

Table D1 - Tendring Hundred Water Services Limited

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

Since the last review the Company has operated at consistently high and improving levels of performance, quality compliance and serviceability to customers. Furthermore, outputs have been in line with, or exceeded, regulatory expectations. In terms of DG measures, Overall Performance Assessment (OPA), meter penetration and leakage rates, the Company leads the industry.

The overall strategy for AMP4 is to continue to provide customers with a safe and reliable product and to support them with excellent service levels. This strategy represents preservation of the status quo and hence the activities to be undertaken in AMP4 all relate to maintaining serviceability and none to the enhancement of service or quality. The top five strategic objectives for 2005-2010 are:

- 1. Service performance:** In terms of DG measures, the Company has achieved improvement in all measures where the scope for improvement existed and is now at a point where the potential for further improvements in performance measures is severely restricted. The objective for 2005-2010 is to maintain the equilibrium and to further improve the qualitative aspects of service.
- 2. Serviceability to customers - Infrastructure network:** To ensure the continuation of service delivery to customers, it will be necessary to increase the rate of expenditure on infrastructure maintenance. Studies undertaken as part of the Business Plan process support an increase in the level of the infrastructure renewal charge to £1.4m per annum, a rise of 50% on the present determined level.
- 3. Serviceability to customers - Surface assets:** The key component of the maintenance plan for the AMP4 period is the construction of two new service reservoirs and pumping stations to replace three existing but aged facilities around Clacton. These new facilities will serve around 50% of the population, in Clacton, Frinton and Walton.
- 4. Leakage:** The Company currently records an annual leakage level of just under 5.2Ml/d, which is 15% below the latest economic level of leakage (ELL) figure and the lowest in the industry when expressed in terms of litres per property per day. The Company has given consideration to allowing leakage to rise towards the ELL over AMP4 in order to accrue operating expenditure efficiencies, but on balance it has been decided to discount this option.
- 5. Metering:** The Company will continue to encourage and promote water metering as the fairest and most environmentally sensible way of receiving supply. It is forecast that 1,000 domestic properties will switch to metered supplies in each of the five years to 2009-10.

TOP 5 QUALITY AND SERVICE IMPROVEMENTS IN 2005-2010 PERIOD

The Company currently achieves top ranking in Ofwat's security of supply index, and the strong water balance position will be maintained throughout the AMP4 period without the need for any augmentation. In terms of quality and environmental performance, the Company has maintained a high and consistent level of achievement, and it is anticipated that the overall strategy will allow this to continue into the future. The activities to be undertaken in AMP4 all relate to maintaining serviceability and none to the enhancement of service or quality.

That said, spin-off benefits will arise with the proposed construction replacement under capital maintenance to build replacement reservoirs and pumping stations to serve the Clacton area. These include improved security of supply to the residents of Frinton (part), St Osyth and Walton (population c.9,500 / 6% of total population) and improved water quality for the residents of Clacton, Frinton and Walton (population c. 57,000 / 38% of total population) by virtue of the fact that rechlorination will take place outside the supply zone.

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

Average household bill in 2004-2005	£151.60
Uplift in capital maintenance, logging down, efficiency, removal of non-appointed business and other factors	£3.50
Plus: key enhancements	
Quality	£0.72
Growth and optional metering	£1.48
Security of supply	£0.00
Average household bill in 2009-2010	£157.30

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

	2005-06	2006-07	2007-08	2008-09	2009-10
Proposed price limit	6.30%	-0.30%	0.60%	0.90%	-1.20%
1 Average measured household bill	£132.40	£131.40	£131.30	£131.60	£129.50
2 Average unmeasured household bill	£200.00	£200.60	£203.30	£206.70	£205.60
3 Average household bill	£160.00	£158.90	£159.20	£159.90	£157.30

ESTIMATE OF EXPENDITURE NEEDS (2002-03 PRICES)

	Annual average for the 2005-2010 period (£/property/annum)
1 Total operating expenditure	£71.89
2 Total capital maintenance expenditure	£42.19
3 Total capital enhancement expenditure	£7.21

**Table D1 - Tendring Hundred Water Services Limited
A summary of reference plan A - August 2003**

PRICE LIMITS AND EFFECT ON AVERAGE BILLS (2002-03 PRICES)						
Proposed price limit		2005-06	2006-07	2007-08	2008-09	2009-10
		4.90%	-1.10%	-0.30%	0.10%	-1.40%
1	Average measured household bill	£130.90	£128.90	£127.80	£127.20	£124.90
2	Average unmeasured household bill	£197.20	£196.20	£196.90	£198.50	£197.00
3	Average household bill	£158.00	£155.70	£154.60	£154.10	£151.30

WHAT IS DRIVING THE CHANGES IN BILLS? (2002-03 PRICES)	
Average household bill in 2004-2005	£151.60
Uplift in capital maintenance, logging down, efficiency, removal of non-appointed business and other factors	£2.02
Plus: key enhancements	
Quality	£0.60
Growth and optional metering	£1.12
Security of supply	£0.00
Average household bill in 2009-2010	£151.30

ESTIMATE OF EXPENDITURE NEEDS (2002-03 PRICES)		Annual average for the 2005-2010 period (£/property/annum)
1	Total operating expenditure	£70.70
2	Total capital maintenance expenditure	£38.97
3	Total capital enhancement expenditure	£6.03

KEY ASPECTS OF REFERENCE PLAN A FOR 2005-2010 PERIOD AND TOP 5 STRATEGIC OBJECTIVES	
<p>Plan A is a fully worked up presentation of the implications for outputs, expenditure, financing, price limits and average bills for a specified quality and service improvement package using prescribed assumptions for a limited number of key issues. These assumptions include the cost of capital, the scope to reduce costs through improved efficiency, the rate of take up of the right to a free meter and forecasts of economic indices, RPI and COPI. In terms of individual initiatives, Reference Plan A is identical in every respect to the Company's Preferred Strategy. The differences in the two scenarios all relate to the individual financial and economic assumptions applied to the proposed programmes of expenditure.</p> <p>Reference Plan A has been prepared in accordance with the guidelines stipulated by Ofwat and is designed to serve as an illustrative example and for use when performing inter-firm comparisons and industry aggregations. The Company is no way endorses the assumptions used in preparing Plan A or the resulting price limits.</p>	

A summary of reference plan B - August 2003

PRICE LIMITS AND EFFECT ON AVERAGE BILLS (2002-03 PRICES)						
Proposed price limit		2005-06	2006-07	2007-08	2008-09	2009-10
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	
Uplift in capital maintenance, logging down, efficiency, removal of non-appointed business and other factors	
Plus: key enhancements	
Quality	
Growth and optional metering	
Security of supply	
Average household bill in 2009-2010	

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

KEY ASPECTS OF REFERENCE PLAN B FOR 2005-2010 PERIOD AND TOP 5 STRATEGIC OBJECTIVES	
<p>Reference Plan B is similar to Plan A and provides a fully worked up presentation of the implications for outputs, expenditure, financing, price limits and average bills for a different specified quality and service improvement package using prescribed assumptions for key issues.</p> <p>The Company has not submitted a Reference Plan B as it differs from plan A in only one respect, the potential expenditure required to achieve compliance with the standard for lead. Based upon the latest available information, the Company expects to exceed 95% compliance against the 10ug/l standard for lead, and hence does not trigger a communication pipe replacement programme under Plan A. The Company cannot be sure of exceeding 98% compliance and hence Plan B would need to accommodate the replacement of all company lead communication pipes. It is estimated that such a programme of work would involve the replacement of 15,000 lead communication pipes and cost around £7.5m in the period to 2013.</p>	