

D The Company Plan for Future Services (Public Domain)

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D.1 Company Summary

D.1.1 Introduction

As part of the regulatory process, water companies' submissions to the Director General of Water Services are audited and reported on by a Reporter. I, Roger Sawdon, of WS Atkins Consultants Limited, am appointed as the Reporter for Anglian Water and I and my team have audited Anglian Water's 2004 Final Business Plan. I have submitted my full Report to the Director General and the Directors of Anglian Water; this document summarises my opinions as they relate to the information set out by Anglian Water in its one-page public summary. These opinions are based on our audits and on the extent to which those audits represent Anglian Water's Final Business Plan.

D.1.2 Overall Strategy and Top Strategic Objectives

The overall strategy is firmly supported by the Directors of Anglian Water. Anglian Water's Final Business Plan includes expenditure to meet the key objectives set out in the Summary. The Company aims to provide best value water and wastewater services to its customers, maintain and improve service levels, and to meet legal water quality and environmental standards. The Company plans to deliver appropriate returns to its investors in order to continue to be able to attract capital. To assist in the delivery of these objectives Anglian Water intends to develop and retain committed and enthusiastic high calibre staff.

In my opinion the Company's plan sets out a thorough and rational programme of work for AMP4 that appropriately addresses the Company's strategic priorities. I consider that this substantial programme of works is needed for the proper performance of the Company's services; they are the result of studies, analysis and discussion which we have observed closely throughout the preparation of the Company's Business Plan. It is a challenging, but integrated, programme which I believe that Anglian Water should be able to deliver, provided that the programme is appropriately funded. The key issues for the next five years are the need to undertake increasing amounts of capital maintenance in both the water and sewerage services and I have seen good evidence that this pressure will continue well beyond the AMP4 period. Significant investment is also required to meet environmental obligations and works to ensure that security of supply is maintained for both the water and sewerage services. Proposals are included to address sewage flooding and odour issues and to provide first time sewerage for up to 86 villages. Capital and operating costs have been included in the Business Plan to meet each of the stated improvements.

D.1.3 Projected Expenditure Needs

The annual average expenditures on Operation, Capital Maintenance and Capital Enhancement have been correctly extracted from the Business Plan. Reasonable capital and operating costs have been included in the Business Plan to meet each of

the stated improvements. Anglian Water has assumed efficiencies in each of these areas.

I am of the opinion that the Company has developed and applied unit costs for its AMP4 programme of works in a consistent and professional manner. To the extent revealed by our audits I consider that these are based on an appropriate and comprehensive level of detail, backed up by clear audit trails throughout.

D.1.4 Proposed Price Limits & Effect on Average Bills

The effect on customers' bills of complying with its strategy is that average household bills across the AMP4 period, taking into account both measured and unmeasured customers, will increase in real terms by 16.5% over the figure in 2004/05. The indicative increase for the water service is 28.3% and for the sewerage service is 8.2%. The main elements of the changes in bills are clearly exposed in the Company's Business Plan. This increase is significantly lower than the figure in the Company's preferred strategy in the draft business plan. The Company notes that since the draft business plan it has engaged with stakeholder groups and has "...confronted the hard choices that need to be made between the scale and pace of asset replacement and service and quality improvements, and the impact these have on prices". It also explains how it has sought to minimise price increases which are required to deliver the proposed level of service and quality set out in the Plan.

D.1.5 What is Driving the Changes in Bills?

Anglian Water's figures given in each of the categories reducing or increasing the bills are derived from the Company's financial modelling and are consistent with the Business Plan.

D.2 Company Process

I am of the opinion that Anglian Water has approached the preparation of its Final Business Plan in a structured and logical manner. The process has been well managed and audit trails have generally been well documented. Throughout the Periodic Review process Anglian Water has cooperated well with the Reporter's team and has been receptive to our comments. Our challenges have been accepted professionally and the Company has responded in a professional and timely manner.

Anglian Water operated an effective process of planning and management throughout the preparation of its business plan. Management groups met regularly during the preparations for PR04, with regular reporting to the AWS Board. To support the work at a detailed level the individual topic leaders and project managers have met on a weekly basis.

I have held a number of discussions over the PR04 period with individual executive directors and am satisfied that they have been briefed at an appropriate level to enable them to make informed decisions regarding the authorisation of the business plan

I established a programme for our audits at an early stage in the process and followed the evolution of the key themes over the months leading up to submission of the tables. The Company has provided my team and I with good and timely access to carry out our work.