

THE DAVID HUME INSTITUTE



THE REGULATION OF THE
WATER INDUSTRY

The Office of Water Services:
Structure and Policy

IAN BYATT

Hume Occasional Paper No.16

After following an academic career at the University of Durham and at the London School of Economics, Ian Byatt entered the Government Economic Service as a Senior Economic Adviser in 1969. From 1978 to 1989, when he took up his present post, he was Deputy Chief Economic Adviser to HM Treasury. He is a well known expert on the economics of public expenditure and of public enterprise.

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Foreword

This Occasional Paper is the text of a lecture delivered on 3 May 1990 at the Royal Society of Edinburgh before an invited audience by the First Director-General of Water Services in England and Wales. The fact that Mr Byatt's remit does not extend to Scotland did nothing to restrict attendance. Both those with a special interest and expertise in water supply problems and with more general interest in the problems of regulating private concerns turned up in force and showed by their questions and comments that they had enjoyed themselves. We are all further in Mr Byatt's debt by his willingness to allow the Institute to publish his text.

A precedent was set for a series of lectures on the viewpoint of regulators by the earlier lecture by Professor (now Sir) Bryan Carsberg, Director-General of the Office of Telecommunications (Hume Occasional Paper No. 6). The Institute hopes to make a feature of bringing to public attention the thoughts of those faced with the formidable task of devising protective measures for consumers in cases where markets are difficult to create. It has no collective view of its own on how this task should be performed but is gratified by the willingness of those in these new public offices to allow it to be the vehicle for making known their intentions.

Alan Peacock
Executive Director

THE OFFICE OF WATER SERVICES STRUCTURE AND POLICY

Introduction

The purpose of the Office of Water Services (OFWAT) is to protect the interests of consumers of water and sewerage services. The companies appointed to supply these services are, in many respects, monopolies and there are few 'pure' market pressures on them. Consumers cannot therefore look to market mechanisms to protect them from unnecessarily high charges or a poor service or both. My objective will be to achieve through regulation the same balance as would otherwise be achieved by competitive markets. Where market pressures exist I shall foster them.

I would like to give two examples of how OFWAT proposes to protect customers. One concerns protection against excessive profits. The second concerns protection against ill-considered proposals for capital investment.

I have a duty to ensure that companies can finance their functions. Subject to that, I am to protect customers, promote economy and efficiency and facilitate competition. I see those duties as complementary. Customers benefit if efficient companies remain financially viable.

But the duty placed on me of "securing reasonable returns of [the Companies'] capital", does not mean that I am to guarantee the achievement of a rate of return of any particular size. I consider that it implies that providers of capital (lenders and shareholders taken together) should be in a position where they can expect to receive a return sufficient, but no more than sufficient, to induce them to make the loans and hold the shares, if the company operates efficiently. This return should be a competitive return in a market situation.

Secondly, customers have a right to know how environmental decisions will affect them. I am concerned to dispel the misconception that environmental improvements are justified irrespective of their cost. Everyone welcomes moves to improve the quality of our drinking water, bathing waters and rivers. However, these improvements require massive capital expenditure programmes. These programmes will be paid for by the customer.

Politicians and environmentalists must be sure that environmental proposals are soundly costed and that the efficiency of different solutions is examined. Costs must be justified. I shall be pressing government to ensure that the consequences for customers' bills are taken into account before major environmental decisions are taken.

OWS: The Main Framework

39 Companies were "appointed" under the Act, on 1 September 1989 to supply the necessary water and sewerage services in England and Wales. The 10 former Water Authorities are now Water and Sewerage Companies (WaSCs), whilst the former Statutory Water Companies are now Water only Companies (WoCs). The 10 Water Authorities' previous responsibilities for regulating pollution were transferred to the National Rivers Authority.

The main regulatory instrument is the Water Act of 1989. However the "Appointed Companies" also have to comply with the more detailed requirements set out in the licences which were issued to them on their appointment.

The main control which I can exercise through the Licence is to limit the prices which the companies can charge to their customers. The annual increase is restricted to the Retail Price Index plus an additional factor "K" which has been allocated to the companies on an individual basis for each of the next 10 years to off-set the significant investment programmes which have been necessary to achieve the higher standards which

we all seek, but which also include an element for future efficiency savings.

I can also influence the performance of the companies by introducing an element of competition. There are two main examples of this. I can act as a surrogate for the market, comparing the performance of the 39 separate companies and using the example of the best to set a standard for the others.

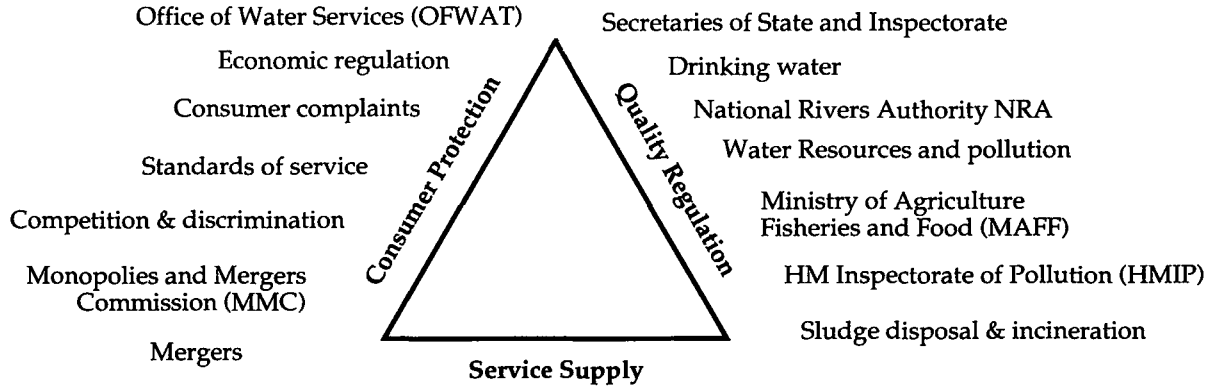
I can also create partial contestability by making new appointments for greenfield sites within existing allocated areas. These are known as "inset" appointments and can be introduced under Section 12 of the act. However the scope for such appointments may not be large. There is also some scope for large customers to abstract their own water and to treat their own waste. I shall wish to keep these opportunities open.

The Wider Regulatory Regime

The work OWS will be doing to discharge our duty to customers needs to be put in the context of the regulatory regime as a whole. At first sight this is quite complicated, with a number of actors having a role eg Office of Water Services (OWS), National Rivers Authority (NRA), Drinking Water Inspectorate (DWI), Office of Fair Trading (OFT), Monopolies and Mergers Commission (MMC), HM Inspectorate of Pollution (HMIP), Ministry of Agriculture, Fisheries and Food (MAFF), let alone the European Commission. However the actors can be divided into three main groups: the quality regulators, the economic regulators and the supply companies [diagram No 1].

It is then useful to see how the major players, the three "core" regulators, the Secretary of State (drinking water quality), the National Rivers Authority (environmental regulation) and the Office of Water Services (economic regulation) relate to each other and to the other regulators. The arrows in diagram No 2 show the main links and reveal the complexity of the

Structure of the New Regulatory Regime



Water Supply:

- 10 Water and Sewerage Companies (WaSCs)
- 29 Water only Companies (WoCs)

Sewerage Services:

- 10 Water and Sewerage Companies (WaSCs)

Diagram No. 1

Structure of the New Regulatory Regime

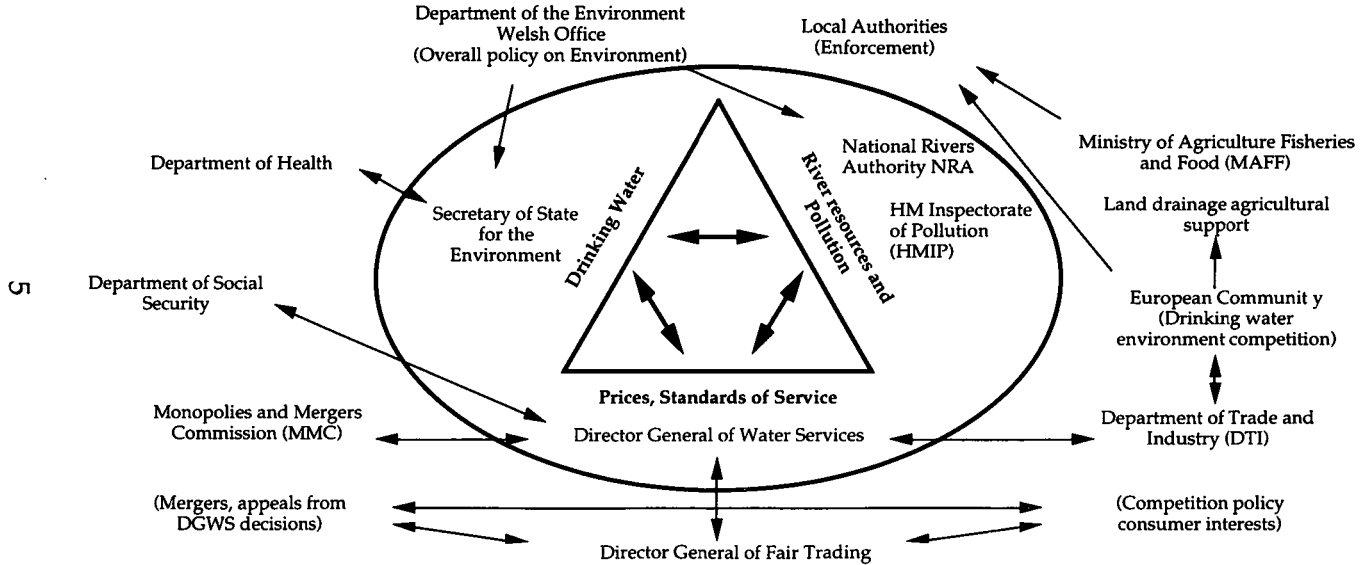


Diagram No. 2

arrangements. They also show how OWS, like the Narrator in 'A la Recherche du Temps Perdu', can tread two different paths to reach the same end point. One route involves environmental and water quality issues; the other competition and industrial issues.

Integration of Economic and Environmental Regulation:

Drinking water quality, the life of our rivers and the state of the beaches are major issues of current importance for environmental policy. Although the lead is taken by the Department of the Environment (DOE) and the Welsh Office, I also have an important role to play. My involvement may simply be an exchange of information. But I may also need to take steps to ensure that the interests of water consumers are fully safeguarded - especially when it concerns the size of the bills they pay.

There are important interactions within the core triangle of diagram No 1. If any of the "quality regulators" change either their standards or their systems of measurement this can impose costs on supply companies. Those companies will then apply to OWS for an adjustment to K, as shown by arrows from quality regulators to DGWS. But arrows linking OWS to the quality regulators in the opposite direction are also important. I will impress on the quality regulators the need to ensure that adequate costing is done before higher standards are determined. It would not be in the national interest, if higher standards were imposed without considering the costs as well as the benefits of so doing.

I will also impress on the quality regulators the need to reach efficient solutions, where quality and environmental objective are achieved with the minimum commitment of resources. The test is not just whether solutions achieve their objectives, but whether they do so in a cost effective way.

The water companies have existing 10 year investment

programmes which will cost over £25 billion at today's prices - most of which are related to improvements in quality. The government has now announced that it is to phase out the dumping of sewage sludge in the North Sea by 1998. Land based alternatives for disposing of this sludge will have to be found. The costs involved have not yet been fully spelt out nor their implications fully assessed. However there is no doubt that the cost will be considerable, particularly when added to the extra investment which will be needed to meet the proposed new EC Directive on the treatment of sewage discharged to our seas. Those costs will ultimately be borne by the customer.

For avoidance of misunderstanding, I want to stress that my part in the process is to strive to ensure that costings are available and that sufficient solutions have been considered. It is not for me as the economic regulator to decide on environmental policies, but to ensure that decision makers - Ministers and Parliament - have the necessary facts.

As economic regulator, I am also concerned that the companies should be able to plan their investment programmes in a reasonably stable environment. They have a large programme to manage and I am sure that we would all want to avoid a situation where new obligations could crowd out the achievement of the existing priorities.

Economic and environmental regulation of the industry should go hand in hand. There is a belief that the Water Industry can easily take on new requirements because they can apply to me for Interim Adjustments to K. In practice I think that major changes to the demands placed on the Industry should be built into Periodic Reviews not introduced piecemeal through Interim Adjustments. This will avoid excessive bureaucracy and will provide a more stable pricing structure for the customer, as well as a better planning framework for the companies.

Competition and Merger Policy

The links between the Director General for Water Services (DGWS), the Director General for Fair Trading (DGFT), the Monopolies and Mergers Commission (MMC) and the Secretary of State for Trade and Industry (and indirectly with the Competition Commissioner in Brussels) are less well known. They operate in three areas:

- Monopoly policy
- Merger policy
- Customer policy.

Monopoly Policy. The DGFT and I have concurrent powers in this area. Section 28(2) of the Water Act gives me power to take action in place of DGFT (with his agreement) where it appears to me that a monopoly situation may exist "in relation to commercial activities connected with the supply of water or provision of sewerage services".

Merger Policy. The Water Act does not inhibit the takeover of an appointed company by another enterprise, unless this involves a merger with another water enterprise operating in England and Wales. The possibility of takeover can put desirable pressure on management to be efficient and make good use of their assets. I welcome the existence of such pressures. In the long run customers can only gain from an efficient industry.

However mergers between existing water enterprises in England and Wales will reduce the number of comparators and may prejudice my ability to make valid comparisons. I therefore welcome the provisions of Section 30 of the Water Act 1989 which introduces a new public criterion, against which the Monopolies and Mergers Commission can judge mergers of water enterprises. If the MMC concludes, on the basis of evidence from me and other interested parties, that a merger prejudices my ability to make comparisons, it is required to consider whether there are public interest benefits which might

be expected substantially to outweigh such a detriment. For this to be the case, I believe there need to be benefits accruing to customers, normally in the form of reductions in their bills.

Merger references to the MMC are made by the Secretary of State for Trade and Industry following advice from the DGFT. I have a responsibility to alert the DGFT to developments which may lead to “material influence” or “control”. The investigation itself is made by the MMC who will take evidence from interested parties including myself. Enforcement would depend on the decisions of the Secretary of State. But OFWAT would almost certainly be heavily involved. In the case of the Three Valleys merger, for example, the Secretary of State has asked me to see whether satisfactory undertakings can be obtained to offset the detriment to the public interest resulting from the loss of comparators.

MMC is also the body to whom the companies can appeal if they wish to contest my actions relating to:

- determinations on K
- amendments of their Licences
- accounting guidelines.

I also have certain powers to modify the Licences under which the companies operate. I can do this by agreement with the companies. Alternatively I can refer to the MMC any matter relating to the carrying out of functions which operate - or may be expected to operate - against the public interest and which could be remedied or prevented by modifications of the Conditions of the Licence.

Customer Policy: Finally I am directly responsible for appointing and overseeing the consumers’ champions, the 10 regional Customer Service Committees. I will describe these more fully later on.

OWS : The Levers of Policy

The three main tasks of OWS are to ensure: reasonable prices, satisfactory standards of service and adequate consumer representation. I will take them in turn.

The formula for the limitation of price increases (RPI + K) is becoming familiar - although I think the public has still to appreciate fully the scale of the price increase that will take place year after year. For example in the case of the 10 previous water authorities prices may increase by 5% a year over and above the inflation for the next decade. Some of the early increases for some of the previous statutory water companies are even greater.

The Secretaries of State for DOE and Wales had the responsibility for setting the initial Ks; those for the ten WaSCs in August of 1989 and for the 29 WoCs more recently in 1990. We in OWS inherit those Ks. We will administer them, and, where appropriate adjust them, either at periodic reviews or, if necessary, between those reviews in what will be known as interim adjustments to K.

Periodic Reviews

A periodic review must take place at least every ten years, although the Licence also provides for a periodic review after five years should a company request it or I consider it appropriate. Many people expect there to be a review after five years, but it would be premature to take such a judgement yet. It would, however, be prudent to plan for such an eventuality.

A periodic review provides the opportunity to conduct a 'zero base' assessment both of the situation facing an Appointee and of the Appointee's performance. The review will involve a range of tasks including:

- examining the company's investment programme, in the light of its current obligations and its revised Asset

Management Plan

- assessing the appropriate return on this investment (the cost of capital)
- setting efficiency targets in the light of the results of the most recent comparative studies
- reviewing targets for standards of service
- reviewing the extent to which the arrangements for implementing the regulatory regime had achieved their objectives and examining any deficiencies which may have emerged.

I hope that a periodic review can be more streamlined than the lengthy, in-depth exercise involved in setting the initial Ks. But it will, inevitably, represent a considerable exercise.

As I indicated earlier, a periodic review would provide an opportunity to review the implications of policy developments on the part of the quality regulators and to put them into a medium term financial framework for the companies. The scale of new policies concerning quality should influence whether periodic reviews should take place at five year or ten year intervals.

At periodic reviews, price limits (K factors) would be set for the subsequent ten years. If such reviews were to take place at five year intervals, there would always be K factors (albeit subject to adjustment) set for at least five years in the future. This would provide a rolling quinquennial perspective concerning prices and levels of investment.

Interim Adjustments:

By contrast, interim adjustments to K will be much more restricted. They will only involve the "relevant items" specified in the Licences, plus items "notified" by the Secretary of State. It would not be appropriate to undertake an examination of the efficiency of the company on such occasions - although its performance in meeting its objectives, for example those of its

capital expenditure programmes, would be relevant. The Licence specifies a materiality threshold before interim adjustments to K can be made and trivial items are excluded.

It is entirely right for there to be provision for adjustments to K when the obligations imposed on companies are changed. Companies have no choice in the matter of externally imposed obligations as these are clearly outside the control of prudent management. But there would be risks for the regulatory regime if the provisions of the Licence for interim adjustments to K were to generate a large number of items for consideration each year. This would run counter to the objectives of the new regime, which is to focus on establishing a medium term framework within which companies can carry out their strategies, without being subject to detailed control in the short term.

Charging structures and charging systems

The formula, $RPI + K$, relates to the average of the charges which a company can make. It is also important to assess the structure of those charges and to relate individual charges to the actual costs of providing specific services. Price discrimination can be an abuse of monopoly power if tariffs are not available to all customers who are in the same, or a reasonably similar situation, and if those tariffs are not reasonably related to costs. The Act and the Licence require the companies to avoid undue discrimination and undue preference. OWS will examine pricing structures and develop general criteria to help identify "undue" discrimination. But the companies will also need to consider the structures of their tariffs as part of their response to the management of the rising costs of water resources and water treatment.

The method of charging for domestic consumers must change as rateable values will not be available in future for new properties, and cannot, under the Water Act, be used as the basis of charge for existing properties beyond the year 2000 for any properties. A number of options have been canvassed

- metering, a flat rate charge and banded charges based on various characteristics of the property.

OWS will encourage a public debate on alternative charging systems and tariff structures. The CSCs will play a major part in this work. We propose to publish a Consultative Document on these issues during the autumn. Various issues also need to be debated in addition to the question of future charging systems, such as the charges for installing meters and the options for tariff structures, that is the relationship between standing charges and volumetric charges.

An operational problem that has already arisen in this area concerns the levying of infrastructure charges for domestic consumers. Unique to the water industry, the Government's intention was to see that, "through the [infrastructure] charge, newly connected customers for domestic water supplies or domestic sewage supplies as a group, meet the investment costs of the undertakers in providing additional capacity at treatment works, in reservoirs and trunk mains, and so on, incurred because of the additional demand from those new customers ..." (Earl of Caithness, Hansard Vol 508, Col 56, 22 May 1989).

What, however, in the 1989 Water Act, constitutes a "connection" to a water supply/public sewer of "premises" is not crystal clear, and I have had to raise with the Companies the question of amendments to Licences. I may also, perhaps over a longer time scale, have to consider whether the concept of infrastructure charges is equitable as between new and existing customers.

Service standards

Companies are required to set targets for three standards: namely water pressure, interruptions to supply and flooding from sewers. These have been set out as:

- properties experiencing pressures of less than 10 metres head;

- properties experiencing interruptions lasting more than 12 hours;
- the number of properties where flooding from sewers occurs more than twice every 10 years.

These targets were taken into account in the initial figures for K and are set out in Levels of Service letters, which are available to the public in the OWS Library.

These are minimum standards. The aim is to reduce the number of properties where the relatively low standards are not met. OWS will also have some concern with standards more generally. For example, we have discussed pressure more generally with the manufacturers of unvented heating systems. We have asked water companies to be forthcoming about the pressures they are maintaining in different parts of their supply areas.

Companies are also required to specify and monitor their performance on other measures of service - eg response to complaints and enquiries. Companies have to notify the Director each year of their intentions during the charging year and to send him an annual Service Target report on their achievements relative to their intentions. Ministers decided to reinforce this regime of Levels of Service with guaranteed standards. This was implemented through The Water And Sewerage Services (Customer Service Standards) Regulations 1989 (S.I No 1159). These entitle customers to a £5 refund if certain standards are not met eg keeping appointments, responding to complaints and giving notice of interruptions in supply (and keeping to it). This was the first statutory scheme for privatised public utilities. If disputes arise, they can be referred by either party to the Director. We are now receiving such references.

Where performance against expectations is unsatisfactory, OWS will discuss those matters with the companies. If it remains unsatisfactory, OWS may ask the Secretary of State to make regulations under the Water Act to lay down standards of

performance which will then be enforceable in the Courts.

Service standards can be too high, because they are too expensive, as well as too low. This, and the whole question of assessing the costs as well as the benefits of quality improvements, is one of the issues where I expect Customer Service Committees to contribute to the debate.

Customer Service Committees

Ten Committees have been established in areas matching the areas of the former Water Authorities. Each company (WaSCs and WoCs) has been allocated to one of these Committees. I have now appointed the Chairmen for those committees.

The Committees are an important part of the regulatory regime. Their job is to champion the interests of the consumer. They will have three tasks:

- identifying the main concerns of water consumers in their area
- ensuring that customer complaints are properly dealt with
- advising me on particular issues, such as systems of charging for water.

I will meet regularly with the Chairmen as a group. This will constitute a national Consumer Committee.

It is important that the public know who to turn to when they have problems concerning water and sewerage. All issues, whether concerning customer service or water quality might be referred to the CSCs - we will not turn them away. But we cannot invade other regulators' areas. Matters concerning the rivers are the responsibility of the NRA, who have established their own Advisory Committees; and if the matter concerns water quality it is for the Secretary of State. In such cases we will ensure that the proper body is involved.

Comparative Competition

Unlike other privatised and regulated industries in the UK, the water industry consists of a relatively large number of firms. There are 10 WaSCs and 20 WoCs. This gives scope for comparative competition. Comparative competition can never be as effective as competition in free markets, but it can be a valuable tool to stimulate efficiency and to help the regulator in setting the prices, etc, which might be expected to rule in competitive conditions.

Comparative competition should cover a number of issues. It should cover comparisons of costs - both operating costs and capital costs. It should cover levels of service. It should also consider the whole area of "customer care" - how well, for example, companies explain their services, deal with complaints and develop new ways of meeting customers' wants.

In making those comparisons, it will be necessary to take account of the differing conditions facing companies, which are outside the control of their managements, such as geological and geographical conditions. In making these comparisons it is important to recognise that there may be some factors, such as the inherited pattern of capital equipment, which are outside the scope of management in the shorter term but not in the longer term.

When making comparisons we will also have to take account of the independence of each company's management. Where an appointed business is completely independent, in terms of ownership and management, its managers can be held fully accountable. But where an appointed business is owned by a larger group, with significant activities of its own, the situation is more complex. The scope for comparison will depend on the nature and degree of devolution of management in the wider unit. The more that responsibility is devolved and the more scope there is for independent action on the part of the managers, the more helpful comparisons between companies should prove to be.

In view of the ownership structure of the industry, where four holding companies control fifteen of the WoCs, and the scope for diversification among the WaSCs, careful thought needs to be given to the way in which comparative competition can be used.

There is also scope for comparisons between, for example divisions of WaSCs with a very different operating climate or between similar divisions in different companies. Some companies have found such comparisons valuable in achieving lower costs and higher levels of efficiency.

OWS will encourage comparative competition and will publish the results of its work in this area.

The Office

Let us turn to the Office itself. There are five policy Divisions.

Charges Control are responsible for:

- adjustments to K,
- cost of capital and financial profiles,
- comparative competition, including the preparation of comparative statistics and carrying out efficiency studies,
- policy on mergers and inset appointments,
- tariff structures and methods of charging,
- accounting guidelines.

Engineering Intelligence cover:

- engineering and scientific aspects of capital investment,
- asset management plans and surface investment requirements,
- levels of service,
- performance of capital investment programmes.

Land are responsible for:

- ensuring the core business retains sufficient “interests in land” - ie property, buildings, leases, etc to enable it to continue in the event of a loss of the Licence,
- ensuring customers get half of the net proceeds of disposals of land (through an adjustment to K).

Legal

- give legal advice to the Office,
- monitor and enforce compliance with the Licence.

Consumer Affairs provide:

- approval of Codes of Practice,
- comparisons of “customer care”,
- liaison with and support to CSCs,
- investigation of customer complaints and adjudications of any disputes which fall outside the scope of the CSCs.

But clearly many issues involve more than one division and in practice they will work closely together.

Monitoring of Capital Expenditure

One of the biggest challenges facing the water industry is the change to higher quality standards, both in the supply of drinking water and in the level of effluent discharged to the rivers and the sea. The industry will virtually double its capital stock in a decade. The bulk of the large investment programmes now going into operation, which will cost between £25 and £30 billion, at today’s prices, over the next 10 years is related to improvements in quality. The understandable desire for environmental improvement may lead to pressures to spend even more.

The public will be paying higher bills, rising by more than 5% over and above the rate of inflation for the next five years, to finance this programme. They are entitled to see the results.

OWS will monitor investment programmes to ensure that they are achieving their objectives. If they are not doing so, I will need to initiate a downward adjustment of K.

Monitoring should concentrate on where the money is being spent and on the results which are being achieved. I do not propose to do this by looking at individual projects. It would be complex and time consuming to compare each project as it is completed with the original plans. Such an approach would also restrict the flexibility which management need to make changes in the design of the programme that would enable the objectives to be met more effectively or more cheaply. I will expect companies to have their own management system to relate their plans to what they do at the level of projects.

We need to know first how, at a broad level, actual expenditure relates to what was intended in the company's asset management plans. Over the medium term of, say, five years, capital expenditure may vary from what was originally planned as projects are examined in detail. Also priorities may change in response to environmental and other pressures, for example the consequences of the Government's decision to abandon the dumping of sewage sludge in the North Sea. OFWAT will ask the companies to explain such variations in three categories - change of priorities, the use of different solutions to problems, especially where they involve increased current expenditure rather than capital expenditure and where innovative solutions have been developed. We will also want to know where capital plans are being delayed, either because of shortages in the supplying industries or because of shortages of key internal staff.

OFWAT is also developing, in association with the companies themselves, and the quality regulators, a system of "monitoring by performance". The initial criteria which we propose to assess are:

- asset quality
- levels of service

- compliance with drinking water standards (WoCs and WaSCs)
- compliance with discharge consents (WaSCs) only.

This work will require analytic skills and an imaginative approach from my own staff and also from the quality regulators, who are the enforcement agents for drinking water and for waste water. It needs to be done to demonstrate to consumers that their money is being well spent.

Style of Regulation

The following principles will guide our work.

- It is important to distinguish between regulation and management. OWS is concerned with the framework. Companies must have the freedom to manage within that framework.
- OWS will not seek to be confrontational although it will rise to any challenges.
- OWS will adopt an open style. We will not discuss issues that are sub judice. But we will be ready to expose and to discuss the principles we are following and to explain reasons for decision.
- OWS will seek to develop regular flows of information, which can be used for comparative purposes. We will work closely with the industry in doing this. Provided it does not breach commercial confidentiality, we will want to see such information made available to the public.

Conclusion

Natural monopolies need to be regulated in the interests of consumers. Regulation is also required for goods such as drinking water, where issues of health could be concerned and for services, such as the disposal of sewage, where environmental and public health issues can arise.

The regulation of the industry is, inevitably, complex, and involves a number of different skills. The Government has decided to set up different agencies for different purposes. This has the management advantage that specialist skills can be deployed effectively within single-purpose agencies. But it is essential that the regulatory bodies should work closely together in the interests of consumers. Economic and environmental regulation need to be integrated.

The standards which the industry is asked to meet have to be justified and integrated into existing investment programmes. This will give industry the certainty which it needs to plan and manage its affairs and the customer confidence that the increased costs which they will face are well founded and predictable.

Regulation is necessary, but oppressive regulation is undesirable. The water industry needs to make a leap forward to higher standards of water quality and to meet the challenges of increasingly discriminating customers. On the supply side this involves heavy investment and taking advantage of technological changes and innovations. On the consumer side, it involves innovation in major issues, such as methods of charging. Providing that they operate within the framework set by the public interest, companies must be given the scope for using and developing business skills and exercising their business judgement.

In its turn, OFWAT is ready to meet the challenges it faces. The Office is now emerging from its build-up period. Customer Service Committees Chairmen and members have been appointed. We will endeavour to play our part in ensuring that the water industry in England and Wales is the best and most efficient in the world.

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