

Glossary

Act	Enterprise Act 2002.
Abstraction licence	A licence granted under the Water Resources Act 1991, as amended by the Water Act 2003, to abstract untreated water from a source of supply.
Appointed business	An expression defined in the appointment . It essentially means the business of the carrying out by the company of the regulated activities of a water undertaker. Among the declared purposes of Condition F of the appointment (accounts and accounting information) is ensuring that the financial affairs of the appointed business can be assessed and reported on separately from other business and activities of the company.
Appointment	The instrument by which the Secretary of State or Ofwat (with a general authorization given by the Secretary of State) appoints a person under the WIA to be the water undertaker for the area described in that instrument. The word ' licence ' is used interchangeably with ' appointment '.
Benchmark company	Company chosen by Ofwat for the purpose of setting catch-up efficiency targets for other companies. There are separate benchmark companies for operating expenditure and capital maintenance . The benchmark company is the company closest to the efficiency frontier which is deemed by Ofwat , on the basis of certain criteria , to be appropriate as the basis for setting catch-up efficiency targets.
Bulk supply agreement	Bulk supply transfer agreement. An agreement under which a water undertaker provides bulk supplies of water, from a source of which it retains the ownership, to another water undertaker at a commercial rate, payable by reference to the number of cubic metres of water supplied and/or fixed charge (and sometimes subject to a minimum charge). Ofwat has powers to determine the terms of such agreements, if so required, under sections 40 and 40A of the WIA .
Capital expenditure	Appointed water companies' spending on new capital assets.
Capital enhancement	Capital expenditure required to provide additional or improved services.
Capital maintenance	Planned work carried out by companies to replace and repair water assets to provide continuing services to customers at the present level.
Catch-up efficiency	The annual efficiency improvements imposed on companies by Ofwat based on their performance relative to the most efficient companies. The most efficient companies will have

	no catch-up imposed.
CC	Competition Commission.
CCWater	Consumer Council for Water.
COLS	Corrected Ordinary Least Squares. Type of regression analysis that finds the relationship of best fit between the dependent and independent variables using OLS , then shifts that relationship in parallel away from its estimated position towards some other combination of the dependent and independent variables.
DEA	Data envelopment analysis. A method, based on linear programming, for assessing comparative efficiencies of operating units which perform a given function.
Determination	In the context of the Periodic Review , the setting by Ofwat or the CC of K and the standard amount of infrastructure charges for a water undertaker.
Defra	Department for Environment, Food and Rural Affairs.
DTI	Department of Trade and Industry.
DWI	Drinking Water Inspectorate.
EA	Environment Agency.
Econometrics	Branch of statistics that applies mathematical and statistical techniques to bring together economic problems/theories and economic data. In water price determinations, the applications of econometrics have consisted mainly of using regression analysis to develop statistical models relating operating and capital costs to various cost drivers. These models have then been used to assess companies' relative efficiency.
Efficiency frontier	The level of efficiency attained by the frontier company according to Ofwat's assessments.
EJGs	Engineering Judgement Grades. Used to estimate the confidence in each standard cost in the cost base by assigning both a reliability and accuracy band to each individual standard cost.
Frontier company	Company assessed by Ofwat to be the most efficient in operating expenditure or capital maintenance for the provision of water services. The frontier company may or may not be chosen as the benchmark company for the relevant function.
Gearing	A company's net debt expressed as a percentage of its total capital (ie the ratio of net debt to net debt plus equity).
HDUF	Hastings Diversified Utilities Fund.

Infrastructure assets	Mainly underground assets, such as water mains and sewers, but also dams and reservoirs.
Inset appointment	Appointment allowing a water undertaker to provide water services in an area previously forming part of the area of another appointee .
June return	An appointee's annual return to Ofwat providing the information necessary for Ofwat to: <ul style="list-style-type: none"> • monitor companies' progress towards achieving higher-quality objectives; • ensure that customers' standards of service are protected; • compare performance between companies; • measure and compare companies' costs; and • prepare for the next review of price limits.
K	The amount by which the weighted average charges for the supply of water services are allowed to increase relative to the RPI as determined by or under Condition B of the appointment . K can be positive, zero or negative.
Licence	See appointment . The word 'licence' is used interchangeably with the word ' appointment '.
MKW	Mid Kent Water plc.
MI	Megalitre (1 million litres, 1,000 cubic metres, or 220,000 gallons).
MI/d	Megalitres a day.
Non-infrastructure	Mainly surface assets such as water treatment works, pumping stations, company laboratories, depots and workshops, but also wells and boreholes.
NPV	Net present value, ie the value of the cash flows arising in the future or past, discounted or increased to reflect its present value.
Ofgem	Office of Gas & Electricity Markets.
OFT	Office of Fair Trading.
Ofwat	The Water Services Regulation Authority.
OLS	Ordinary Least Squares. Statistical method used in regression analysis that finds the relationship of best fit between a dependent variable and one or more independent variables by minimizing the sum of squared differences between that relationship and each combination of the dependent and independent variables.
Operating expenditure	Companies' day-to-day spending on running services.

OPA	Overall Performance Assessment. A series of measures used by Ofwat to assess the overall quality of service an appointee provides to customers. The key areas within the assessment are water supply, sewerage service, customer service and environmental impact.
Oxera	Oxford Economic Research Associates Ltd, economics consultancy firm, instructed by Hastings in this inquiry.
Panel data analysis	The application of regression analysis to panel data. Panel data combines cross-sectional and time-series data. Cross-sectional data comprises observations on a number of units of observation (individuals, firms etc) made at a particular point in time. Time-series data comprises observations made on a particular unit of observation (individual, firm) over a number of time periods. Panel data therefore comprises observations on a number of units of observation, each observed over a number of time periods.
Periodic Review	The review of K by Ofwat at five-yearly intervals, provided for by Condition B of the appointment .
Pooled data	Type of panel data where there is assumed to be no dependence over time within each unit of observation, such that each cross-section of units of observation at any point in time can be treated as independent of any other. For example, treating a panel of data for (say) 22 firms over six years as pooled data is equivalent to assuming the data comes from $22 \times 6 = 132$ firms.
Quinquennium	A period of five years, for which prices are set by a Periodic Review .
RCV	Regulatory Capital Value. The capital base used in setting price limits. The value of the appointed business which earns a return on investment. It represents the initial market value (200-day average), including debt, plus subsequent net new capital expenditure as assumed at the time of initial price setting in 1989 and including new obligations imposed since then.
Regression analysis	Statistical technique to model the relationship between one dependent variable and one or more other independent variables that affect the dependent variable, and find the magnitude of that relationship. Regression analysis finds the relationship of best fit between the dependent variable and independent variables. Regression analysis may do this in several ways, eg OLS and COLS .
Regulated business	Those water activities of a company or group of companies which are the subject of an appointment by Ofwat .
Regulatory accounts	Accounts submitted by appointees to Ofwat in respect of their regulated businesses . They are separate from the normal statutory accounts.

Reporters	Ofwat requires each water undertaker to appoint an independent consultant, approved by Ofwat , to scrutinize (among other things) its business plan. The consultant is known as a Reporter.
Ring-fencing	Licence conditions and accounting rules that allow an appointee's regulated business to be viewed and treated as a separate company, segregated from other activities of the group of companies of which it forms part.
RPI	Retail price index.
RPI-X	Price regulation in some industries is expressed in the form RPI-X, indicating that in a particular year the movement in the average prices charged by a company compared with prices charged in the preceding year is governed by the movement in the RPI for the year, minus an adjustment factor of X, which is set by the regulator. In the water industry this price regulation process is generally referred to as RPI+K.
Serviceability	A long-run approach which considers the ability of the water networks to maintain a standard of service to customers.
SEW	South East Water Limited.
SFA	Stochastic Frontier Analysis. A method of regression analysis where the difference between the predicted cost (from the regression) and the actual costs are divided into measures of inefficiency and random errors.
Supply/demand balance	The balance between the amount of a company's available water resources and the demand for water by customers. Any imbalance between supply and demand can be met via resource enhancement or demand management strategies (eg selective metering and leakage control).
SWC	Statutory water company. Under the Water Act 1989, SWCs were permitted to register as limited companies under the Companies Act 1985.
UK WIR	UK Water Industry Research.
UTA	Utilities Trust of Australia.
WACC	Weighted average cost of capital. For a company, the average of its cost of debt and cost of equity capital (see cost of capital), weighted according to the balance of debt and equity which finances the company's assets. In this report we have not adjusted the cost of equity for tax payments by the company nor the cost of debt for the tax shield.
WaSC	Water and sewerage company. A company which is a water undertaker and a sewerage undertaker.
Water Act 2003	Water Act 2003.

Water UK	Representative body for water supply and sewerage companies at a national and European level.
Water undertaker	A water company appointed under the Water Act 1989 or WIA to provide water services in a specified part of England and/or Wales. The word 'water company' is used interchangeably with water undertaker.
WIA	Water Industry Act 1991.
WoC	Water-only company. A company which is a water undertaker but not also a sewerage undertaker.
WRSE	Water resources in the South East Working Group.