



PRIME MINISTER

WATER METERING

Prime Minister 4
 Agree that these proposals
 represent an acceptable way
 forward?

DFNS
 14/3

My minute of 3 December set out my plans for taking forward the development of domestic water metering following the Watts Report. You suggested firmer proposals, such as a power for the Government to require the phased introduction of compulsory water metering.

It is obviously right in principle that people should pay for what they take and be made fully aware of the value of the service they are getting.

Roy Watts' report represents a major advance, in that it has established for the first time that in some circumstances domestic metering of whole areas could be cost-effective. That is so in particular where peak demand is currently at levels which would require major investment before long to increase supply capacity.

Of course, in much of England and Wales, water is abundant and the marginal cost of changes in demand is low. The study which Coopers and Lybrand carried out for Watts suggested that installation of meters for every household would cost over £1 billion. This compares with total annual income of water companies and water authorities (net of income already based on measured volumes) which is running at less than £1.9 billion a year. We need to be very confident that such an investment would give value for money before imposing it on the industry.

The Coopers study concludes that, on present information, 'metering the average consumer would lie on the borderline of economic viability'. Coopers' estimates are, inevitably, tentative and they, and Watts, recommend that they are tested. But they do make allowance, drawing in particular on extensive foreign experience, both for likely economies of scale in meter production and installation and for likely reductions in consumption.

Told
 on
 Lijewell?
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That is why John Patten and I agree with Watts that the next step must be a series of controlled large-scale experiments to establish where and how we can get good value out of metering. We simply do not know enough yet, for example, about how consumers would respond to consumption-based charging and about the pros and cons of simple meters operating with simple tariff structures and more sophisticated ones which would permit high charges at times of peak demand.

We need new powers to allow for compulsory metering of houses in the trial areas. The installation programme, and our testing of costs, cannot therefore begin until the privatisation Bill receives Royal Assent next year. But we can press ahead in the meantime with putting meters at key points in the distribution network. That will give us essential information about present patterns of consumption. It will then take a year or two for customers to adjust to the new regime before we can assess the impact of metered charges on their consumption.

You suggested that we should require meters to be installed in all new dwellings, rather than provide for them to be constructed so as to facilitate meter installation. I fear however that that would set back rather than advance the cause of consumption-based charging. Metering scattered over new properties would be conspicuously costly and would thus tend to discredit the policy. The major prospect of economies of scale lies in metering all properties within compact areas. Only in that way will we bring the unit costs of installing the meters and reading and billing right down; the scope for savings is much greater here than it is in the production of the meters themselves, particularly if we can apply successfully the emerging technology of customer telemetry.

Our privatisation proposals also have a bearing on the issue. In future, with their prices and standards under firm regulation, the water undertakers will be looking to greater efficiency as the

But it would at least make the meters less expensive



main source of profit for their shareholders. More cost-effective charging arrangements could have an important part to play in this, and there will therefore be every incentive on the WSPLCs and water companies to introduce metering wherever it makes good commercial sense. With that motivation in the industry and until we have the results of the experiments, I do not consider that we should take powers to compel them to introduce one method of charging rather than another.

I hope that you agree that my proposals represent an acceptable way forward. I shall be working up the details in consultation with the industry and consumer interests in the coming months.

I am copying this letter to the other members of E(A) and to Sir Robert Armstrong.

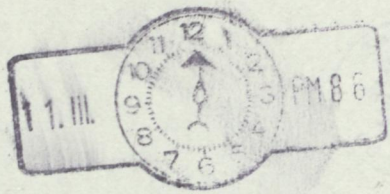
*Not really -
but it's not worth
fighting about considered
against other matters.
mt*

K.B.

K B

// March 1986

Local Govt; Water Ind. # 3



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COMPLAINT

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riceJA
cc Prof Griffiths

10 DOWNING STREET

From the Private Secretary

17 March 1986

WATER METERING

The Prime Minister was grateful for your Secretary of State's minute of 11 March about plans for taking forward the development of domestic water metering following the Watts Report.

The Prime Minister agrees - albeit reluctantly - that the proposals set out in the minute represent an acceptable way forward.

I am copying this letter to Private Secretaries to members of E(A) and to Michael Stark (Cabinet Office).

(David Norgrove)

Robin Young, Esq.,
Department of the Environment.

CONFIDENTIAL

LB



CCB9

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: B/PSO/12899/86

Your ref:

8 April 1986

In Mr.

NGEN

WATER METERING

Thank you for your helpful letter of 17 March.

You are right that the metering of distribution networks and the development of tariff structures for use in the trials can proceed in advance of legislation. Both these things are being done. I fear however that existing powers on building regulations and bye-laws are insufficient to allow us to require new houses to be constructed so as to facilitate meter installation. So we will need provisions on that in our Bill.

/ I am copying this letter to other members of E(A) and to Sir Robert Armstrong.

Ken Baker
[Signature]

KENNETH BAKER

LOCAL GOVT
WATER
PT 3



CBB



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker Esq MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

17 March 1986

Ken Kemell

Prime Minister!

Agree that the Chief Secretary's suggestions look well worth considering? JMS 18/3

WATER METERING

I have read your minute of 11 March to the Prime Minister and agree that the course you outline is the most sensible way forward. It would be a great pity if metering were discredited through precipitate action. As you say, the privatised industry will have every incentive to introduce metering where it is cost effective and I think it would have an adverse impact both on our privatisation proposals and upon the introduction of metering if it were to be seen as a centrally imposed burden.

There are, however, two important areas where progress can be made before the legislation required for compulsory metering trials reaches the statute book. First, we should develop our thinking about the suitable tariff structures and with this in mind I agree that the metering of distribution networks should proceed as quickly as possible. Secondly, bylaws are required to ensure that building regulations require new houses to be constructed so as to facilitate meter installation. If, as I expect, the results of the trials are positive, the introduction of more wide spread metering can then be implemented as quickly and cheaply as possible. I think that your Department should therefore regard the establishment of the necessary bylaws as a priority.

I am copying this letter to other members of E(A) and to Sir Robert Armstrong.

John Moore

JOHN MOORE

Local Govt: Water Industry Pt 3





2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

21 January 1986

Dear Mr. Munn,

WATER PRIVATISATION - DRAFT WHITE PAPER

Thank you for your letter of 14 January about water privatisation. *at Plan*

Your letter raises important points which will need to be explored between officials. I have asked my officials to get in touch with yours in due course. Meanwhile, you can be assured that we will take what you say into account in handling any responses to the White Paper.

I am copying this letter to the recipients of yours.

Munn
Kenneth Baker

NBPM

KENNETH BAKER

LOCAL GOVT PT3
Water





2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

24 January 1986

Jim Munn

NBP

WATER PRIVATISATION - WHITE PAPER

Thank you for your letter of 6 January. *attach*

I am grateful for your comments on the draft. I agree with you that we can put more forcefully the argument that privatisation is the best way to improve efficiency and service standards in the water industry, and that we can make a better sales pitch for our very positive policy of legislating to allow full-scale trials of compulsory water metering to go ahead. I hope you will find the final text an improvement in both respects.

I fear however, that I cannot go all the way with your comments on price controls. It is crucial that we should allow the shareholder to benefit from any improvement in efficiency, and it is hard to see what incentive the privatised authorities would have to cut the costs of their services if we were to reward their efforts only by putting a tighter clamp on the prices they could charge in future. There will be further opportunities to consider the detail of the regulatory regime, and a number of important issues will need to be resolved. For the moment, I would prefer to stick to the very generalised description of our intentions given in the present text.

Copies of this letter goes to the recipients of yours.

Jim Munn
Kenneth Baker

KENNETH BAKER

LOCAL GOVT P/B

Water





cc BGT

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Kenneth Baker MP
 Secretary of State for the
 Environment
 Department of the Environment
 2 Marsham Street
 London SW1

NBP 7.

14 January 1986

Norman Tebbit.

WATER PRIVATISATION: WHITE PAPER

Norman Tebbit's letter of 6 January has alerted us to one aspect of the White Paper on which we need to settle a clear line before its publication. *at Max*

The White Paper rightly makes it clear that the proposed new structure will encourage efficiency and improved standards of service and the cost to the consumer will be regulated. Nevertheless costs may rise in some areas and the provision to experiment with metering of domestic supplies explicitly refers to the possible advantages of compulsory meter installation.

There are likely to be questions on what protection will be available to low income households who might be affected by these changes. It will have to be made clear that there is no provision for additional expenditure through social security. Moreover, the changes to supplementary benefit set out in the White Paper on Social Security and shortly to be published in the Social Security Bill will not provide scope in future for compensating low-income householders for above average charges.

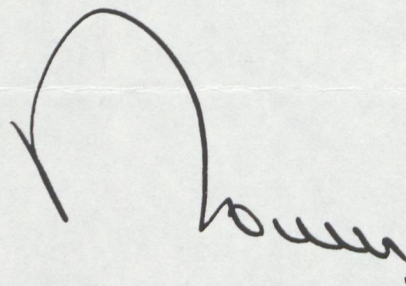
The current position is that supplementary benefit recipients are directly reimbursed for their actual weekly water charges irrespective of whether these are billed on a standard rateable value or metered basis. However, on the introduction of the income support scheme, this arrangement will cease. Instead, a standard amount towards average water charges will be taken into account when benefit rates are set.

On the question of installation of water meters there is no separate provision at present to meet the cost for low income householders. Again the changes to be implemented through the Social Security Bill, which will replace the existing single payments provisions with a Social Fund

for making repayable loans and grants, would not in our view provide the means in future for assisting households with the cost of installing meters.

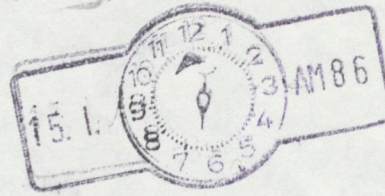
It is important therefore to make clear in any Government response to comments on the White Paper that the safeguards for consumers, including households with low income, lie in the scope for increased competition and efficiency and the proposed framework for regulation and not through increased social security expenditure.

I am copying this letter to the Prime Minister, Members of Cabinet, John Wakeham, Bertie Denham, Sir Robert Armstrong and Brian Griffiths.

Yours

NORMAN FOWLER

COOP C GOVT PC3

WATER



FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

CCBG



HOUSE OF LORDS,
LONDON SW1A 0PW

13 January 1986

CONFIDENTIAL

NORM

My dear Kenneth, Water Privatisation - White Paper

Thank you for copying to me your minute of 23 December 1985 to the Prime Minister. I have no particular points to make on the draft White Paper, save to suggest that the economic case for privatisation is perhaps argued somewhat weakly. For example, paragraph 4.2 points out that regulation of prices will remain a permanent feature of the water industry, yet competition on price is the most normal form of competition, the virtues of which are referred to elsewhere in the draft.

In this regard, I entirely agree with Norman Tebbit that the draft should contain some provision so that customers in lower-cost areas are given some guarantee that their charges will reflect the above-average performance of the water supplier in their area.

I am copying this letter to the Prime Minister, Members of Cabinet, John Wakeham, Bertie Denham, Sir Robert Armstrong and Brian Griffiths.

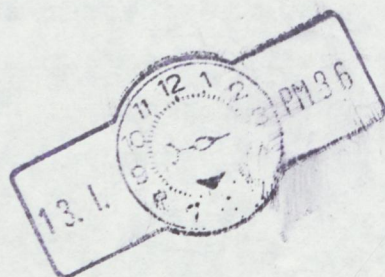
Yrs:

The Right Honourable
Kenneth Baker MP
Secretary of State for
the Environment
Department of the Environment
2 Marsham Street
London SW1

LOCAL GOVT

WATER

PT 3



CONFIDENTIAL

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Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

6 January 1986

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1

NBPN

D Ken H.

WATER PRIVATISATION - WHITE PAPER

attached

Thank you for the copy of your minute of 23 December to the Prime Minister, enclosing a draft of the White Paper.

The draft makes a good case for privatisation of the industry on the basis of integrated river management, and sets out well the ways in which the interests of the customer and the environment are to be safeguarded.

There are three points, however, where the draft needs particularly to be presented convincingly. The first is the point (para 2.26) at which the argument is made that privatisation is now the best means of continuing and enhancing a process of improved efficiency and service generated since 1979. We must make clear that providers of private capital are both more flexible, and inclined to the enterprising and innovative approach, than public providers of capital. They will give the now-improved management and staff the impetus they need for greater efficiency. And, in practical terms, state ownership imposes constraints which the authorities' managements wish themselves to be free of.

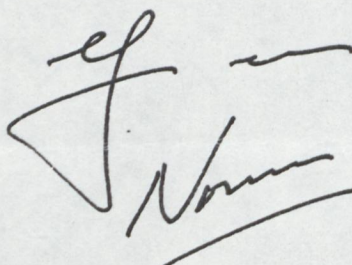
The second, and related, point concerns water metering. The draft should be more positive in its approach. Charging by reference to rateable values will increasingly be anachronistic; and charging by reference to consumption is much preferable for a private sector company engaged in selling a service to its customers.

The third point concerns price controls. A price control set by reference to changes in average performance on costs provides safeguards for customers in higher-cost areas, but does not guarantee to customers in lower-cost areas that their charges adequately reflect the above-average performance achieved in their

Jan

area. Some provision should be made for this. We might also stress that the price of a commodity should be expected to reflect the change in performance of producers in the industry and the average cost of its inputs. One safeguard, however, should be not necessarily to allow companies to pass on directly in full changes in costs which are within their control, eg some pay increases, nor entirely to be able to pass on changes in the cost of capital, which must be reflected, in part, on the rate of return to equityholders.

I am copying this letter to the Prime Minister, Members of Cabinet, John Wakeham, Bertie Denham, Sir Robert Armstrong and Brian Griffiths.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a large, stylized initial 'N' and a horizontal line extending to the right.

NORMAN TEBBIT

LOCAL GOVT PCB

WATER INDUSTRY

