

## **Reporter's Summary Report on the Cambridge Water Draft Business Plan: Public Domain Document**

### ***General***

The Company (CAM) started the Draft Business Plan (DBP) process in earnest rather late, after submission of JR03 in June. The Company is to be commended for submitting the plan to Ofwat on schedule although Part C3 (Asset Inventory) and Part D (Public Domain Summary) were submitted later. As a small Water Only Company, CAM does not have sufficient in-house resources that staff can dedicate themselves to the preparation of the DBP. The Company has used consultants to assist in the areas of capital maintenance, efficiency and depreciation. The Company does not have a formal quality plan for the preparation of the DBP. However, there is a process of internal checking for accuracy and consistency.

### ***Audit Process***

The Reporting Team has carried out about 40 audit meetings with CAM staff to gain a thorough understanding of the Company's key assumptions, data sources and methodologies underlying the submission. Audit notes have been passed to the Company for comment and several audit issues have been raised where necessary. The Reporter has received a high level of co-operation from the Company.

### ***Company Strategy***

The Company has adopted a low risk strategy for the DBP that has been approved in principle by the Board on 24<sup>th</sup> July 2003. The Company considers the DBP as an opportunity to identify and to subsequently discuss the key issues. The Company Preferred Strategy (CPS) and the Reference Plan A (RPA) have similar investments plans but differ in the efficiency assumptions for both capital and operating expenditure. The Reporter has questioned the Company assumption that there is little or no scope for on-going efficiencies.

### ***Consistency of the Company's public domain document with the full submission***

The Reporter has reviewed the Part D (Public Domain) submission and confirms that it is consistent with other parts of the draft business plan.

### ***Key Issues***

In Part A of the DBP, the Company identifies the key issues as:

- PR99 issues concerning current cost depreciation (CCD) and regulatory capital value (RCV)
- Upwards pressures on costs and little, if any, scope for future efficiencies
- The need to increase capital maintenance on infrastructure assets
- Quality issues particularly the high level of nitrates in some of the groundwater sources
- The need for clarification from the EA on licence issues for the Thetford sources (Brettenham, Euston and Rushford)

### ***Other comments on the Company's Preferred Strategy***

The main comments and audit concerns on the CPS may be summarised as follows:

- The unit costs for mains renewals and repairs are significantly higher than for PR99 and are high by Industry standards: the outsourcing contract comes up for renewal in March 2005
- The initial methodology for determining capital maintenance on infrastructure envisaged a tripling of the rate of mains renewals: audit showed the methodology, that analyses historic bursts, had some computational errors. The revised methodology envisages a more pragmatic and gradual increase in the rate of renewals. The Company burst level is low by industry standards. The methodology demonstrates that increasing the rate of mains renewals produces little benefit in terms of constraining burst rates.
- The proposed Quality Programme is not yet agreed with DWI although the Company has now prepared and submitted a risk assessment. The capital and operating costs for the proposed nitrate removal plant at Fowlmere are not sufficiently robust at this stage.
- The Company proposes substantial expenditure on equipment and hydrants for security measures. Options for the "worst case" scenario are not adequately investigated and the number of proposed hydrants for emergency flushing is an approximate estimate.
- Proposed costs for developing the Rushford source are high: a more cost-effective approach would be the Company could try to reach agreement with the EA on the time-limited components of the licences for the Thetford sources (Brettenham, Euston and Rushford)
- The Company has made no specific allowance in the investment programme for the environmental investigations listed by the EA