

Table D1 – Severn Trent 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

Our plan has as its first priority the need to secure the service advances already made, and only then seek improvements at a pace which will enable further sustained progress in subsequent periods.

The plan seeks a more secure balance between the interests of all stakeholders than has previously been achieved, and will be more sustainable as a result. We begin the plan period with very high compliance against all current quality, environmental and customer service standards. This provides a sound platform to the plan.

Further progress needs to be made to address immediate customers' concerns about drinking water acceptability and sewer flooding. Our customers need to see some **visible** improvements to the services they receive. We recognise that an appropriate balance has to be struck in terms of the impact on customer bills. In deciding how far and how fast to improve service improvements, we have listened to our customers and other stakeholders.

Longer-term trends on maintenance requirements, new quality obligations, climate change impacts and rising customer service expectations indicate that the Company will continue to have a big capital spending programme beyond 2010. It is therefore essential that this plan secures investor confidence, through adequate returns within a clear risk framework.

In developing our plan we have looked closely at the state of our assets, our operational capability, and our customers' needs. We also comprehensively discussed key aspects of our plan with our regional WaterVoice Committee. We have consulted extensively with other groups including our quality regulators, Investors, Business Representatives and other interested parties such as English Nature.

The top five strategic objectives of our plan are:

- Maintaining the record levels of compliance achieved over the last 5 years against drinking water quality, environmental and customer service standards.
- Protecting water resources in the event of prolonged dry weather conditions, by planning on the basis that no more than 3 hosepipe bans should occur every 100 years, and by achieving a sustainable economic level of leakage of 537 Ml/d by 2010.
- Delivering all new drinking water and environmental improvements determined by the Minister as essential.
- Addressing those service concerns identified by customers as being of the highest priority; notably targeting drinking water improvements in taste and odour, resolving sewer flooding and improvements to drinking water hardness and sewage treatment odour control.
- Providing an attractive investment opportunity by maintaining a strong investment grade credit rating for Debt Investors and achieving an adequate return to our Equity Investors.

TOP 5 QUALITY AND SERVICE IMPROVEMENTS IN 2005-2010 PERIOD

- Improve the security of water supply by 78 Ml/d by 2010, through demand management, leakage control and development of new resources.
- Improve the quality of drinking water throughout the period by:
 - addressing potential problems in certain sources resulting from possible rising levels of nitrates, cryptosporidium, pesticides and manganese.
 - reducing the potential pick-up of lead from pipework and plumbing by water treatment and, in areas where this is not successful, changing our lead communication pipes and advising customers of the benefits of changing their lead supply pipes.
- Reducing any existing impact on the environment by:
 - Improving the quality and reducing the frequency of operation of over 200 Unsatisfactory Intermittent Discharges to rivers
 - reducing the environmental impact of abstractions where a clear benefit has been shown
 - Achieving new standards at nearly 100 sewage works identified by English Nature and the Environment Agency as having an impact on nature conservation
- Improve acceptability of drinking water by a programme of mains cleaning, disinfection management and treatment works improvements to improve taste, odour and remove discoloration build up.
- Reducing the number of customers experiencing internal and external foul flooding, and reducing odour from 88 troublesome sewage works

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

Average household bill in 2004-05		£211
Less	1 Past efficiency savings and outperformance	-£6
	2 Future efficiency improvements	-£9
Plus	3 Upward cost pressures from 2000-2005	+£21
	4 Tax changes in 2005	+£9
	5 Maintaining current services	+£8
	6 Drinking water quality improvements	+£5
	7 Environmental improvements	+£5
	8 Customer service improvements	+£1
	9 Maintaining security of supplies to all customers	+£3
Average household bill in 2009-10 (W3 + S3)		£248

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

	2005-06	2006-07	2007-08	2008-09	2009-10
Proposed price limit	13.3%	3.7%	1.6%	0.7%	-0.4%
W Price limit (water service)	12.2%	3.1%	1.4%	0.9%	0.0%
1 Average measured household bill	108	111	113	114	114
2 Average unmeasured household bill	129	134	136	138	138
3 Average household bill	123	126	128	129	128
S Price limit (sewerage service)	14.3%	4.2%	1.8%	0.4%	-0.8%
1 Average measured household bill	105	109	111	111	110
2 Average unmeasured household bill	118	123	126	127	127
3 Average household bill	114	119	120	120	120

One of the main drivers of price changes by 2010 is the cost increases which have already taken place before 2005, and were not allowed for at the last price review – including Climate Change Levy, insurance costs, rates, and legislation on Nitrate Vulnerable Zones.

ESTIMATE OF EXPENDITURE NEEDS (2002-03 PRICES)

	Annual average for the 2005-2010 period (£/property/year)
1 Total operating expenditure	113
2 Total capital maintenance expenditure	76
3 Total capital enhancement expenditure	58

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