

Table D1 - Northumbrian Water (Northumbria Region)

A summary of our company preferred strategy for the draft business plan submission to Ofwat - August 2003

OVERALL STRATEGY FOR 2005-2010 PERIOD

Major improvements to drinking water quality and the environment have been delivered in the last 10 years. We provide water and sewerage services to the highest regulatory and customer standards. Customer research shows that over 90% of customers are satisfied with the service we provide. Customer research also indicates that, except for two specific areas, the majority of customers do not consider further discretionary improvements to their water and sewerage services, or the water environment, to be a high priority.

In 2000/01, customers received the benefit of a major reduction in bills of nearly 20%. This reduction left no scope to absorb changes that have happened since then, including new requirements to invest in drinking water quality and the environment, lower than expected revenues, higher asset depreciation and growing customer debt. These factors mean that prices will have to rise simply to ensure that NWL can finance its activities and continue to provide the high levels of service that our customers have come to expect.

There are also unavoidable increases to costs in the future that must be reflected in the bills that customers pay. These include significant new tax payments brought in by the Government and other unavoidable increases in operating costs.

Given that our customers do not wish to pay significantly more for improvements in service, and that there are in any case considerable pressures on bills, our overall strategic objective is to:

"Ensure that bills rise no more than they have to, whilst safeguarding current high levels of service"

Main elements of our overall strategy include:

- "Appropriate investment in the replacement of worn-out assets (a 10% increase is necessary)
- "Investment in improvements to drinking water and the environment as required by Government"
- "Investment in service improvements only where customers require them"
- "Ensuring that demands for water and sewerage services can be met in the future"

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

	2005-06	2006-07	2007-08	2008-09	2009-10
Proposed price limit					
W Price limit (water service % increase)	19.3	5.9	3.8	2.9	1.7
1 Average measured household bill	£87	£91	£92	£93	£94
2 Average unmeasured household bill	£106	£112	£117	£120	£123
3 Average household bill	£104	£110	£113	£116	£118
S Price limit (sewerage service % increase)	22.5	7.9	3.5	2.1	0.9
1 Average measured household bill	£121	£128	£131	£133	£133
2 Average unmeasured household bill	£143	£155	£161	£164	£166
3 Average household bill	£141	£152	£157	£160	£161

TOP QUALITY AND SERVICE IMPROVEMENTS IN 2005-2010 PERIOD

- 1) Reduction of iron and manganese levels in drinking water to achieve a significant reduction in the number of discoloured water complaints and to improve compliance with water quality standards.
- 2) Installation of water treatment processes to ensure that increasing levels of pesticides from farming do not enter the drinking water supply.
- 3) Replacement of lead communication pipes in order to meet the new European Union and UK standards.
- 4) Removal of nutrients from sewage treatment discharges into waters designated by Government as "Sensitive" under the Urban Waste Water Treatment Directive. This will protect the aquatic environment.
- 5) Reduction of aesthetic impacts from sewer overflows during heavy rainfall.
- 6) Alleviation of internal flooding of properties from sewers.

WHAT IS DRIVING THE CHANGES IN BILLS?

(WATER + SEWERAGE, 2002-03 PRICES)

Average household bill in 2004-2005		£202.6
Less	Past and future efficiency savings	£5.3
Plus	Price impact of changes in demand	£10.3
	Asset maintenance (including additional depreciation 2000-2005)	£27.0
	The impact of improvements in drinking water quality	£5.5
	The impact of environmental improvements	£5.7
	Improvements in service performance (sewer flooding)	£0.2
	Operating cost increases	£8.8
	Reward for past service excellence	£1.0
	Government increases in taxation	£14.9
	Ensuring the company meets minimum financial requirements	£8.0
Average household bill in 2009-2010 (W3 + S3)		£278.7

ESTIMATE OF EXPENDITURE NEEDS (2002-03 PRICES)

	Annual average for the 2005-2010 period (£/property/annum)
Operating expenditure	131
Capital maintenance expenditure (incl. Supply/Demand)	73
Capital enhancement expenditure	48

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