



Stella Creasy
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Your ref

Our ref

Date

8 January 2009

Contact

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Dear Madam

Surface Area Drainage Charges

Thank you for your letter of 5 January addressed to Meyrick Gough, our Water Planning and Strategy Manager. Mr Gough has asked me to reply direct to you in this matter.

I would begin by advising you that, currently, Southern Water charges for surface water drainage on the basis of water meter size, for all measured customers, and as a flat fee for all unmeasured customers.

You may be aware that, in April 2008, Ofwat announced that they would be requiring all wastewater companies to produce plans for moving to a surface-area-based charging system. Subsequently, no doubt mindful of the type of issues that you highlight in your letter, Ofwat have pulled back from this position and they are now expecting those companies using an alternative charging method to justify this.

In order to meet this requirement, we will be reviewing our charges during the next regulatory period (2010-15). We will only move to a surface-area based system if it is clear that the benefits of doing so outweigh the costs.

At the moment, it is clear that there may be some benefits from area-based charges, including increased fairness and better incentives for customers to modify their behaviour by putting in place environmentally sustainable drainage solutions, such as permeable hard surfaces or soakaways.

Against that we need to consider the administrative costs of implementing area-based charging. In addition, as you state in your letter, the experience of other companies has been that the switch can lead to very large changes in some customers bills, including those of organisations such as yours that may not be in a position to respond by altering their facilities.

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I can assure you that we will carefully weigh all of these factors in the balance before making a decision on the best way forward. Should we decide to make a switch, then we will ensure that we are mindful of the impacts on particular customer groups and will take advantage of Ofwat's commitment to allow phasing in of new charges over a number of years to protect customers from unexpected large increases in their bills.

Yours faithfully

A handwritten signature in black ink, appearing to read "Paul Graham". The signature is written in a cursive, flowing style.

PAUL GRAHAM
Tariff Manager