

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, John Brindley, of WS Atkins Consultants Limited, am appointed as the Reporter for Thames Water and I and my team have audited Thames Water's 2004 Business Plan. I have submitted my full report to the Director General and the Directors of Thames Water. This document summarises my opinions as they relate to the information set out by Thames Water in its Business Plan. These opinions are based on our audits and on the extent to which those audits are representative of Thames Water's Business Plan.

D.1.2 Overall Strategy and Top 5 Strategic Objectives

Key proposals in Thames Water's strategy are to address the critical issues of leakage, supply demand balance and nuisance from odour and sewer flooding, to increase the availability of water resources and treatment capacity for both water and waste water, to carry out maintenance and replacement of key assets that are in a condition to present a risk to serviceability and to implement specific, legally required quality and environmental improvements. The overall strategy is firmly supported by the Directors of the Company.

In my opinion, the Company's plan sets out a sound and coherent programme of work for AMP 4 that appropriately addresses the Company's strategic priorities. I consider that these works are needed for the proper performance of the Company's services; they are the outcome of studies, analysis and discussion over the last two AMP periods, which I have followed closely. It is a challenging programme of work that includes: large-scale mains replacement in London, a major new water supply works in east London, reinforcement of sewerage networks where they currently flood, reduction of odour at sewage treatment works and the continuing maintenance of the Company's significant portfolio of large works. I consider that it will be important for Thames to deliver the AMP 4 components of these plans in their entirety and thereby overcome the current issues of water resources availability, sewer flooding, odour and the serviceability of key assets. The Company also has to deliver the environmental improvements set by the quality regulators for treated water quality and, in particular, the water quality of the Thames Tideway. I consider that the work should be completed in accordance with the proposed programme since, by the next AMP period, there are likely to be further significant priorities to improve the sewer networks and for further environmental enhancement, in addition to the continuation of the mains improvement programme.

D.1.3 Projected Expenditure Needs

The annual average expenditure on Operation, Capital Maintenance and capital Enhancement set out in the Summary Table have been correctly extracted from the Business Plan.

In my view, Thames has estimated the costs of this programme with thoroughness. The works are, for much of the plan, outside the normal ranges of size or nature of the Company's previous projects and the estimators have had to extrapolate extensively from past experience; they have also had to allow contingency for risk and complexity.

The Company has submitted that there is limited scope for efficiency improvements over the AMP period.

D.1.4 Proposed Price Limits & Effect on Average Bills

The effect on customer's bills of meeting this strategy is that the average household bill across the AMP4 period, taking into account both measured and unmeasured customers, will increase in real terms by 38% over the figure in 2004/05. The indicative increase for the water service is 63% and for the sewerage service 18%. The effect on Average Bills has been correctly extracted from the Final Business Plan.

D.1.5 What is Driving the Changes in Bills?

Thames presents figures for each of the five categories reducing or increasing the bills. These figures are derived from the Company's financial modelling and are consistent with the Business Plan.

D.2 Company Process

The Company has prepared its Final Business Plan in a quality controlled manner in accordance with its QA procedures.

The Company has approached the preparation of the Plan in a thorough and methodical way. At an early stage in the preparation process Thames identified the key themes and established teams to address them. The Company appointed a manager with responsibility for managing the Periodic Review process in the summer of 2002. Senior management is directly involved and I believe has played an appropriate part in the preparation 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 extensive and timely access to carry out our work.

I am of the opinion that the Company has approached the preparation of its Final Business Plan in a structured and logical manner. The process has been co-ordinated and managed and audit trails have been reasonably clear. Our challenges have been accepted professionally and the Company has responded appropriately.