00	15.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	27.00	27.00	27.00	27.00
Maximum	40.00	59.59	96.20	147.12	230.76	352.00	550.00	792.00	1,052.56	864.00	1,409.00	2,680.00	1,409.00	6,400.00	1,409.00	–
Median	22.63	25.00	58.25	94.00	127.38	177.00	293.75	275.00	374.25	259.48	535.52	590.54	619.00	384.25	384.25	–

Notes:

1. Anglian Water has no standing charges based on meter size for non-household customers. The non-household volumetric rate depends on the applicable non-household tariff option.
2. These companies have a uniform fixed charge for non-household customers.
3. These charges apply from 1 July 2005.

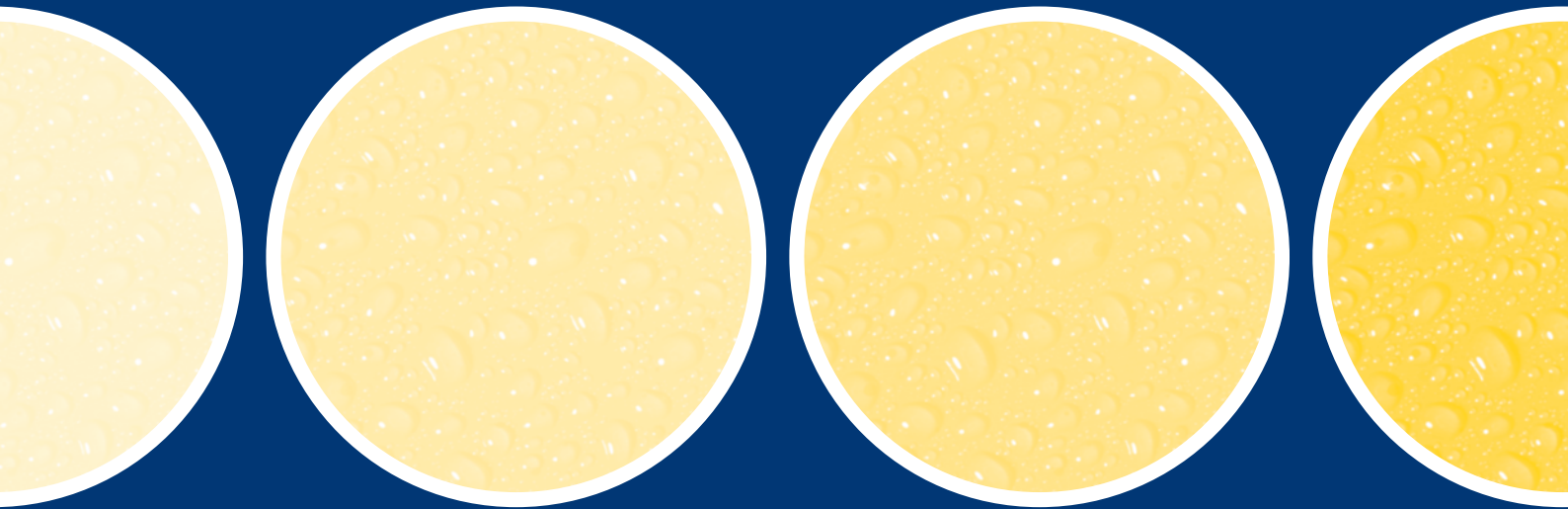
Table C2 Measured sewerage tariffs for non-household customers 2005-06

	Meter size – £/year														Volumetric charge p/m ³	RV charge p/ERV	
	12mm (1/2")	20mm (3/4")	25mm (1")	32mm (1 1/4")	40mm (1 1/2")	50mm (2")	65mm (2 1/2")	75mm (3")	100mm (4")	125mm (5")	150mm (6")	200mm (8")	250mm (10")	300mm (12")			500mm (20")
Water and sewerage companies																	
Anglian ¹	30.00	30.00	85.00	121.00	182.00	315.00	521.00	761.00	1,328.00	1,328.00	3,028.00	5,340.00	–	–	–	–	126.41
Northumbrian ²	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	71.64
Severn Trent (Zone 4) ³	9.24	13.92	18.72	–	26.28	36.12	–	56.04	94.68	–	217.92	274.68	331.32	361.20	–	–	65.92
South West	10.20	10.20	13.32	16.56	16.56	27.96	27.96	30.12	31.92	36.00	36.00	36.00	36.00	36.00	36.00	36.00	214.10
Southern	41.44	41.44	123.00	252.00	252.00	437.00	–	1,146.00	1,716.00	–	3,644.00	3,644.00	3,644.00	3,644.00	3,644.00	116.00	
Thames	41.00	92.00	164.00	256.00	369.00	656.00	1,025.00	1,476.00	2,354.00	3,453.00	4,796.00	8,216.00	12,612.00	17,985.00	–	46.30	
United Utilities ⁵	79.00	221.00	393.00	393.00	884.00	1,568.00	–	3,526.00	6,262.00	–	14,080.00	14,080.00	14,080.00	14,080.00	14,080.00	71.10	
Wessex	32.00	32.00	200.00	300.00	400.00	700.00	1,000.00	1,750.00	3,000.00	4,000.00	6,000.00	8,000.00	–	–	–	117.29	
Yorkshire ⁶	12.97	30.78	49.46	61.00	83.21	118.71	–	192.35	259.40	–	401.19	401.19	401.19	–	–	88.73	
Minimum	9.24	10.20	13.32	16.56	16.56	27.96	27.96	30.12	31.92	36.00	36.00	36.00	36.00	36.00	36.00	–	–
Maximum	79.00	221.00	393.00	393.00	884.00	1,568.00	1,025.00	3,526.00	6,262.00	4,000.00	14,080.00	14,080.00	14,080.00	17,985.00	14,080.00	–	–

Notes:

The volumetric charges have been standardised to take account of different non-return to sewer assumptions for each company.

1. Anglian Water has no standing charges based on meter size for non-household customers. The non-household volumetric rate depends on the applicable non-household tariff option.
2. Northumbrian Water does not have a measured standing charge for non-household customers. Surface and highway drainage costs are recovered through either a fixed charge or a rateable value or site area-based charge.
3. Severn Trent Water recovers surface water drainage charge through either a site area-based charge or a RV-based charge. The RV-based charge shown is that for Zone 4 of the company's area.
4. Customers on the large user sewerage tariffs pay a fixed charge of £15,150 for surface water drainage.
5. United Utilities Water recovers surface water highway drainage charges through a rateable value charge, except for properties without a rateable value. These are billed on a standing charge basis.
6. Yorkshire Water applies a fixed scale of surface water charges banded by the site area of the premises to recover surface and highway drainage costs.



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