



PR09 final determinations key headlines

- The five-year revenue of £47.8 billion (draft £46.5 billion); including incentive mechanism adjustments of -£178 million (draft -£307 million).
- Industry annual average K of +0.5% (-0.2% at draft).
- Average bills now decrease by 1% from 2009-10 to 2014-15 (-4% at draft).

The increases are driven by:

- The aggregate five-year opex of £18.5 billion compared with £17.9 billion in the draft determinations. This represents a 7% increase to current levels (2008-09).
- Capex funded in price limits of £22.1 billion (£20.8 billion at draft), a 7% rise on current expenditure (outturn 2005-2010).
- Aggregate RCV growth is 11% over 2010-15 (compared with 9.4% at draft). This is slightly less than the 13% growth seen in 2005-10 due to a change in the proportion of capital maintenance and enhancement capex.
- Average CIS 109 water, 105 sewerage (draft 120 water, 115 sewerage).
- Continuing opex efficiency assumption remains unchanged at 0.25% and continued to assume companies will close 60% of the gap to frontier performance by 2014-15.
- Updating our relative operating expenditure efficiency using 2008-09 assessments has moved the overall position of some companies up and some companies down in our relative efficiency assessment.
- The final determinations include two additional notified items (NI) to those proposed at draft - one for bad debt during the current economic downturn and the other to cover a significant element of the increase in abstraction charges. These add to the NIs proposed at draft, relating to the Traffic Management Act and Climate Change.
- The cost of capital remains unchanged at 4.5% fully post tax real.

What is driving the changes in bills?

	DD		FD	
	Totals £	£	Totals £	£
(in 2009-10 prices)				
Average bill in 2009-10	344		343	
(1) past efficiency savings and outperformance	(4)		2	
(2) maintaining base services	(32)		(26)	
Of which: a) changes in revenue		(13)		(14)
b) changes in operating costs		8		7
c) changes in capital maintenance		(6)		1
d) changes in impact of taxation		(7)		(7)
e) changes in the cost of capital		(14)		(13)
(3) maintaining and enhancing security of supplies to all consumers	10		9	
(4) the impact of improvements in services	23		21	
Of which: a) drinking water quality		4		4
b) environmental improvements		17		15
c) improvements in service performance		2		2
(5) scope for reduction through future efficiency improvements	(11)		(9)	
Average bill at 2014-15	330		340	
Change from end of the last period	(14)		(3)	

Company	FD annual price limits					Average (DD comparison)
	2010-11	2011-12	2012-13	2013-14	2014-15	
Water and sewerage companies (WaSC)						
Anglian	-0.7	0.0	1.4	1.1	0.9	0.5 (0.2)
Dŵr Cymru	-1.3	-1.3	-0.4	-0.4	-0.6	-0.8 (-1.1)
Northumbrian	5.0	3.8	0.9	0.0	-1.0	1.7 (0.9)
Severn Trent	-1.0	0.0	0.0	-1.0	-1.1	-0.6 (-1.5)
South West	1.1	3.4	2.5	1.3	1.1	1.9 (0.9)
Southern	-0.7	0.0	3.6	3.3	-0.1	1.2 (0.0)
Thames	0.2	0.4	4.6	0.4	1.4	1.4 (0.8)
United Utilities	-4.3	-0.2	0.6	1.0	1.2	-0.4 (-0.6)
Wessex	0.3	0.3	1.9	1.9	1.5	1.2 (0.1)
Yorkshire	-1.2	-1.3	1.4	1.8	1.6	0.5 (0.1)
WaSC average (weighted)	-0.8	0.2	1.7	0.7	0.5	0.5 (-0.1)
Water only companies (WoC)						
Bournemouth & W						
Hampshire	4.0	2.1	-0.5	-0.8	0.2	1.0 (0.9)
Bristol	0.6	4.2	4.0	0.3	-0.2	1.8 (-0.4)
Cambridge	-1.0	-1.0	0.9	0.2	-0.6	-0.3 (-1.9)
Cholderton ²	2.4	-1.0	-1.6	0.8	-0.7	0.0 (-1.6)
Dee Valley	0.6	0.6	0.6	1.0	-0.5	0.5 (-0.4)
Portsmouth	-4.8	-2.1	-1.7	-1.4	-0.6	-2.1 (-3.4)
South East	4.4	3.9	1.7	-1.4	0.6	1.8 (0.0)
South Staffs	1.5	0.0	1.9	0.0	-0.6	0.6 (-0.3)
Sutton & East Surrey	0.0	0.0	2.0	1.4	-1.2	0.4 (-1.5)
Veolia Central	1.4	0.8	-2.8	-2.8	-2.3	-1.2 (-2.4)
Veolia East	-1.6	-1.4	-0.7	-0.7	-0.9	-1.1 (-2.5)
Veolia Southeast	1.2	1.2	1.6	1.6	-0.9	0.9 (-0.4)
WoC average (weighted)	1.6	1.6	0.3	-1.1	-0.8	0.3 (-1.1)
Industry average (weighted)	-0.6	0.3	1.6	0.6	0.4	0.5 (-0.2)

Breakdown of allowed revenue (£ million)

	Operating costs	Operating costs	Capital charges (IRC and CCD)	Capital charges (IRC and CCD)	Return on capital	Return on capital	Tax	Tax	Total revenue req'ment	Total revenue req'ment	OPA and revenue adjust's	OPA and revenue adjust's	Total revenue after OPA and other adjust's	Total revenue after OPA and other adjust's
WaSCs	DD	FD	DD	FD	DD	FD	DD	FD	DD	FD	DD	FD	DD	FD
Anglian	1,914	1,968	1,484	1,452	1,401	1,413	58	77	4,857	4,910	1	16	4,858	4,926
Dŵr Cymru	1,237	1,220	888	927	939	927	6	6	3,069	3,081	-9	2	3,060	3,083
Northumbrian	1,264	1,242	883	929	781	790	189	216	3,117	3,177	-42	-26	3,076	3,150
Severn Trent	2,347	2,486	1,978	1,988	1,562	1,585	260	231	6,147	6,290	-42	-6	6,106	6,284
South West	672	720	600	634	617	618	101	110	1,990	2,082	-3	2	1,987	2,084
Southern	1,021	1,089	1,341	1,364	882	898	61	49	3,305	3,399	-29	7	3,277	3,406
Thames	3,021	3,175	2,336	2,455	2,174	2,202	102	50	7,632	7,882	-26	-72	7,606	7,810
United Utilities	2,448	2,463	2,395	2,455	1,918	1,949	345	348	7,107	7,215	-138	-113	6,969	7,102
Wessex	684	727	632	649	576	580	67	102	1,959	2,058	24	28	1,983	2,086
Yorkshire	1,534	1,566	1,145	1,163	1,162	1,178	158	153	3,998	4,060	0	19	3,998	4,079
Water and sewerage total	16,141	16,655	13,682	14,016	12,011	12,139	1,348	1,343	43,183	44,153	-263	-144	42,919	44,009

	Operating costs	Operating costs	Capital charges (IRC and CCD)	Capital charges (IRC and CCD)	Return on capital	Return on capital	Tax	Tax	Total revenue req'ment	Total revenue req'ment	OPA and revenue adjust's	OPA and revenue adjust's	Total revenue after OPA and other adjust's	Total revenue after OPA and other adjust's
WoCs	DD	FD	DD	FD	DD	FD	DD	FD	DD	FD	DD	FD	DD	FD
Bournemouth & W Hampshire	86	87	52	53	34	35	8	9	180	183	-1	0	180	184
Bristol	217	227	141	157	81	86	7	11	446	482	-8	-8	438	474
Cambridge	55	57	20	21	16	17	1	2	92	96	0	0	92	96
Dee Valley	52	53	28	29	16	16	2	2	98	100	0	0	98	100
Portsmouth	90	94	42	43	27	27	3	4	161	168	0	1	161	169
South East	380	399	240	266	220	224	5	13	844	902	-16	-12	828	890
South Staffs	203	212	116	118	58	58	7	7	384	396	2	4	386	400
Sutton & East Surrey	123	132	72	77	44	47	5	5	243	261	-4	-3	239	258
Veolia Central	513	519	346	372	184	184	39	35	1,081	1,110	-16	-15	1,065	1,095
Veolia East	31	33	16	17	16	16	4	4	66	69	0	0	66	69
Veolia Southeast	40	42	27	27	19	18	2	2	87	89	-1	0	87	89
Water only total	1,790	1,855	1,099	1,179	714	727	82	95	3,685	3,856	-44	-33	3,641	3,822
Industry total	17,931	18,510	14,781	15,195	12,726	12,866	1,430	1,438	46,867	48,009	-307	-178	46,560	47,831

Capital expenditure

Capital expenditure by company (post efficiency and CIS)						
Company	5-year total 2010-15 (£m)				Total	Total
	Water	Water	Sewerage	Sewerage	DD	FD
	DD	FD	DD	FD	DD	FD
Anglian	891	938	1,143	1,184	2,034	2,122
Dwr Cymru	523	536	558	567	1,081	1,104
Northumbrian	675	709	474	509	1,149	1,217
Severn Trent	1,033	1,100	1,214	1,351	2,248	2,452
South West	277	294	365	378	642	672
Southern	427	468	1,152	1,283	1,580	1,752
Thames	1,420	1,513	3,354	3,400	4,774	4,913
United Utilities	1,226	1,384	2,155	2,188	3,381	3,572
Wessex	447	485	511	531	958	1,016
Yorkshire	695	727	1,049	1,149	1,745	1,875
Water and sewerage total	7,614	8,154	11,976	12,540	19,590	20,694
Bournemouth & W Hampshire	43	44			43	44
Bristol	193	244			193	244
Cambridge	27	30			27	30
Dee Valley	32	34			32	34
Portsmouth	35	39			35	39
South East	323	390			323	390
South Staffs	127	135			127	135
Sutton & East Surrey	78	102			78	102
Veolia Water Central	332	366			332	366
Veolia Water East	13	14			13	14
Veolia Southeast	34	35			34	35
Water only total	1,237	1,435			1,237	1,435
Industry total	8,851	9,588	11,976	12,540	20,827	22,128

Capital expenditure post CIS (five year total – £ billion)

	Water	Water	Sewerage	Sewerage	Total	Total
	DD	FD	DD	FD	FD	FD
Base service:						
Infrastructure renewals expenditure	2.9	3.2	1.3	1.4	4.2	4.7
Non-infrastructure capital maintenance	3.4	3.6	4.5	4.6	7.9	8.2
Supply/demand balance	1.3	1.4	1.3	1.3	2.5	2.7
Quality enhancements	1.0	1.1	3.4	3.4	4.4	4.6
Enhanced service levels	0.3	0.3	0.7	0.8	0.9	1.1
Large projects	0.0	0.0	0.9	0.9	0.9	0.9
Total	8.9	9.6	12.0	12.5	20.8	22.1

CIS ratios

The CIS ratio at industry level for final determinations was 109 for the water service and 105 for sewerage (based on industry aggregates). For draft determinations, these ratios were higher at 120 for water and 115 for sewerage.

CIS baseline ratios (DD comparison)

Water and sewerage companies	Water	Sewerage	Water only companies	Water
Anglian	105 (114)	99 (106)	Bournemouth & W Hants	115 (135)
Dŵr Cymru	105 (118)	106 (117)	Bristol	138 ² (161)
Northumbrian	103 (109)	101 (112)	Cambridge	101 (120)
Severn Trent	102 (112)	102 (119)	Dee Valley	99 (107)
South West	105 (110)	110 (116)	Veolia Water South East	119 (128)
Southern	122 (131)	112 (140)	Portsmouth	108 (136)
Thames	125 (131)	108 (113)	South East	129 (158)
United Utilities	94 (107)	108 (111)	South Staffs	107 (112)
Wessex	104 (117)	97 (103)	Sutton & East Surrey	124 (165)
Yorkshire	100 ¹ (107)	93 (110)	Veolia Water East	143 ² (156)
			Veolia Water Central	131 ² (144)

¹ Yorkshire Water to decimal point accuracy is below 100.

² For final determinations, three companies have CIS ratios greater than 130. We have decided to treat these companies as if they had a CIS ratio of 130, while moderating the 'additional income' element of the CIS package (at a flat rate of 0.05% of the baseline for each extra point on the CIS ratio above 130).

The movement in CIS ratios reflects a number of factors.

- Improved evidence and justification submitted at a late stage in the process by companies through the draft determination representation process.
- Companies have clarified commitment to verifiable measures of outputs or service improvements, enabling us to include more proposed investment.
- Clarification of some quality requirements from quality regulators following draft determinations.
- We have amended some of our challenges to a two-sided approach following representations.

Regulatory capital values

By company £million 2007-08 financial year end prices

	1 April 2010	31 March 2015	1 April 2010	31 March 2015
	DD		FD	
Water and sewerage companies				
Anglian	5,325	5,766	5,307	5,868
Dŵr Cymru	3,642	3,699	3,592	3,708
Northumbrian	2,948	3,189	2,974	3,230
Severn Trent	6,154	6,234	6,168	6,385
South West	2,445	2,439	2,456	2,416
Southern	3,344	3,462	3,333	3,627
Thames	7,562	9,702	7,595	9,774
United Utilities	7,312	8,090	7,376	8,272
Wessex	2,178	2,410	2,174	2,442
Yorkshire	4,406	4,774	4,403	4,873
Water only companies				
Bournemouth & W Hampshire	131.4	121.0	134.0	120.7
Bristol	268.7	314.1	268.8	348.4
Cambridge	53.2	58.9	53.4	62.3
Dee Valley	56.1	58.1	56.0	59.3
Portsmouth	108.7	91	107.1	94.0
South East	812.9	879.4	810.1	927.4
South Staffs	211.0	215.3	210.8	220.4
Sutton & East Surrey	162.1	161.8	162.0	181.3
Veolia Central	742.2	690.0	737.5	689.3
Veolia East	58.4	53.3	58.4	53.4
Veolia Southeast	65.4	71.3	64.7	71.7

Efficiency

Relative operating efficiency bands for final price limits

	Water	Water	Sewerage	Sewerage
	Band (range A to E)	Band (range A to E)	Band (range A to E)	Band (range A to E)
	DD	FD	DD	FD
Water and sewerage companies				
Anglian	A upper	A lower	B upper	B upper
Dŵr Cymru	C lower	C lower	B lower	C upper
Northumbrian	B upper	B upper	B lower	C upper
Severn Trent	B upper	B upper	B upper	A lower
South West	C lower	B lower	B lower	B lower
Southern	A lower	A upper	C upper	B upper
Thames	B lower	B upper	A upper	A upper
United Utilities	B lower	B upper	C upper	C upper
Wessex	B upper	B upper	A upper	A upper
Yorkshire	A lower	A upper	A lower	A lower
Water only companies				
Bournemouth & W Hampshire	A lower	B upper		
Bristol	B lower	B upper		
Cambridge	C lower	C upper		
Dee Valley	B upper	B upper		
Portsmouth	A upper	A upper		
South East	B upper	A lower		
South Staffs	A lower	A upper		
Sutton & East Surrey	B upper	A lower		
Veolia Central	C lower	C lower		
Veolia East	C upper	B upper		
Veolia Southeast	C lower	C upper		

Capex efficiencies

Overall capital expenditure efficiency challenge

	Efficiency challenge (£m)	Efficiency challenge (£m)	% of capital expenditure	% of capital expenditure
	DD	FD	DD	FD
Water	-24	+4	-0.2%	0.0%
Sewerage	-404	-367	-3.1%	-2.8%
Total	-428	-363	-1.8%	-1.6%

Capital expenditure efficiency adjustments

	Water				Sewerage			
	Infrastructure		Non-Infra		Infrastructure		Non-Infra	
	DD	FD	DD	FD	DD	FD	DD	FD
Simple mean	-0.4%	+0.4%	-3.3%	-2.8%	+0.4%	+0.6%	-1.0%	-0.5%