

**Table D1 - South Staffordshire Water PLC - A summary of reference plan A - August 2003**

<b>PRICE LIMITS AND EFFECT ON AVERAGE BILLS (2002-03 PRICES)</b>						
		2005-06	2006-07	2007-08	2008-09	2009-10
<b>Proposed price limit</b>		10.0%	0.9%	0.4%	-0.4%	-0.5%
<b>W</b>	<b>Price limit (water service)</b>					
1	Average measured household bill	£92.8	£93.3	£93.3	£92.3	£91.7
2	Average unmeasured household bill	£98.3	£99.7	£100.8	£101.5	£101.9
3	Average household bill	£95.9	£96.6	£96.9	£96.7	£96.4

<b>WHAT IS DRIVING THE CHANGES IN BILLS? (2002-03 PRICES)</b>		
Average household bill in 2004-2005		£86.80
<b>Less</b>	(1) scope for reduction through future efficiency improvements	-£4.23
	(2) the impact of the uplift to asset renewal activity	£6.15
	(3) the impact of improvements in drinking water quality	£0.94
	(4) the impact of environmental improvements	£0.09
<b>Plus</b>	(5) improvements in service performance	£0.00
	(6) shortfalls in financial ratios	£4.78
	(7) maintaining security of supplies to all customers	£1.87
Average household bill in 2009-2010 (W3 + S3)		£96.40

<b>ESTIMATE OF EXPENDITURE NEEDS (2002-03 PRICES)</b>		
	Annual average for the 2005-2010 period (£/property/annum)	
1	Total operating expenditure	£57.56
2	Total capital maintenance expenditure	£27.88
3	Total capital enhancement expenditure	£13.62

<b>KEY ASPECTS OF REFERENCE PLAN A FOR 2005-2010 PERIOD AND TOP 5 STRATEGIC OBJECTIVES</b>	
<p>Ofwat have requested that companies model price limits using a standard set of assumptions that they have specified.</p> <p>The Reference Plan A scenario does not differ materially from the Company Preferred Strategy.</p> <p>The higher K factor in year 1, compared with the Company Preferred Strategy (+6.9% in 2005/06) reflects the requirements to achieve historic cost interest cover of 2.5 times. Whilst the cost of capital is lower in the Reference Plan (5.75%), this issue is overshadowed by the need to increase prices and hence turnover to achieve the interest cover at 2.5 times. Another reason for the higher K factor in 2005/06 is that the Company Preferred Strategy includes provision to reduce base operating costs by 3.0% by 2004-05, whereas in Reference Plan A the reduction is 1.2%.</p> <p>The following four years see lower price limits due to the excessively aggressive efficiency targets for a Band B company in Reference Plan A. These efficiency targets lower base opex, the infrastructure renewals charge, and the size of the capital programme, but are unachievable.</p>	