

## Report by Jeremy Long, Reporter on Board's Overview

### Approach

We have reviewed and audited the information provided by SST in its June Return, and in particular we have:

- assessed SST compliance with the JR05 reporting requirements and guidelines
- assessed SST material assumptions
- provided detailed commentaries on the JR05 tables and company commentaries as submitted
- given our opinion on the process, accuracy and reliability of the Return.

We have examined and audited the SST processes and data in the light of our knowledge of SST and other companies. The Board at SST are fully involved with the process of preparation of the June Return, taking considerable interest in all aspects. In our opinion the process is sound and carried out effectively.

In general the operation of SST does not appear to have changed as a result of either the demerger or the subsequent sale of the company.

We comment on Key Outputs and Service Delivery below, and discuss the compatibility of the text and tables of the overview with the SST commentaries and tables of the Return

We have received full co-operation from SST staff throughout the reporting process, timely access to staff with draft and final version of tables and commentaries being made available as they were being produced.

We comment under Key Outputs and Service Delivery below.

## **General**

We have noticed no change in morale of staff and the water SST operate following the demerger and then the acquisition by Arcapita Bank B.S.C. SST continue to be keen to achieve high efficiency and give best value to their customers. Service performance overall remains excellent.

### Underground asset management

Underground asset management is regarded by SST as the most critical issue particularly in AMP4. SSTs teams managing underground assets are now concentrated in one department with interaction between capital maintenance and leakage teams to ensure maximum understanding of all issues by team members. As SST point out, the links between underground asset management and customer service are also very important.

Achievement of the leakage target of 75 Ml/d through AMP4 will be very difficult, especially if severe seasonal weather is experienced in coming years. SST highlight their concern about the ability to meet future leakage targets and achieve stable serviceability of the infrastructure. We support this concern. Beating leakage will take time. SST are steadily building up their district meter areas (DMAs) and from the evidence we have seen reaching the goal of 100% coverage during AMP4 will be effective in lowering leakage, provided that SST can react more effectively during extreme weather events. This combined with reducing bursts should enable stable serviceability to be achieved during AMP4.

### Above ground asset management

SST have a new team dedicated to building the data needed to enable use of the Common Framework at PR09. This is a positive step.

### Other key issues

SST have a new electricity supply contract negotiated and signed, which will provide for a further 2.5 years. SST point out that the rates they have negotiated are above the 2004 Final Determination allowance which will cause them severe difficulties unless they can reduce energy usage further and ensure efficient usage at all times.

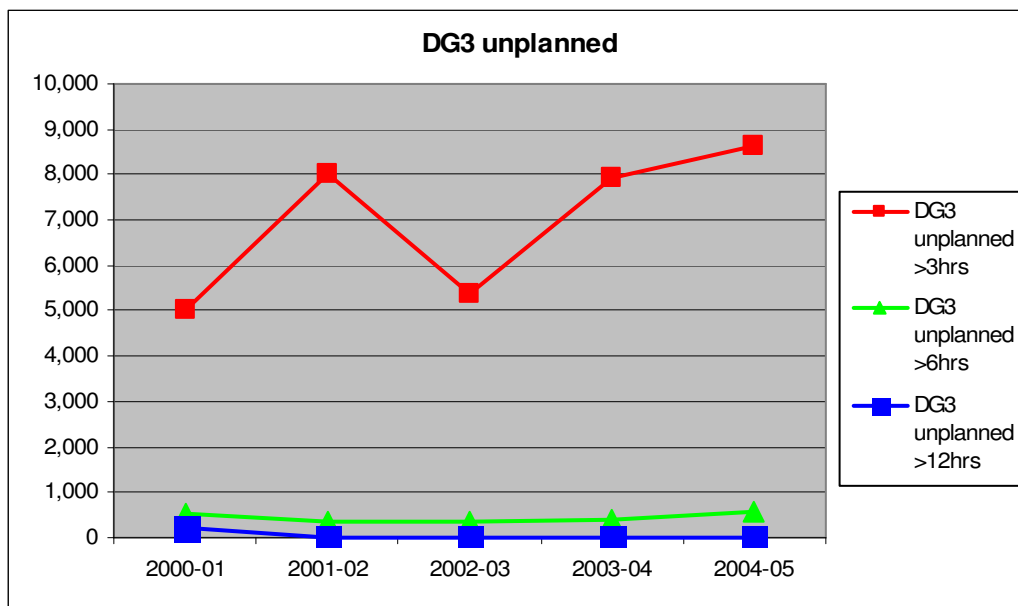
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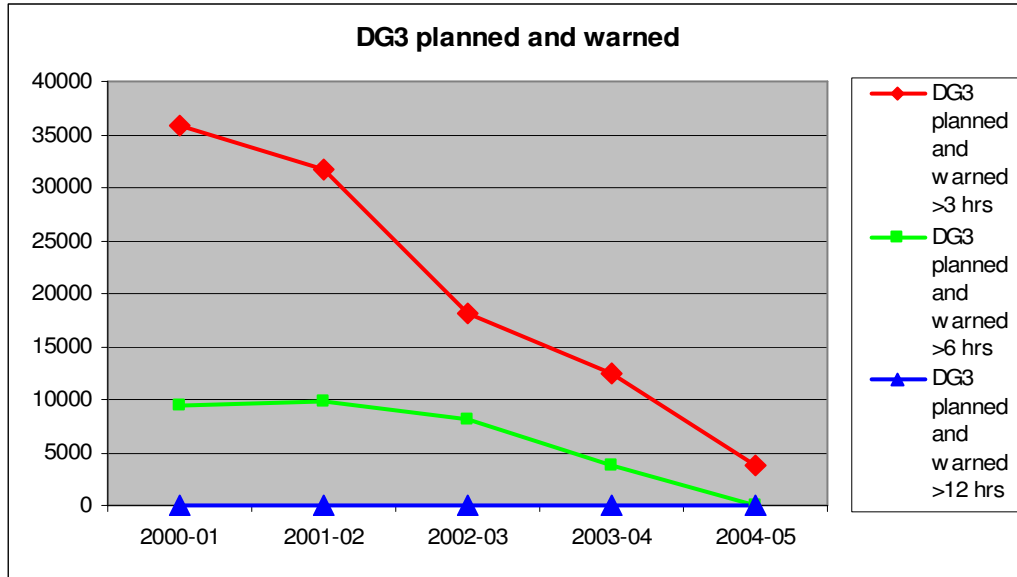
**Key Outputs and Service Delivery (Table A)**

**Levels of Service**

DG2 performance continues to be good. The only concern we have is that only properties identified by complaint, or by knowledge of surrogate pressures in the mains, will be recognised as below reference level. This may well be correct given the detailed knowledge of SST, but there could be low pressure properties on unidentified common services where no complaints have been made.

DG3 'unplanned' and 'planned and warned' performance is shown on the following graphs:





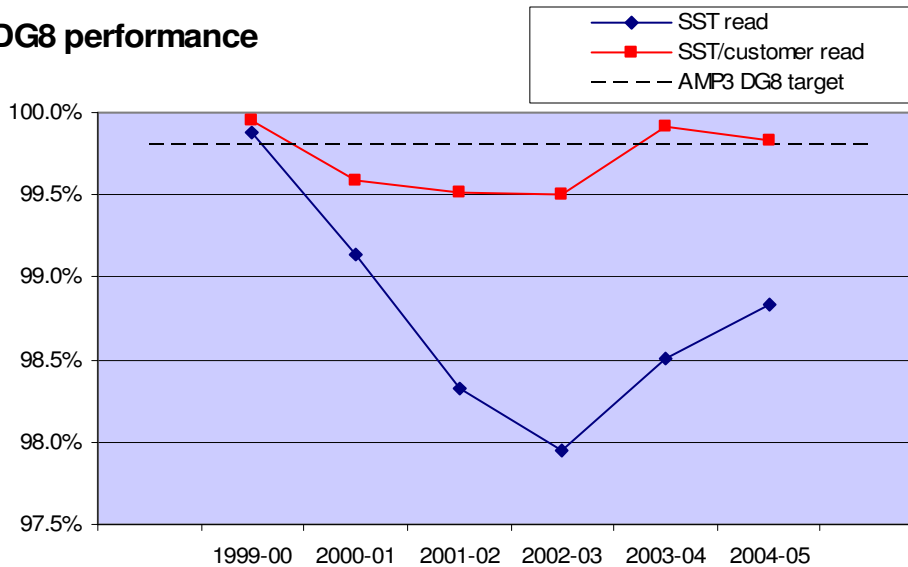
DG4 remains at zero and the SST policy is to avoid restrictions except in exceptional conditions. They have been able to avoid restrictions since the drought in 1976.

DG6 has dropped to 99.5% billing contacts dealt with in 5 days and the remainder in 5 to 10 days. This was 99.7% in JR04 but total number of contacts has risen by 5.3%. The AMP3 Monitoring Plan target was 98.4% in 2000-01 which was achieved and has been exceeded each year since.

DG7 written complaints are at 100% responses within 10 days and SST have stemmed the upwards drift in the average responses period. The AMP3 Monitoring Plan target was 99% of responses within 10 days; this target was achieved in the first year of AMP3.

DG8 has fallen slightly compared to last year but at 99.83% is just over the Monitoring Plan target of 98.8% by 2000/01 set for AMP3. The following graph illustrates the DG8 performance over the whole of AMP3 and the preceding year with reference to the AMP3 Monitoring Plan target.

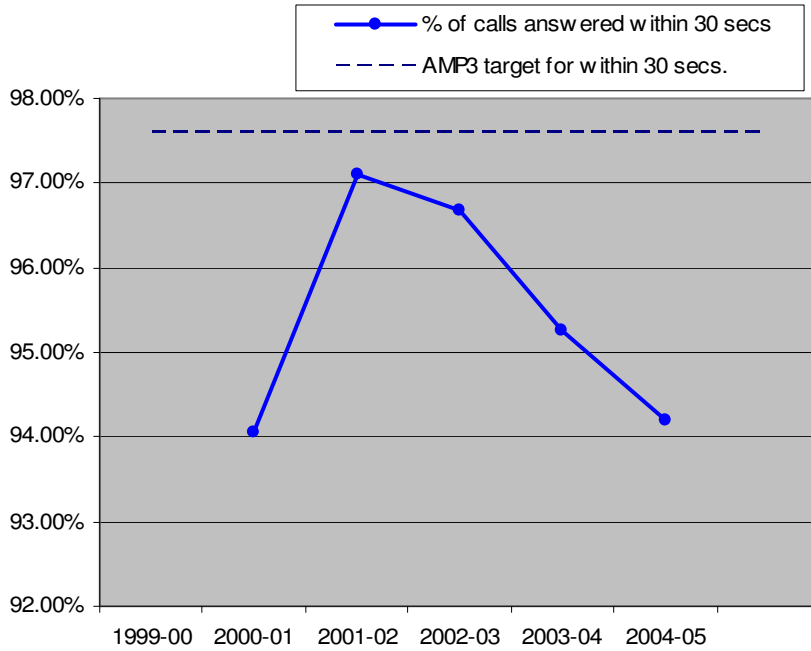
**DG8 performance**



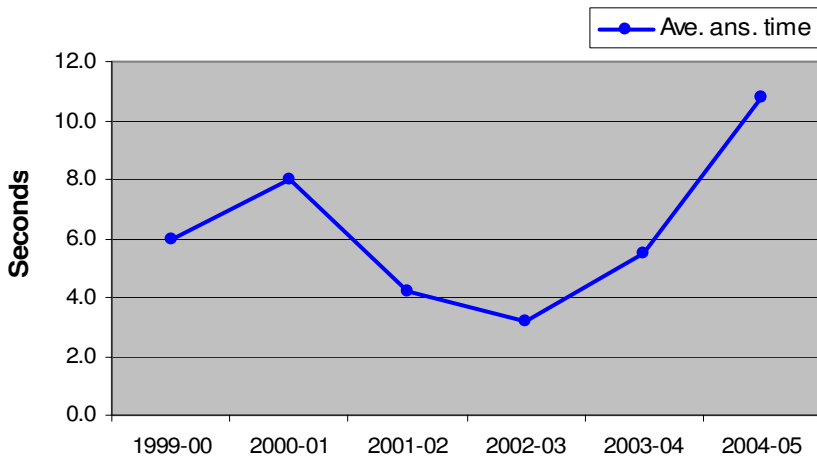
DG9 – SST did not achieve, in any year, the AMP3 Monitoring Plan target of 97.6% of received call answered within 30 seconds and the trend has been falling for the past three years as can be seen in the graph below. SST have been able to reduce the number of calls experiencing all lines busy by 40%. This follows on from the 50% reduction in 2003/04. The number of complaints received by phone has also fallen for the third year in a row. However, the average time to answer a call has increased significantly from 5.5 secs to 10.8 secs and the number of abandoned calls has increased from 4,612 to 6,306. The good performance on “all lines busy” is to be commended but we are concerned about the failure to achieve the AMP3 Monitoring Plan target, the falling trend with respect to the AMP3 Monitoring Plan target as well as the worsening trend for average time to answer calls and the number of abandoned calls.

It is understood that this measure will move away from speed of response to a more qualitative measure in future.

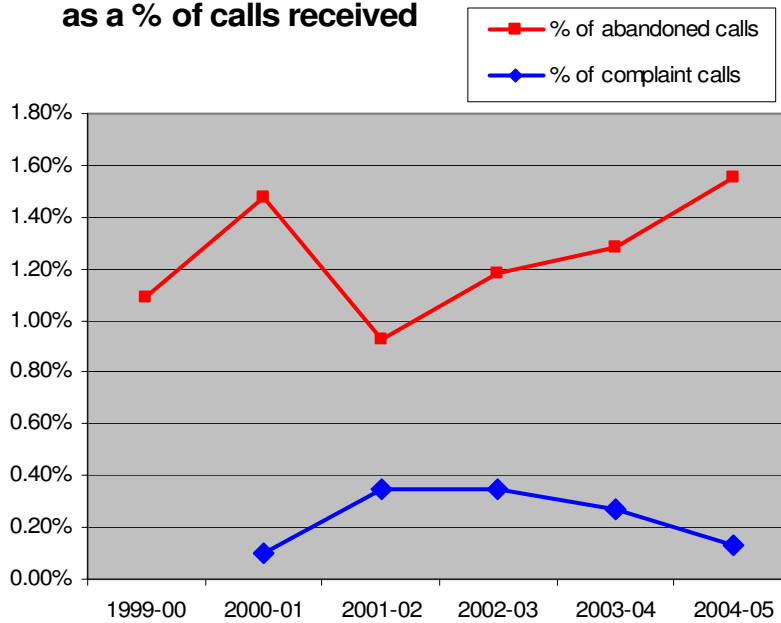
**DG9 - % of calls answered within 30 secs.**



**DG9 - Calls answered: average time**



**DG9 - Complaints and abandoned calls  
as a % of calls received**



***Water Quality***

SST have continued to achieve a high level of water quality regulatory compliance and operational performance 99.96. The AMP3 Monitoring Plan target was to achieve 99.7 by 2000-01. All AMP3 schemes have been completed by the targets set by the Drinking Water Inspectorate.

**Serviceability – underground assets**

The major contribution to the overall level of bursts, which have shown a stepped increase since 2000-01 is considered to be seasonal influences and irregular weather patterns. In 2001-02 there were severe winter peaks in leakage but no effective District Meter Areas (DMAs) which would have enabled rapid response as SST would be aware of the problem much sooner. In 2004-05 there were no high severe winter or summer peaks. In future with DMAs now built for 82% property coverage and increasing to

100% over AMP4, response to high burst events should be more rapid. SST have obtained weather data over recent years so that bursts can be monitored against weather to improve understanding of failure mechanisms.

Bursts are 225/1000km in JR05 against 254 in JR04. As 2004-05 did not have severe winter or summer events it is difficult to identify trend.

#### Serviceability – overground assets

Stable serviceability should continue. We have no evidence to suggest otherwise. We are pleased to see the formation of the new overground maintenance team to ensure that data needed for use of the Common Framework will be collected.

#### **Table A input lines**

In line 12, SST have no quality improvement work to fulfil s19 undertakings for replacing or relining mains. A new s19 undertaking for investigation into PAH in some areas of the distribution system was accepted on 26 July 2004 for completion by 28 March 2005. SST have carried out the investigation and reported to DWI.

For line 15, three water quality zones are reported to be failing for iron. This figure comes from a report of water samples that have failed on quality grounds held in the SST Laboratory Information Management System (LIMS). The same figures are detailed in the SST Chapter of the DWI Chief Inspectors Report for Drinking Water 2004.

For line 16, SST have no WTW's where enforcement action is being considered based on coliform standard.

For line 17, the percentage of determinations at water treatment works containing coliforms is sourced from the same data.

All other lines in Table A are transferred from the JR tables.

#### **Expenditure and Financial Performance Measures (Table C)**

No comments

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**Key Supporting Information (Table D)**Expenditure and Capital works activity

During the early part of AMP3 SST spent more than the Determination yearly allowance on mains renewals to address leakage. This was compensated by deferring expenditure on maintenance non-infrastructure.

Overall MNI spend was about £2m greater than the allowance and this has been funded by transferring £2m from SDB. SDB expenditure was lower than forecast due to the reduced level of new developments.

AMP3 expenditure on quality was higher than the FD99 allowance after taking account of the withdrawal of the Kinver nitrate scheme, withdrawal of Hagley pesticide treatment, postponement of the lead pipe replacement programme and addition of the Fradley arsenic scheme. Expenditure on some schemes was reduced when the proposed additions of new treatments were replaced by blending schemes.

In line with FD99 there has been no expenditure on Enhanced Service Levels during the AMP3 period.

Water balance and Leakage

SST put considerable effort into ensuring that components of the water balance are robust. We have again made minor comments in our Table 10 commentary, and continue to encourage SST to take steps to confirm the accuracy of the principal meters (those where error would have a significant effect on the closure of the water balance). The robustness of the distribution input and leakage figures particularly and the water balance depend on the reliability of these meters.

In the FBP, SST have established their ELL value at 75.9 MI/d. The leakage target agreed with Ofwat for AMP4 is 75 MI/d and has been met this year following MLE adjustment. SST continue to have a rising nightline which appears to be chiefly a problem in those largely urban areas where the DMA coverage is not yet fully constructed.

Metering

Following recent WaterVoice support SST have decided to pursue an initiative of compulsory fitment of meters for customers who use sprinklers starting in the current year. An area will be targeted for patrol, upon identification of a sprinkler user a letter will be provided to the customer explaining the background to the metering policy, followed by further appropriate warnings, if there is continued sprinkler use.

SST are instituting their revised policy for installation of household meters, to install external meters rather than internal wherever possible, in AMP4.

**Table D Line 26**

The total revenue outstanding for less than 48 months (£5.741m) as a percentage of annual forecast (Line 26) is reported as 12.91%. This is calculated by applying the three stage process detailed below and in line definition processing rules:

Part A Line 1 plus line 11 of Table 6a =  $1.222 + 4.519 = £5.741m$ .

Part B Principal Statement line A1.10 plus line A1.13  
=  $£37796.99 + £6,682.982 = £44,479.972$

Part C Dividing Part A £5.741m by Part B £44,479.972 which equals: 12.906%

Outstanding revenue less than 48 months old has continued to rise at about £0.4m per year. SST expect this trend to continue in future years.

**Efficiencies**Operating cost efficiencies

No comment.

Capital cost efficiencies

SST appear to be maintaining greater efficiency in procurement. Contract management is also increasingly more efficient. Mains rehabilitation contracts are run with two

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contractors in competition to highlight performance by KPIs. Other mainlaying work is benchmarked against the SST direct labour operation to highlight any inefficiencies of either the DLO or the contractor. New partnering arrangements for the non-infrastructure programme are being set up.

### **Overview of Health and Safety Activities in 2004/05**

*The Reporter should give his opinion on the accuracy and completeness of the company's information on their health and safety initiatives and performance trends.*

The SST Health and Safety and Emergency Planning Manager is responsible to the Board member championing H&S. He has a liaison role between the regulated water company and the non-regulated member companies of the new group.

There is a clear delegation of health and safety responsibility from the Board to management and employees. The H&S and EP Manager attends all meetings of the Health & Safety Committee, and advises on current and developing H&S requirements. He also provides training planning, presentations and workshops.

The Health & Safety Committee is chaired by the Board Director appointed as H&S champion, and includes management and employee representatives as well as the H&S Manager. Key priorities continue to include risk assessments, lone working, ensuring contractor safety, H&S culture, working time issues, hand/arm/ vibration issues and asbestos management. A watching brief is kept on proposed and future legislation.

RIDDOR reporting statistics for 2004-05 include industrial diseases. The total reported is 10 (4 accidents and 6 diseases). The priorities for H&S this year are accident reporting, avoiding danger from underground cables, stress and workplace transport.

The only COMAH site is Hampton Loade WTW and the COMAH status should cease following the conversion of disinfection from chlorine gas to a suitable replacement system, probably on-site chlorine generation, which is planned for AMP4.

The H&S Manager maintains necessary procedures, all approved by the H&S committee. He also acts as the internal H&S auditor, as SST no longer operate an externally audited QA system. The committee minutes provide a record of the status of

procedures approvals and training. It is likely to be of value that the H&S Manager also manages emergency planning and training, as may issues overlap.

In our opinion SST have in place a comprehensive system which is pro-actively managed and developed, with appropriate risk assessments. Every effort is being made to ensure accuracy and completeness.

### **Sustainable Procurement**

*The Reporter should give his opinion on the company's progress towards sustainable procurement.*

SST have continued to move towards meeting the aims of the British Water 'Guide to Sustainable Procurement'.

SST follow the EU Utilities Procurement Directives using the Achilles database to source suppliers and contractors and they have moved into partnering with their principal contractors. We have noted that they consider carefully whether potential contractors are likely to be able to deliver to time and budget efficiently when procuring contracts. In general SST are looking for long term relationships with contractors/suppliers which will keep costs as low as possible while maintaining good working relationships.

SST refer to the partnering contracts set up for overground asset management. This should provide a demonstration of the progress towards sustainable procurement.

**Date:** 17 June 2005  
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