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**Client: SOUTH STAFFORDSHIRE WATER**

**Project: JUNE RETURN 2007**

**Title: REPORTER'S REPORT ON BOARD'S OVERVIEW**

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## **BOARD OVERVIEW**

### **Report by K. Robins on South Staffordshire Water's Board Overview**

#### **1. Introduction**

I am pleased to submit my June Return report as Reporter to Ofwat for South Staffordshire Water. In my view, the Company has maintained its satisfactory standard of return established in recent years.

#### ***South Staffordshire Water's Board Overview***

South Staffordshire Water's June Return was coordinated by the Company's Regulation Manager, who reports to the Regulation and Asset Management Director, a Director of South Staffordshire Water plc. The Regulation Manager is the dedicated point of contact between Ofwat, the Reporter and the authors of the various June Return tables and commentaries, ensuring the dissemination of reporting requirements for the Return including any points of clarification issued by Ofwat.

I have not identified any shortfalls in the process and am satisfied that it is sound. I have reviewed South Staffordshire Water's Board Overview in detail and have not noted any discrepancies. I consider that the information given is reliable and represents a reasonable statement from the Company's standpoint.

#### ***Effectiveness of the June Return process***

After submitting my audit plan to Ofwat in February 2007, I agreed a detailed programme of audits with the Company for the 2007 June Return. I and my team conducted some system audits in March, focussing on the Company's treatment of DG6 and DG7 in particular this year, as well as commencing work on Transfer Pricing. The majority of our audits took place in May and draft commentaries were submitted to the Company in the first week of June. On the 7<sup>th</sup> June, I attended a Board meeting comprising the Executive and Non-Executive Directors of the Company to discuss my role within the June Return process and my key findings.

The introduction of the Company's enhanced governance process has undoubtedly placed additional pressure on the June Return timetable; nevertheless, I consider that the process has been effective. Our audits were completed to programme; re-audits were limited and the Company responded in a timely manner to requests for further information. There were no outstanding matters or issues that remained unresolved by the ultimate deadline. We continually strive to make the June Return process more efficient and effective and will be working with the Company in the coming months to look at ways of achieving this aim.

### **Consistency between the Board Overview and supporting documents**

I have reviewed the Board Overview and found it to be consistent with the textual and numerical information in the June Return. I have not drawn on the quality regulators' reports, as the DWI annual report is not yet available.

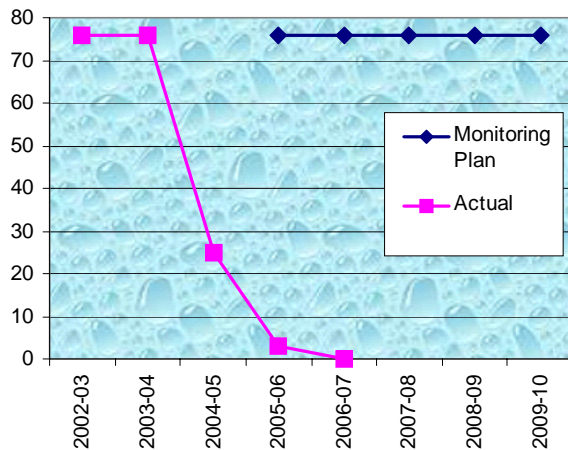
### **Co-operation and Access**

This is my first year as reporter for South Staffordshire Water and I am happy to endorse the comments that Jeremy Long, the previous reporter, has made about previous co-operation from the Company. The Company has provided the cooperation and access that are essential for our task to be discharged satisfactorily. Furthermore, South Staffordshire Water has always respected the independence of the Reporter and has been willing to accept criticism where due as a contribution to continuous improvement, as well as our endorsement of the progress it has made over the period. I should like to express my thanks to the Company for the assistance it has given us in completing our report.

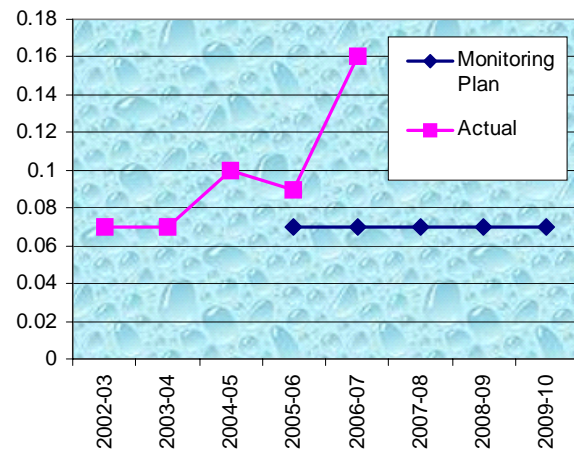
## **2. Commentary on the Board Overview**

### **Operational Performance Indicators**

**DG2 - Number of Properties**



**DG3 - Overall Performance**



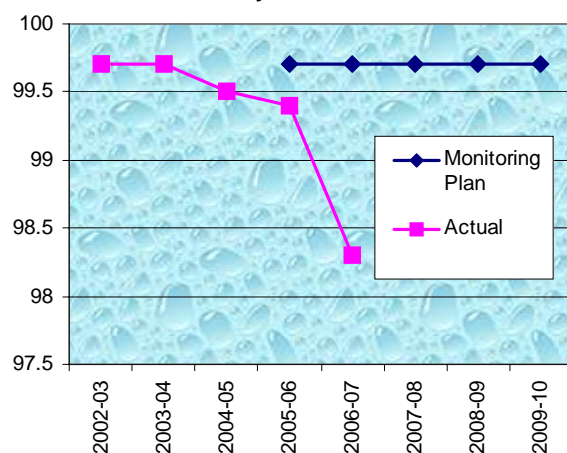
**DG2:** The Company's assessment of the number of properties receiving pressure below the reference level is its reaction to customer initiated complaints. The Company does not have a permanent DG2 pressure monitoring system to identify properties where customers may not have

complained of a problem, but which nevertheless may well be experiencing instances of low pressure below the reference level from time to time. We therefore consider it unlikely that no properties were receiving pressure below the reference level at the end of the Report Year. SST has now installed 212 pressure loggers at critical and strategic points on its network to help manage the distribution network. The Company does not intend to use these loggers to form a permanent DG2 monitoring system at this stage, but will use the data to support future investigations.

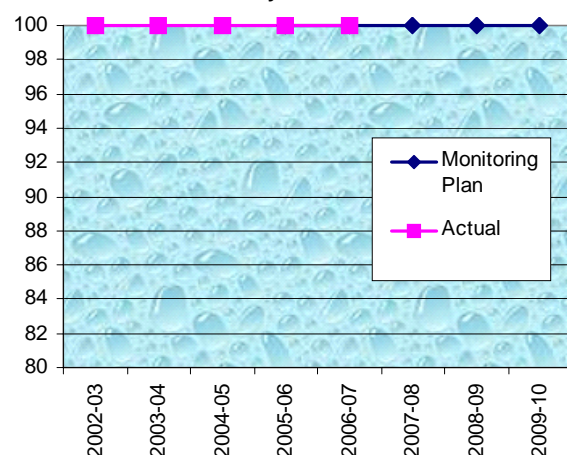
**DG3:** Overall performance on supply interruptions was affected by several large incidents during 2006/07, but will still be assessed by Ofwat as 'Good'. We consider that the systems that the Company has in place to record and report DG3 incidents are robust and appropriate for Ofwat's purposes and the Company was able to provide detailed information concerning the large incidents. From the limited sample that we selected, where the first definite customer complaint of 'no water' preceded the mains shut time, the former was correctly used by the Company to calculate the duration.

### Customer Service Indicators

DG6 - % Dealt Within 5 Days



DG7 - % Dealt Within 10 Days

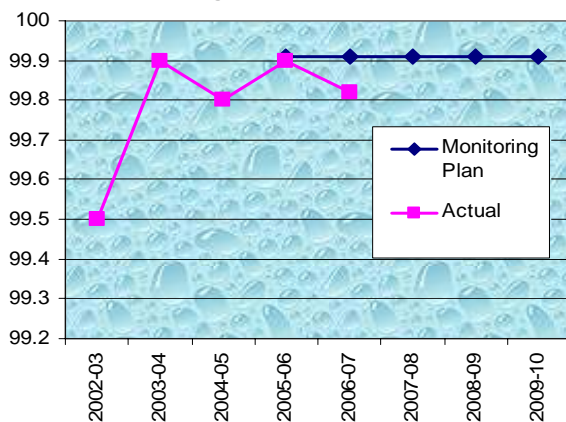


**DG6:** The Company has reported a fall in the number of billing contacts dealt within 5 days compared with its monitoring plan assumptions; performance will still be assessed by Ofwat as 'Good'. The reduction is due to a new approach to fully comply with Ofwat's definitions. In the past, a billing contact was closed on the date that an agent instructed a revised bill to be sent out to the customer and not the date on which the bill was actually sent (which is normally 2 days later). For JR07, South Staffordshire Water has estimated the proportion of billing contacts dealt with in 4 & 5, 9 & 10 and 19 & 20 days where a bill was reissued, and has reclassified these contacts as dealt with in greater than 5 days, greater than 10 days and greater than 20 days respectively. We consider the approach taken to be robust. The overall number of billing contacts for the Report Year has increased; this is thought to be due to a new billing format

introduced in September 2006.

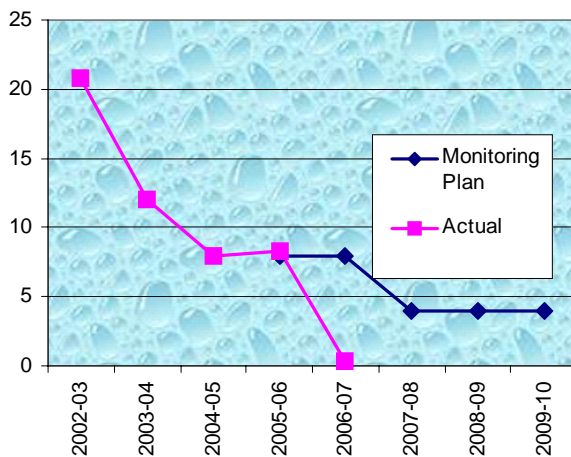
**DG7:** South Staffordshire Water's response time to written complaints continues to be very good. There has been an 11% decrease in written complaints since JR06, which is thought to be due to improvements in the customer contact centre and a lower number of contacts relating to surface water drainage charges of commercial properties. Only 1 written complaint from a domestic customer was dealt with in more than 10 working days in the Report Year.

**DG8 - % Meter Readings**

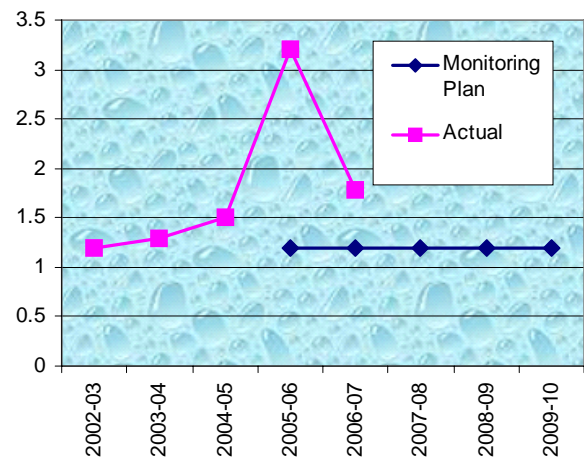


**DG8:** There have been no changes to the South Staffordshire Water's methodology for reporting the percentage of meter readings since JR06. Performance is inline with monitoring plan targets and data has been obtained directly from RAPID, which we consider to be robust.

**DG9 - % Receiving Engaged Tone**



**DG9 - % Calls Abandoned**



**DG9:** The number of telephone contacts is collated from Call Media, BT Inbound Analyst reporting system and Fluency Stats. The figures reported are derived from the aforementioned systems, with

no sampling, estimations or extrapolations. There has been a big improvement in the percentage of calls receiving the engaged tone due to better management of the dedicated lines to the Customer Contact Centre and extended opening hours. The percentage of calls abandoned has also improved. However, an Interactive Voice Response (IVR) system was implemented during February 2007 and the Company is currently unable to identify calls abandoned once a customer enters the IVR system.

### GSS Payments

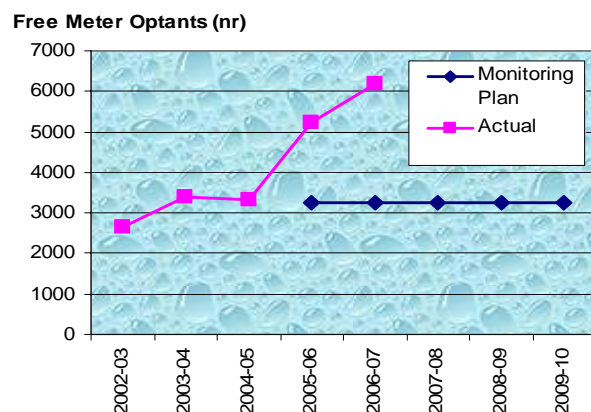
The Company has responded to MD220 and has produced a detailed review of its systems, procedures and controls for compliance with GSS regulations. We received a copy of the Company's report, which has been audited by the financial auditors. Our audit focussed on South Staffordshire Water's performance during the Report Year. To do this, and to improve our understanding of the figures reported, we have also found it necessary to work through examples of how the Company's systems and processes for managing GSS payments work in practice. Our work took into consideration the weaknesses that South Staffordshire Water has identified in its current GSS systems and the associated risks. We confirm that the Company is currently implementing a programme of action to address these.

We consider that South Staffordshire Water has reported all failures of GSS standards and corresponding payments appropriately. We note that GSS payments for inadequate pressure are entirely reliant upon customer complaints. The Company has now installed a total of 212 permanent pressure loggers at strategic/critical points, although automatic payments for inadequate pressure are not yet made from this data. In some cases, where a GSS payment has been credited to a customer's account, the credit refers to a 'gesture of goodwill' and not a GSS failure. The Company has agreed to correct this.

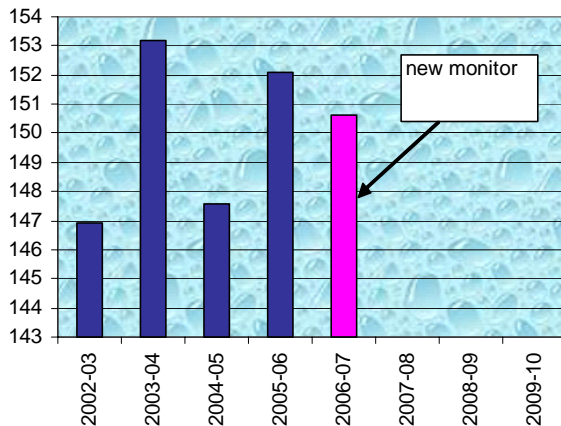
### Metering

There has been a significant rise in the number of customers choosing to take up the option of having a free meter installed since the beginning of AMP4. The Company attributes this to: an increase in rateable value charges at the end of 2005/06; customers' satisfaction that metered accounts provide value for money; and advocacy campaigns regarding environment protection and promoting the efficient use of water. These explanations appear to be reasonable.

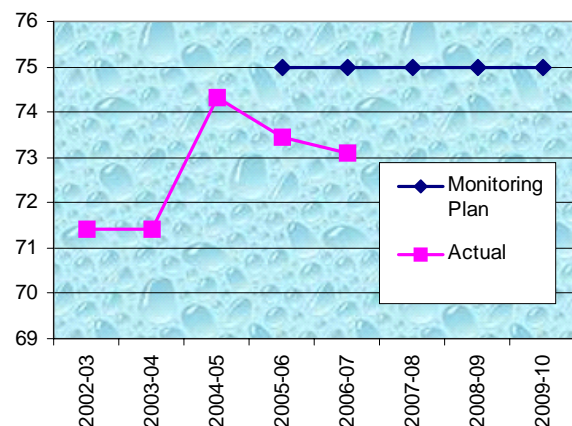
### Water Balance



Unmeasured Household Per Capita Consumption (l/h/d)



Leakage (MI/d)



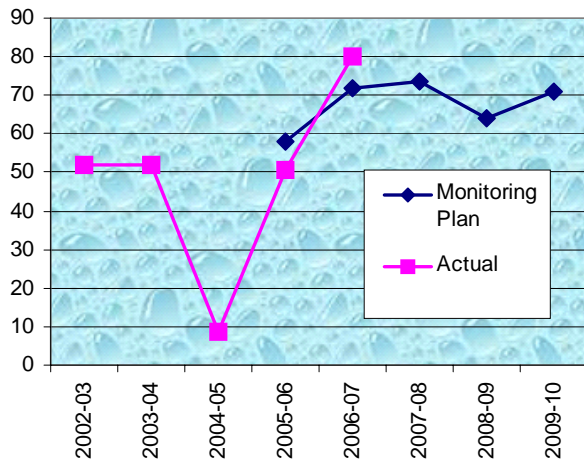
A key figure in the water balance is the estimate of unmeasured household per capita consumption (upcc), which South Staffordshire Water has reported from its new monitor for the first time. Although the figure is very similar to that reported last year, we have challenged the Company as to whether or not it is reasonable to calculate upcc at the District Metering Area (DMA) level as opposed to monitoring individual households or cul-de-sacs. The Company notes its approach is an acceptable practice identified in the 1999 UKWIR report on upcc and we accept this. Upcc is also sensitive to occupancy and we note that no specific occupancy surveys have been completed in any of the 82 DMAs included in the monitor. South Staffordshire notes that as its monitor is very large, it is reasonable to use the company average. We consider that South Staffordshire Water could seek to increase the proportion of flats in its monitor by identifying alternative DMAs in the sample; else the monitor appears to be robust.

Leakage has fallen slightly during the Report Year and remains below the current assessment of the economic level. Leakage continues to be reported from minimum nightlines at the Company level as opposed to DMA nightlines; further DMAs are required before the Company can report leakage at this level.

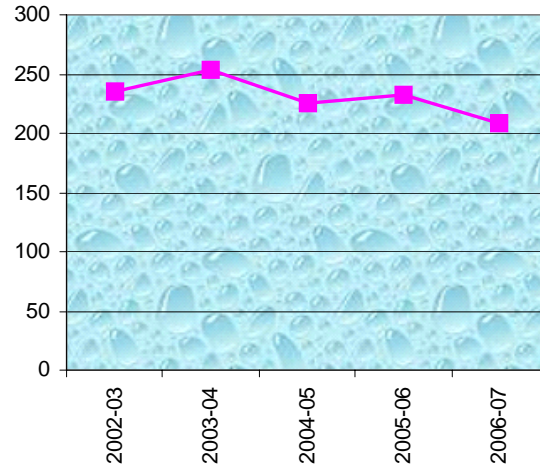
The operability of the Company's Distribution Input meters is high. However, a survey produced during the Report Year reveals that some meters have been installed in less than optimal pipework configurations. The Company is developing a programme of work to construct chambers and then intends to verify meter readings using insertion probe flow meters.

### Maintaining Serviceability to Customers

Length of Mains Renewed (km)



Mains Bursts /1000km



The serviceability of South Staffordshire Water's water mains is currently judged by Ofwat to be 'marginal'; predominantly driven by burst levels. The number of reported Bursts has fallen from 1,374 at JR06 to 1,232 for JR07. During the year, the Company has audited 100% of its burst job sheets leading to a net reduction of 55 bursts from those originally recorded on the job management system. We have reviewed a sample of the affected job sheets and consider that the adjustments made are appropriate.

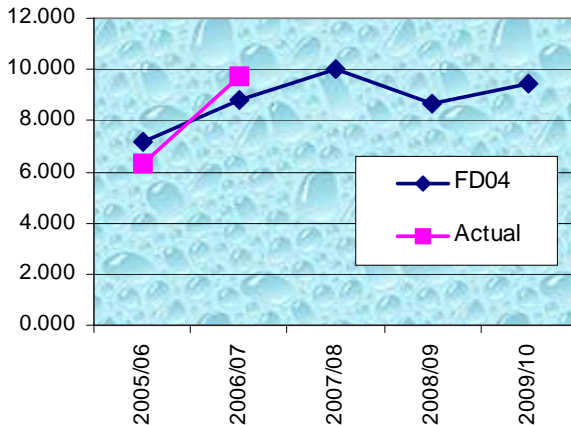
The Company has rehabilitated 80.8km during the Report Year (including 8.4 km of mains diversions), which exceeds the Monitoring Plan Target. This is a significant increase on last year. 'Hot-spots' on the network with high burst levels were targeted in 2005/06 and may have improved serviceability, assisted by a mild winter during the Report Year.

We consider that the Company has provided turbidity data that is compliant with Ofwat's requirements. The Company has not included any new proposals or data for non infrastructure reliability in its June Return, although it did present some preliminary proposals to us at audit. The Company is looking to develop Key Performance Indicators (KPIs) to aid its future assessment of serviceability and we expect the Company to submit proposals to Ofwat in due course.

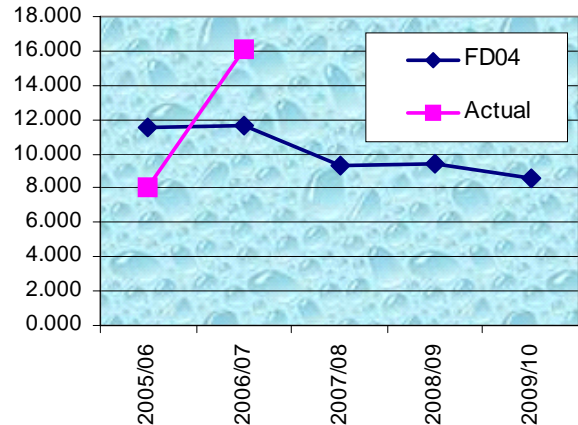
### The AMP4 Capital Programme

We agree with the Company that it has redressed its slow start to AMP4 and has achieved a high level of expenditure during the Report Year. There are 5 schemes in South Staffordshire Water's Early Start Programme which are now substantially complete. We provide an overview on progress on the remainder of the programme in the section below.

IRE (net) £m [Report Year prices]



MNI (Gross) £m [Report Year prices]



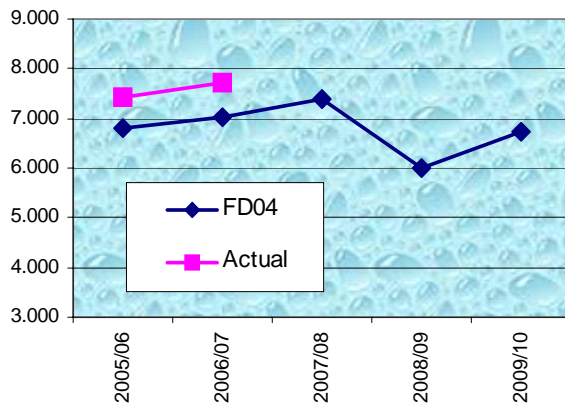
We note that the high level of Capital Maintenance expenditure is due not only to the volume of schemes delivered, but also to unforeseen costs on large projects including the hypochlorite plant at Hampton Loade.

**Infrastructure Renewals Expenditure:** Gross expenditure for 2006/07 is £11.272m, offset by £1.527m of contributions. This is a significant increase from the figure reported last year and exceeds the FD04 allowance for 2006/07. The bulk of the expenditure is associated with renewals within the distribution system, although diversions account for £2.17m of the Gross figure. One major diversion (£1.3m) was due to Network Rail's West Coast Main Line upgrade. We note that the cost of diversions has not fully been recovered by the Company predominantly due to a statutory requirement to give a 15% discount given for advance payment. The remainder of the expenditure relates to like-for-like water mains renewals. Some expenditure (£481k) associated with upsizing of mains has been apportioned between IRE and Supply Demand. This is appropriate.

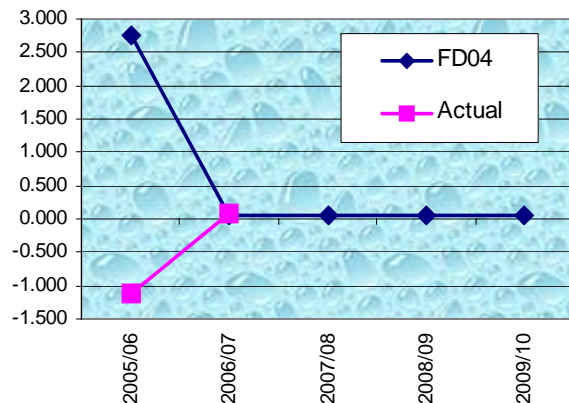
**Maintenance Non-Infrastructure Expenditure:** The Gross MNI figure for JR07 is £16.1m and is significantly above the FD04 allowance. Key expenditure during 2006/07 is as follows:

- £2.58m due to mechanical and electrical refurbishment of boreholes;
- £3.06m expenditure due to a number of small schemes at water treatment works and one large scheme (£1m) to replace chlorine gas with hypochlorite at Hampton Loade – we have seen this plant in operation;
- £2.8m due to the replacement of customer meters and installation of boundary boxes;
- £2.8m related to pump stations refurbishment; and
- £4.7m related to management and general. This includes £411k of security improvements, which is arguably forms part of the enhancement programme, but is not specifically defined as such in FD04.

Supply Demand £m [Report Year prices]



Quality £m [Report Year prices]



**Supply Demand:** Expenditure continues to exceed FD04 allowances, driven predominantly by new development and a high uptake of free meters as shown earlier in this commentary. A breakdown of the £7.717m reported for 2006/07 is presented below:

- £4.294m due to New Development - predominantly new mains and communication pipes.
- £1.893m mostly due to establishing District Metering Areas – consistent with our audit of the water balance.
- £1.530m to due free meters and meters associated with sprinkler licences.

Ofwat has indicated that the logging up process is likely to remain the same for PR09 as it was for PR04. In the case of metering, a log up of £1.7m (in 2002/03 prices) is currently estimated by the Company. Some outputs listed the Final Determination, including the Park Lane and Hednesford Booster Pumping Stations are unlikely to be completed in AMP4. The Company also intends to propose an alternative scheme for the Barr Beacon to Sedgley main.

**Quality:** The Company received its contribution from Severn Trent for 45" main from Hampton Loade WTW to Sedgley in 2005/06; the figure reported last year was actual expenditure net of this contribution. With this scheme completed, the remainder of South Staffordshire Water's Quality Programme is very small comprising the completion of AMP3 nitrate obligations and a groundwater sustainability investigation at Checkhill Bogs.

### Health and Safety

South Staffordshire Water is able to report robust information concerning the health and safety of its employees. As with most companies, the quality of information received from the Contractors is still

varied, although the Company is using its best endeavours to improve this. South Staffordshire Water is steadily working towards the Clear Water 2010 Report but notes that it will be challenging to achieve compliance.

***Sustainable Procurement***

We consider that the processes used by the Company meet the aims of the British Water 'Guide to Sustainable Procurement'. South Staffordshire Water follows the EU Utilities Procurement Directives using the Achilles database to source suppliers and contractors and it has moved into partnering with its principal contractors. We have noted that the Company considers carefully whether potential contractors are likely to be able to deliver to time and budget efficiently when procuring contracts. In general the Company is looking for long term relationships with contractors/suppliers which will keep costs as low as possible while maintaining good working relationships.

**Date: 20 June 2007**  
**Prepared By: KA Robins, Atkins Limited**