

Southern Water - Explanation of the company's plan to deliver now and in the future

OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND

In our 25-year Strategic Direction Statement we set out how we would prepare this five-year Business Plan in the context of the longer term. We stated our key objectives were to:

- Provide value to customers
- Deliver resilient services
- Enable sustainable growth

In the period 2010-2015 we will:-

- Add resilience to our services
- Deliver full metering and offer more flexible tariffs, enabling customers to control their bills
- Reduce the frequency of hosepipe bans
- Reduce pollution incidents
- Continue to maintain and improve further our record low levels of leakage
- Reduce the number of properties at risk of flooding
- Deliver the portfolio of Environmental Improvement Schemes required by European legislation
- Work to mitigate our carbon footprint and explore innovative ways to source our energy requirements at less cost and lower impact to the environment
- Deliver further improved drinking water quality
- Provide new infrastructure as required to match economic growth in the South and South East
- Ensure that when customers contact us we will resolve queries first time

QUALITY AND SERVICE IMPROVEMENTS IN 2010-2015 PERIOD AND IN THE LONGER TERM

- Install 589,000 meters
- Reduce leakage integrated with the metering programme and renew 304km of water mains
- Improve higher risk and critical assets to reduce high consequence risk eg Eastney Pumping Station and vulnerable single water sources
- Complete the National Environment Programme of schemes and investigations
- Increase the capacity of our wastewater treatment works and install 55km of new sewers to meet the economic growth integrated with the renewal or renovation of 305km of sewers
- Reduce the number of properties flooded or at risk of internal flooding
- Reduce external flooding incidents
- Reduce odour from four treatment works
- Mitigate our carbon emissions by 32,500 tonnes of CO2e

WHAT IS DRIVING THE CHANGES IN BILLS? (2007-08 PRICES)

			Water	Sewerage
Average household bill in 2009-10			122	231
Less	(1) past efficiency savings and outperformance			-3
	(2) maintaining base services		7	8
	of which...	Water	Sewerage	
	a) changes in revenue	3	8	
	b) changes in operating costs to maintain current services to consumers	2	3	
Plus	c) changes in costs of maintaining assets	2	2	
	d) changes in impact of taxation	2	6	
	e) the change in the cost of capital	-2	-11	
	(3) maintaining and enhancing security of supplies to all customers			13
	(4) the impact of improvements in services			1
	of which...	Water	Sewerage	
	a) drinking water quality	1		
	b) environmental improvements		20	
	c) improvements in service levels		2	
Less	(5) scope for reduction through future efficiency improvements			-1
Average household bill in 2014-15			142	255

PRICE LIMITS AND EFFECT ON AVERAGE BILLS (2007-08 PRICES)

		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Proposed price limit			5.3	3.2	3.2	3.0	0.0
W	Indicative price limit (water service)		8.0	3.1	3.9	2.1	0.1
1	Typical measured household bill	111	119	122	127	129	129
2	Typical unmeasured household bill	127	139	143	147	149	146
3	Average household bill	122	133	138	141	143	142
S			4.4	3.2	3.0	3.3	0.0
Indicative price limit (sewerage service)							
1	Typical measured household bill	190	205	211	217	224	225
2	Typical unmeasured household bill	256	261	270	278	288	283
3	Average household bill	231	240	247	251	257	255

ESTIMATE OF EXPENDITURE NEEDS (2007-08 PRICES)

		Annual average for the 2010-2015 period (£/property/annum)	
		Water	Sewerage
1	Operating costs to maintain current services to consumers	73	75
2	Operating costs to improve services to consumers and protect the environment	2	6
3	Cost of maintaining assets to deliver current services to consumers	57	80
4	Cost of improving assets to deliver improvements for the environment and consumers	48	93
		Pre-tax cost of debt and post tax cost of equity basis (Vanilla)	Fully post-tax basis
5	Assumed cost of capital (%)	5.4	4.8

For further information go to : www.southernwater.co.uk