



CAMBRIDGE
WATER
COMPANY

CAMBRIDGE WATER PLC

PR04 DRAFT BUSINESS PLAN

PART D

**THE COMPANY PLAN FOR
FUTURE SERVICES
(PUBLIC DOMAIN)**

AUGUST 2003

2004 PERIODIC REVIEW BY THE OFFICE OF WATER SERVICES

CAMBRIDGE WATER

DRAFT BUSINESS PLAN

PUBLIC DOCUMENT

1. General

The Board of Cambridge Water PLC submitted its draft Business Plan as part of 2004 Periodic Review process to the Director General of Water Service on 15 August 2003.

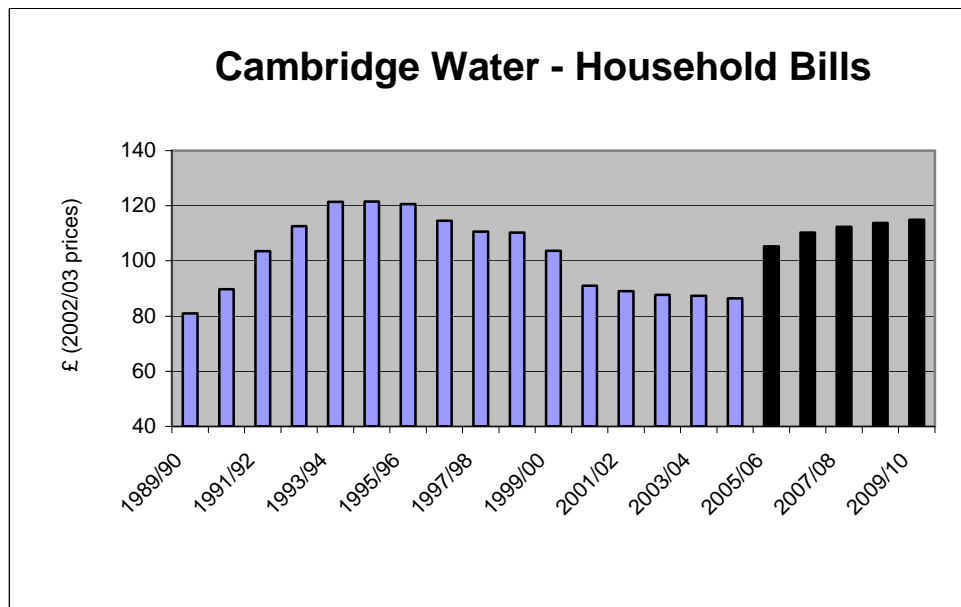
This document is the public version of our plan.

In preparing our plan it should be emphasised that the Directors of the Company have adopted a low risk strategy commensurate with the requirements of a company operating within a regulated public service.

In 2002/03 the Company has the 4th lowest charges in the industry at £90 per year. We acknowledge that this draft Business Plan will result in an increase in customer charges, as shown in the graph below.

More than half of the proposed increase in bills in 2005/06 is needed to increase the level of asset renewal. The plan proposes to nearly double the capital maintenance on the underground pipe network, storage reservoirs and pumping stations.

In real terms, (allowing for inflation) bills will remain lower than they were in the mid 1990s.



The purpose of this public document is to provide the reader with the key issues facing the Company, and to expose how we have addressed them in this submission.

- Section 2 provides history on the Company
- Section 3 identifies the key elements of the strategy
- Section 4 identifies the key elements of the investment plan
- Section 5 summarises the impact on K of the plan.
- Section 6 identifies the next steps in the process, and how customers can have their views heard and acted on throughout the price setting process.
- Section 7 reviews in detail each of the tables in Section D (the public version) of the Plan.

In addition to our Company Preferred Strategy the Company has also quantified Reference Plan A. This scenario was developed by the Regulator for all companies to ensure consistency of assumptions across the industry.

The only difference between these two plans is the assumption on efficiency in the period 2005-2015.

2. Our History

The Cambridge University and Town Waterworks Company was formed in 1853.

Directors represented Trinity, King's, Corpus Christi and St. Catherine's, together with a surgeon, auctioneer, grocer, merchant and estate agent, to supply 600 houses and 4 colleges.

On 1 April 1963 the Company was required to take over the water undertakings of five local authorities and two bulk supply joint water boards. These comprised of 435 miles of mains, 12 pumping stations, 7 reservoirs and 10 towers, supplying 3 million gallons per day. The area of supply grew from 60 to 453 square miles to include most of Cambridgeshire and part of Huntingdonshire. The name Cambridge University and Town Waterworks Company was no longer appropriate and was changed to Cambridge Water Company.

Today we supply 120,000 properties in Cambridge and the surrounding area.

3. Our Strategy

The Company strategy is as follows:

- To maintain the current high levels of service for customers
- To increase capital maintenance to maintain stable serviceability of the network, as measured by interruptions to supply, bursts and leakage
- To reduce the risk of water quality and water supply failures
- To ensure the Company can continue to finance its functions by providing appropriate returns to lenders and shareholders.

4. Our Investment Plan

The Company has identified and costed the following quality expenditure relating to new legal obligations and guidance from ministers as follows:

- A nitrate removal plant at Fowlmere
- To undertake appropriate investment to ensure that customers receive adequate pressure at the point of supply
- To improve the capability to deal with emergencies to comply with Government guidelines
- To assess, and if necessary reduce, the impact of abstractions on sites of special scientific interest

5. The impact on household bills

Overall the Company Preferred Strategy requires the following K profile and average household bills as shown in the table below.

Proposed K factor and household bills

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Proposed K (%)		23.4	5.4	2.6	1.7	1.5
Avg. h/h bill (£)	86.50	105.34	110.31	112.38	113.75	114.92

The detail underpinning this table is given in Table D1.

6. Customer involvement

Customers are encouraged to participate in the price setting process. We see the draft Business Plan as an opportunity to identify and discuss the key issues we expect to face in the period 2005-10.

We shall be submitting our Final Business Plan in April 2004, following discussion with many stakeholders, including customers.

The Company welcomes comment on its plan. Please contact the Company as given below.

Stephen Morley
Regulation Manager
Cambridge Water
41 Rustat Road
Cambridge
CB1 3QS
01223 403009

In addition, WaterVoice, the independent consumer body has an opportunity to comment on draft Business Plans in early December.

WaterVoice is holding two public meetings in each region where draft Business Plans will be the main items of agenda.

Our plan will be discussed on 10 September in Peterborough and 18 November in Bury St Edmunds. If you require further details please contact WaterVoice Eastern as given below.

WaterVoice Eastern
Ground Floor
Carlyle House
Carlyle Road
Cambridge
CB4 3DN
01223 323889

Again, this is a good opportunity for customers to comment, prior to submission of our Final Business Plan.

7. Table D1 – A summary of our Preferred Strategy

This Company Preferred Strategy (CPS) table indicates the Company's preferred k-factor, and likely bills for measured, unmeasured and the "average" household in real terms reflecting the proposed K factor.

Unmeasured and measured bills continue to diverge in the future, reflecting expected consumption of the two groups of customers.

In addition the overall strategy and quality improvements are described.

Finally a table quantifies what is causing the required increase charges.

The Reference Plan A table mirrors the CPS, the only difference being assumed efficiencies in the future. The Director General has proposed efficiency assumptions. The Company believes these to be neither credible nor achievable.

Table D1 - Cambridge Water - A summary of our Company Preferred Strategy for the draft business plan submission to Ofwat - August 2003

OVERALL STRATEGY FOR 2005-2010 PERIOD AND TOP 5 STRATEGIC OBJECTIVES

The Company strategy is as follows:

1. To maintain the current high levels of service for customers
2. To increase capital maintenance to maintain stable serviceability of the network, as measured by interruptions to supply, bursts and leakage
3. To reduce the risk of water quality and water supply failures
4. To ensure the Company can continue to finance its functions by providing appropriate returns to lenders and shareholders

TOP QUALITY AND SERVICE IMPROVEMENTS IN 2005-2010 PERIOD

The Company proposes the following investments:

1. Nitrate removal plant at Fowlmere (31 December 2006)
2. To undertake appropriate investment to ensure that customers receive adequate pressure at the point of supply (31 March 2008)
3. To improve the capability to deal with emergencies to comply with Government guidelines (31 March 2010)
4. To assess, and if necessary reduce, the impact of abstractions on sites of special scientific interest (31 March 2010)

WHAT IS DRIVING THE CHANGES IN BILLS? (2002-03 PRICES)

Average household bill in 2004-2005		86.5
Less	(1) past efficiency savings and outperformance	0.0
	(2) scope for reduction through future efficiency improvements	0.0
Plus	(3) the impact of improvements in drinking water quality	2.0
	(4) the impact of environmental improvements	0.3
	(5) improvements in service performance	0.1
	(6) maintaining security of supplies to all customers	3.8
	(7) maintaining our assets	15.0
	(8) increased cost of operations	5.6
	(9) appropriate returns to lenders and shareholders	1.6
Average household bill in 2009-2010 (W3 + S3)		114.9

PRICE LIMITS AND EFFECT ON AVERAGE BILLS (2002-03 PRICES)

	2005-06	2006-07	2007-08	2008-09	2009-10
Proposed price limit	23.4	5.4	2.6	1.7	1.5
W Price limit (water service)					
1 Average measured household bill	94.2	98.5	99.3	100.9	102.2
2 Average unmeasured household bill	120.0	127.2	132.7	135.2	137.9
3 Average household bill	105.3	110.3	112.4	113.8	114.9
S Price limit (sewerage service)					
1 Average measured household bill					
2 Average unmeasured household bill					
3 Average household bill					

ESTIMATE OF EXPENDITURE NEEDS (2002-03 PRICES)

	Annual average for the 2005-2010 period (£/property/annum)
1 Total operating expenditure	72.9
2 Total capital maintenance expenditure	25.2
3 Total capital enhancement expenditure	25.9

For further information contact: Stephen Morley on 01223 403009

Table D1 - Cambridge Water - A summary of Reference Plan A - August 2003

PRICE LIMITS AND EFFECT ON AVERAGE BILLS (2002-03 PRICES)						
		2005-06	2006-07	2007-08	2008-09	2009-10
Proposed price limit		20.1	3.9	1.2	0.5	0.3
W	Price limit (water service)					
1	Average measured household bill	91.7	94.6	94.1	94.5	94.6
2	Average unmeasured household bill	116.8	122.1	125.7	126.7	127.7
3	Average household bill	102.6	105.9	106.5	106.5	106.4
S	Price limit (sewerage service)					
1	Average measured household bill					
2	Average unmeasured household bill					
3	Average household bill					

WHAT IS DRIVING THE CHANGES IN BILLS? (2002-03 PRICES)	
Average household bill in 2004-2005	
	86.5
Less	(1) past efficiency savings and outperformance
	0.0
	(2) scope for reduction through future efficiency improvements
	-8.5
Plus	(3) the impact of improvements in drinking water quality
	2.0
	(4) the impact of environmental improvements
	0.3
	(5) improvements in service performance
	0.1
	(6) maintaining security of supplies to all customers
	3.8
	(7) maintaining our assets
	15.0
	(8) increased cost of operations
	5.6
	(9) appropriate returns to lenders and shareholders
	1.6
Average household bill in 2009-2010 (W3 + S3)	
	106.4

ESTIMATE OF EXPENDITURE NEEDS (2002-03 PRICES)		
		Annual average for the 2005-2010 period (£/property/annum)
1	Total operating expenditure	67.1
2	Total capital maintenance expenditure	23.4
3	Total capital enhancement expenditure	21.8

KEY ASPECTS OF REFERENCE PLAN A FOR 2005-2010 PERIOD AND STRATEGIC OBJECTIVES	
<p>In preparing its Reference Plan A the Company have the same investment plan and financial assumptions as in the Company Preferred Strategy.</p> <p>The only difference is in assumed efficiencies in the future. In the Company Preferred Strategy no efficiencies have been assumed. This is because the Company believes that its ability to reduce costs is very limited without a detrimental effect on Customer Service. The Director General has proposed some efficiency assumptions for the period both for operating and capital expenditure. These are included in Reference Plan A. The Company does not believe these to be either credible nor achievable.</p>	