

OVERALL STRATEGY FOR 2010-15 AND BEYOND

In December 2007 we published *Water – the way ahead*, our long term strategic vision. It set out how we want to address the challenges that the future holds for the water industry and its customers. Our final business plan for the five years starting in April 2010 sets out how we will meet these challenges.

It has been prepared taking into account feedback from customers and other stakeholders to last year’s draft business plan, together with new obligations we have to meet and the changing economic climate that we and our customers have to face.

What do customers want?

Customers have told us that their priorities are:

- the delivery of basic services in a sustainable way
- that bills should not increase in real terms over the next five years, and
- prices should not be cut if they are subsequently to increase.

They are willing to pay for reductions in leakage, improvements in security of supply, a reduction in our greenhouse gas emissions, improvements in drinking water quality and a reduction in the risk of sewage flooding.

Key elements of our plan

Our draft business plan proposed that we maintain average bills in real terms at the 2009 level until 2015 and invest c£1,140m to make a substantial start to delivering the long term aspirations of customers and other stakeholders.

The plan was well received by both customers and stakeholders.

However, new obligations and taxes, and the worsening economic climate, now make it difficult to deliver all the planned outputs without price increases.

So we have revised our plan by reprioritising investments to keep price increases down.

We have decided to:

- defer some maintenance investment and find further efficiencies without taking excessive risk with service or quality
- defer quality and environmental investment where the benefits or customer willingness to pay are low
- ask regulators to pay directly for the costs of environmental investigations
- challenge some of the new costs and accounting changes imposed.

Our final plan proposes investment of £953m. The average household bill will increase by 4.6% in real terms by 2015 and we do not expect it to increase in cash terms until 2011.

Price limits and bills (2007-08 prices)	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Proposed price limit		3.25%	2.75%	2.75%	1.50%	0.00%
Water service						
Indicative price limit		3.3%	2.7%	2.8%	1.5%	0.0%
1. Average measured household bill	£160	£165	£165	£168	£169	£168
2. Average unmeasured household bill	£217	£227	£241	£252	£262	£267
3. Average household bill	£187	£191	£194	£196	£197	£194
Sewerage service						
Indicative price limit		3.2%	2.8%	2.7%	1.5%	0.0%
1. Average measured household bill	£170	£177	£177	£180	£181	£180
2. Average unmeasured household bill	£217	£226	£239	£250	£259	£264
3. Average household bill	£194	£198	£202	£206	£207	£205

QUALITY AND SERVICE IMPROVEMENTS IN 2010-15 AND THE LONGER TERM

Key outputs and investments include:

- metering on change of ownership from 2012 combined with new tariffs designed to encourage a more sustainable use of water and improve affordability
- a 5% reduction in leakage by 2015 and a 13% reduction by 2035

- integration of our water supply assets by 2018 to improve security of supply, deal with deteriorating raw water quality and improve river flows
- improvements in drinking water quality
- further reductions in the risk of flooding to properties
- waste water improvements to comply with the Bathing Water, Urban Waste Water Treatment and Shellfish Directives
- a further reduction in our carbon footprint of 32,000 tonnes of CO₂ by 2015 by increasing the proportion of sludge used to generate renewable energy.

What is driving the changes in bills? (£ in 2007-08 prices)	Water	Sewerage
Average household bill in 2009-10	187	194
1. Less past efficiency savings and outperformance	-13	-13
2. Plus costs of maintaining base services, being:		
- 2a. changes in revenue	-13	7
- 2b. changes in operating costs to maintain current services	5	5
- 2c. changes in costs of maintaining assets	10	4
- 2d. changes in taxation	1	1
- 2e. the change in the cost of capital	-4	-5
3. Plus costs of maintaining and enhancing security of supplies	19	5
4. Plus the impact of improvements in services, being:		
- 4a. drinking water quality	3	-
- 4b. environmental improvements	-	6
- 4c. improvements in service levels	2	4
5. Less reduction through future efficiency improvements	-3	-3
Average household bill in 2014-15	194	205

Estimate of expenditure 2010-15 (£/property/annum in 2007-08 prices)	Water	Sewerage
1. Operating costs to maintain current services to consumers	77	78
2. Operating costs to improve services and protect the environment	7	5
3. Cost of maintaining assets to deliver current services to consumers	77	49
4. Cost of improving assets to deliver consumer and environmental improvements	99	28

Cost of capital	Vanilla*	Post-tax
5. Assumed cost of capital	5.5%	4.8%

* Pre-tax debt, post-tax equity.