



June Return 2005

Overview



DŴR CYMRU
WELSH WATER

Contents

Introduction	3
Chapter 1	6
Key outputs and Service Delivery	
Chapter 2	15
Financial performance measures	
Chapter 3	16
Key supporting information	
Chapter 4	21
Efficiencies	
Chapter 5	22
Competition	
Chapter 6	24
Board endorsement	
Tables	
A to E	

Summary for the year

This report provides an overview of Welsh Water's performance in the year to 31 March 2005. It is addressed to the Director General of Ofwat and accompanies our annual June Return. It covers levels of service and outputs for our water and sewerage activities, environmental performance, financial performance and overall progress against targets established at the last price review in 1999 and at the Interim Determination (IDOK) in 2000.

Customer service delivery

- leakage targets achieved and water abstractions now 12% lower than in 1998
- properties at risk of low pressure (DG2) maintained at 0.018%
- unplanned interruptions to supply (DG3) increased from 0.03% to 0.06% but performance remains as one of the best in the industry
- properties at risk of sewage flooding (DG5) reduced from 254 in 2003/04 to 245 at the end of the report year (a net decrease of 9 properties)
- best ever performance in meter reading (DG8) maintained and continuation of good customer contact centre performance
- compliance with environmental quality standards (numeric consents) at wastewater treatment works up slightly to 97.8%
- number of 'Category 1 and 2' sewage related pollution incidents reduced to 8 in 2004, from 9 in 2003
- bathing water quality 100% compliance with 'mandatory' standard and 86% with tighter 'guideline' standard leading to 41 Blue Flag beach awards in 2005, four more than in 2004, more than a third of the UK total, (which fell from 122 to 119).

Financial performance

- from 1 April 2005 customer dividend doubled from £9 to £18 per customer, making Welsh Water the only company to charge less than allowed by Ofwat
- Glas Cymru's financial reserves (RCV less net debt) of £538 million, more than achieving the published target of £400 million by 31 March 2005
- Glas Cymru's financial gearing reduced to 81%, down from 93% in May 2001
- profit before tax of £20 million all retained for benefit of customers
- Moody's upgrade credit rating of 'class C' bonds to reflect Glas Cymru's improved financial position
- completion of the AMP3 investment programme at a total cost some 5% below that allowed by Ofwat in 1999.
- cash collection performance ahead of target

AMP3

- 501km of water mains renewed or relined in the year to improve water quality and to deliver the total AMP3 target of 2,230km
- 1 Water Treatment Works scheme completed in the report year and all schemes completed to meet DWI undertaking within AMP3 period
- 67 Wastewater Treatment Works improvement schemes completed (56 on the NEP list)
- 124 CSO schemes completed
- capital maintenance expenditure broadly in line with Ofwat 1999 Final Determination.

Competitive Procurement Plan

In May 2003 we published three notices in the Official Journal of the European Union inviting organisations to express their interest in the provision of Asset Operations, Asset Investment and Billing and Income services to commence from April 2005 and carry on throughout AMP 4 and beyond.

The OJEU notice attracted a large number of responses that were then subjected to a highly competitive evaluation and selection process culminating in the appointment of partners who would work with Welsh Water to deliver its business plan (2 operations partners, 6 capital investment partners and 1 billing and income partner).

These appointments are based on contracts which reward our partners for delivering sector leading performance measured through a suite of key performance indicators. Our procurement strategy has been designed to ensure that we appoint the most capable and competent operators and construction companies in the marketplace who are able to deliver the best combination of value for money and quality of service for our customers.

Progress against Monitoring Plan

In our Monitoring Plan, published in December 2000, we set out the minimum service standards we expected to achieve over the AMP3 period and the target levels we are aiming to achieve by 2005. This Overview provides a summary of our progress against these targets.

Performance against the Monitoring Plan

Water Service				
Performance Measure	Units	The 2005 Monitoring Plan Target	Previous Performance 2003/04	Actual Performance 2004/05
DG2 Properties below reference level for low pressure	No.	1,828	242	235
DG2 Properties at risk of receiving low pressure	%	0.14	0.02	0.02
DG3 Overall performance score (interruption to supply)	No.	0.66	0.03	0.06
DG4 Restrictions on water supply	No.	0	0	0
Trend in burst mains per 1,000km of main	No.	194	194	173
Distribution input not covered by S19 undertakings	%	98.00	96.22	99.97
Compliance with water quality regulations 'at the tap'	%	99.80	99.74	99.74
Iron compliance 'at the tap'	%	97.70	99.09	98.87

Sewerage Service				
Performance Measure	Units	The 2005 Monitoring Plan Target	Previous Performance 2003/04	Actual Performance 2004/05
Properties flooded internally (excluding extreme/severe weather)	No.	310	172	247
Total properties subject to internal flooding (excluding extreme/severe weather)	%	0.023	0.013	0.018
Properties at risk of flooding	No.	315	254	245
Trend in sewer collapses per 1,000km of sewer)	No.	27	28.8	29.2
Wastewater Treatment Works complying with numeric consents	%	100	97.4*	97.8*
Combined sewer overflows satisfactory	%	81	77	86

*Performance is based on a revised definition (Ofwat reporting requirements 2002-03).

**Performance is based on all intermittent discharges.

Performance

against the Monitoring Plan *continued*

Quality and Environmental Compliance				
Performance Measure	Units	The 2005 Monitoring Plan Target	Previous Performance 2003/04	Actual Performance 2004/05
Percentage population equivalent served by compliant works (LUT)	%	>90	99.92	99.94
Sewage sludge disposed of satisfactorily	%	100	100	100
Bathing waters - compliance with mandatory standards	%	100	98.7	100
Bathing waters - compliance with guideline standards	%	Stable	83.2	86
Number of pollution incidents at CSOs and sewers (cat. 1 & 2)	No.	6-12	5	6

Customer Service				
Performance Measure	Units	The 2005 Monitoring Plan Target	Previous Performance 2003/04	Actual Performance 2004/05
DG6 Billing contacts responded to within five days	%	99.2	99.99	99.99
DG7 Written complaints responded to within 10 days	%	99.46	99.85	99.9
DG8 Bills based on Company or customer meter readings	%	99.7	99.96	99.97
DG9 Received telephone calls answered within 30 seconds	%	94.6	94.5	94.2

Key outputs and service delivery

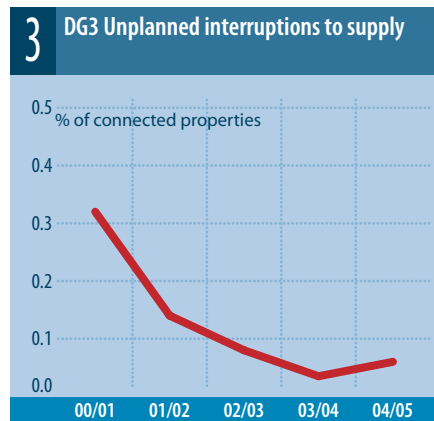
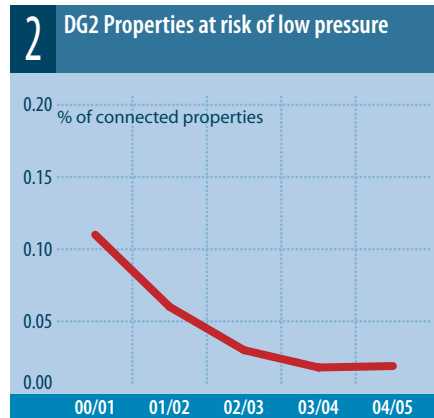
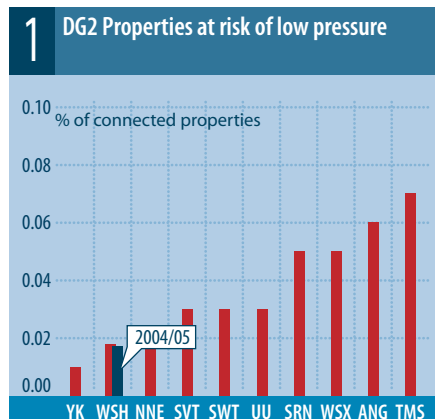
Over the last year we have maintained our levels of service to customers and overall we are meeting our targets for water and wastewater quality improvement. We carry out regular research with customers to understand their satisfaction with the services provided by Welsh Water. Latest research shows that overall satisfaction with the Company's levels of service remains high.

Water Service

Low pressure DG2

We have sustained the year on year reduction in properties suffering from low pressure from 242 properties in 2003/04 to 235 properties in this reporting year. This represents 0.018% of our connected customers which is significantly below our initial target set in 1999 of 0.14% by 2005. Our performance continues to be well ahead of the average of 0.04% for the sector. **1**

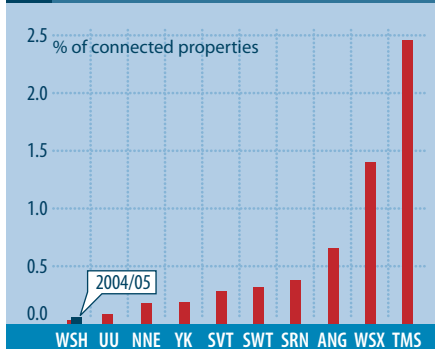
In total 1,345 properties have been removed from the DG2 register as a result of company action; this has involved targeted mains replacement, improved pressure control and local improvements to the individual supplies of many properties. As well as the 242 properties on the register at the start of the year, a further 1,388 properties were added to the register during the year. **2**



Interruptions to supply DG3

During the year 770 properties experienced unplanned supply interruptions lasting more than 6 hours, compared with 439 in the previous year. This increase was as a result of 5 separate single burst main incidents affecting a total of 557 properties. Excluding these incidents there were just 213 properties that experienced interruptions lasting more than 6 hours. The Company performance as measured by Ofwat's 'overall performance score' was 0.06% of connected properties compared to 0.03% last year. **3**

4 DG3 Unplanned interruptions - Across the industry



This performance remains amongst the best in the industry notwithstanding our relatively high burst rate. [4](#) [11](#) [12](#)

The number of unplanned supply interruptions lasting more than 12 hours was 73 compared to 24 properties last year and 170 properties the year before.

We have continued our large programme of water mains renewal and maintenance over the report year. We have improved our methods of identifying the water mains in worst condition and those which have most impact on our customers. This has allowed us to target our investment more effectively to reduce the frequency of burst mains, and when bursts do occur, continue to focus on improving response times to restore water supplies as soon as possible.

While the high rate of mains refurbishment continues, we have invested in more technically advanced solutions to reduce the length of time in which customers' supplies have to be interrupted. While 84,366 properties were issued with advanced warning of interruptions to their supplies lasting more than 3 hours, there were no incidents of overruns of these planned interruption periods.

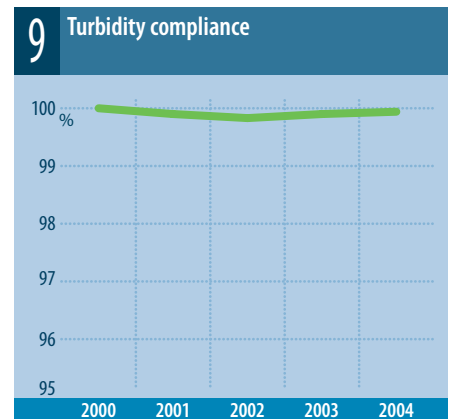
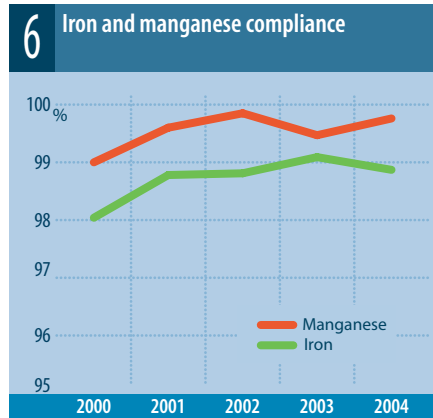
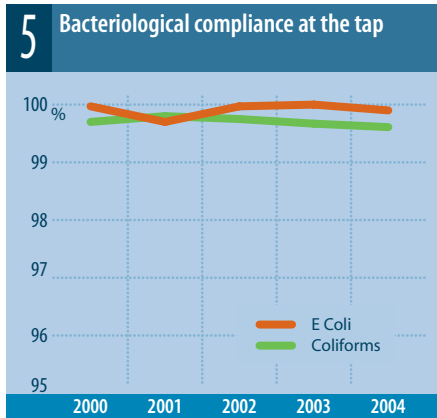
Delivering the drinking water compliance programme

The company achieved a high level of water quality compliance during 2004 with performance against a number of key measures being best ever. This performance reflects both the continued improvements at Water Treatment Works, the substantial ongoing investment on water mains rehabilitation and improvements in operational procedures as defined in the Company's Quality Management System.

In the reporting year we have renovated some 501Km of unlined iron water mains. This meant that we met the AMP3 target of 2230Km of mains renovation in line with the Section 19 Undertaking agreed with the DWI, and made an early start in renovating 43Km of the 2257Km planned for AMP4.

On 25th December 2003 the revised standard for lead of 25ug/l came into force (this will reduce further to 10ug/l by 2014). Both Ofwat and DWI advocate that companies should adopt a policy of treatment for plumbosolvency at works to meet the interim standard before committing to a programme of lead pipe replacement. Since the start of AMP3 we have taken steps to comply with the interim standard by either abandonment of works or by providing plumbosolvency treatment and control at 38 of our water treatment works. We have continued to optimise treatment at these sites with the aim of achieving the 10ug/l long term target. In addition, we have introduced a policy of replacing lead communication pipes in zones where the water mains are being replaced (rather than relined) as part of the quality improvement programme. In the reporting year we replaced a total of 482 lead communication pipes, down from 854 in 2003/04, reflecting the overall shape of the Section 19 programme and against a nil allowance for this work included in the IDOK.

The 'Operational Performance Index' ('OPI') covers six water parameters which reflect quality operational performance of distribution networks at a zonal level.



Compliance calculated by Welsh Water for 2004 is 99.73% compared with 99.81% for 2003. This slight reduction is due to the implementation of new DWI regulations and the establishment of larger zones for the purpose of sampling. Consequently the number of samples taken for iron during 2004 were significantly less than in the previous year. One iron failure therefore has greater impact on overall results.

DWI are reviewing the methodology for calculating OPI for 2004.

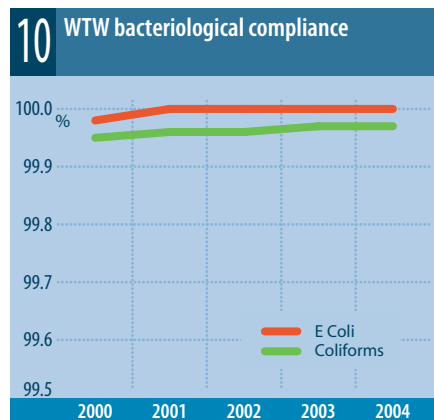
Performance against the six main parameters which comprise the OPI measure is shown in the above charts.

5 6 7 8 9

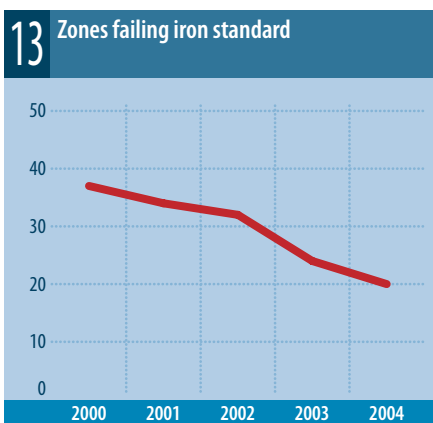
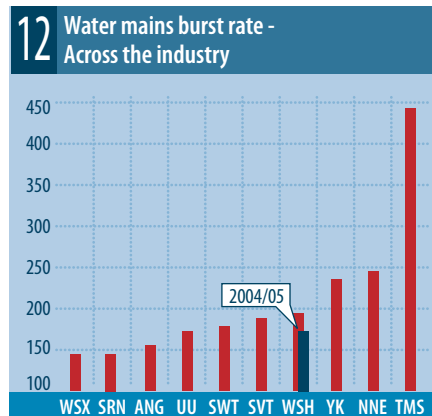
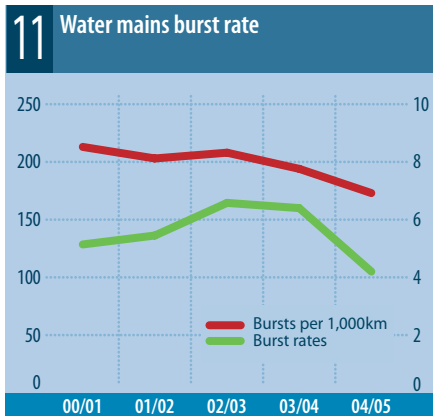
100% compliance was maintained for faecal coliforms. **10**

Bacteriological compliance at Water Treatment Works has continued to remain high in the reporting year with only 0.06% of samples containing total coliforms in 2004.

Bacteriological compliance of service reservoirs has improved slightly in 2004 with only 0.07% of samples containing coliforms.



Bacteriological Compliance - 2004		
	Coliforms	E.Coli
WTW	99.94%	100%
Service Reservoirs	99.93%	99.99%
Zones	99.61%	99.99%



We have reported to DWI that in 2004 98.87% of samples from customers' taps were compliant within the required standard of 200 ug/l iron per litre.

Sewerage Service

Sewer flooding DG5

Reducing the risk of sewage flooding is a priority for Welsh Water. Of the £41m reinvestment of targeted savings announced in November 2001, £23m was directed towards accelerating work to reduce the risk of sewage flooding for some 250 properties which have been flooded more than once following very heavy rainfall. This takes our total AMP3 spend on alleviating sewage flooding problems to £36m and this has delivered over 880 solutions, which is almost three hundred more than we targeted and around twice what was allowed for in the Final Determination and included in our Monitoring Plan. We have reduced the at risk register to 245 properties which is better than the Monitoring Plan target of 274.

During the reporting year we carried out investment schemes to remove the risk of sewage flooding from 32 properties on the at risk register and we removed a further 3 properties as a result of better information being available following re-investigation. In addition, a further 6 properties were removed from the 'HO Severe' risk register (risk of flooding less frequent than 1 in 10 years).

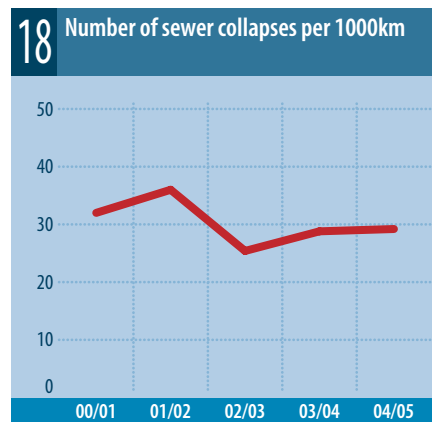
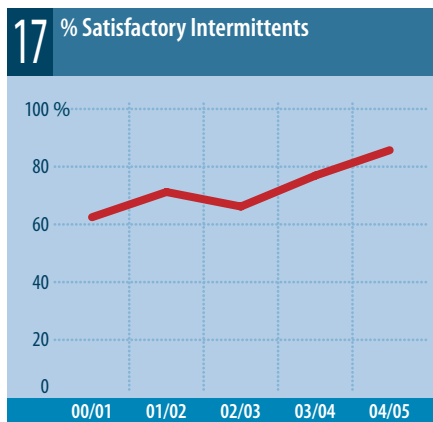
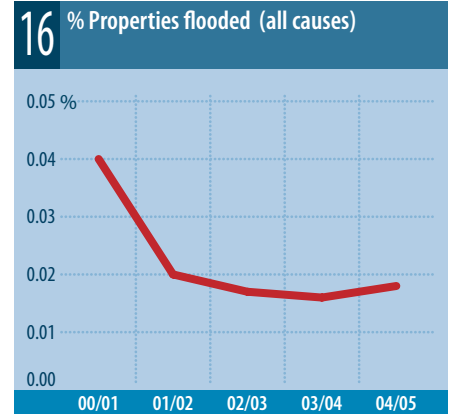
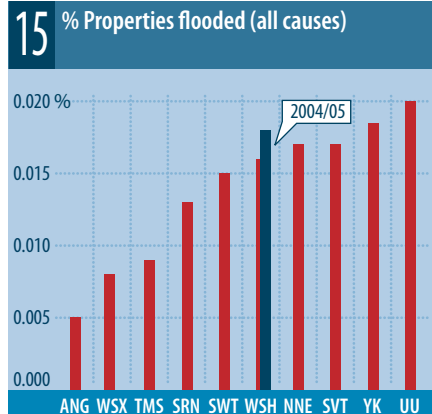
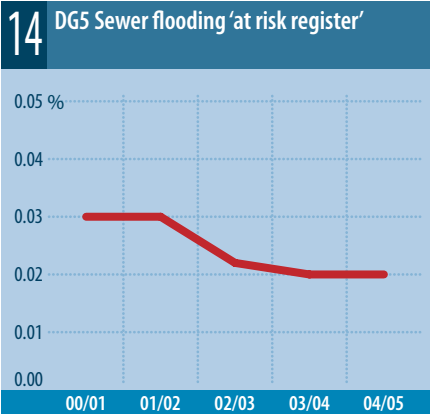
During the year a total of 26 properties have been added to the register, an increase from previous years reflecting the higher number of hydraulic overload

Maintaining serviceability to customers

In addition to continued improvement in levels of service we have reported a decrease in the number of bursts on our mains network. This may be the result of experiencing benign weather conditions and a relatively high rate of renewal for unlined iron water mains and asbestos mains as well as continuing to focus on pressure management.

In 2004/05 the mains burst rate (per km) was some 10% lower than in 2003/04, with a total of 173 bursts per 1,000km. The Company's Monitoring Plan target for reduction in bursts was 15% over the 5 year period from the 1999/00 baseline (228). As a result of the significant reduction in burst mains last year the actual reduction in the 5 years was 24%. **11 12**

Our mains refurbishment programme means that our compliance with the water quality standard for iron is steadily improving. Out of the Company's total of 92 zones, 20 experienced sample failure against the water quality standard for iron at least once during the year. **13**



incidents in the year. The DG5 at risk register is now at its lowest ever level. We have prioritised work throughout the year to address problems at properties where flooding has occurred most frequently. However, the number of properties remaining on the at risk register, with a 2 in 10 risk of flooding, (properties at risk of flooding more than twice in 10 years) has increased from 72 last year to 102 in the reporting year. This is due to the application of the revised Ofwat methodology which classifies the risk by frequency rather than storm return period. The underlying DG5 performance (ie excluding properties flooded during exceptional weather) has remained broadly stable over the report year. The percentage of properties that experienced flooding (all causes) was 0.019% in 2004/05. [14](#) [15](#) [16](#)

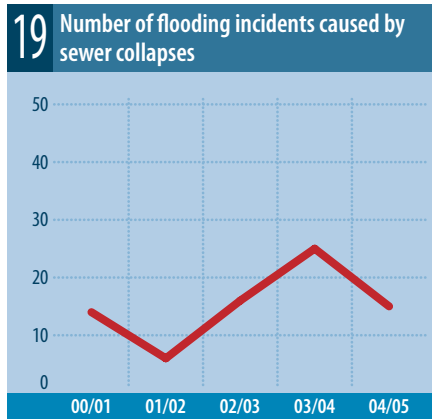
Although we are addressing properties which we know to be at risk, each year new incidents occur where flooding has not been experienced before. It is a high priority for the business in AMP4 to identify these vulnerable areas in advance of any problems occurring.

Delivering the quality enhancement programme

During the report year we have dealt with 124 unsatisfactory intermittent discharges identified in the AMP3 programme. 6 additional outputs have been identified and incorporated into the AMP3 programme.

A total of 715 intermittent discharges have been tackled during the AMP3 period. This includes 671 originally identified on NEP 3.1, an additional 37 schemes that have been identified and delivered and also the early delivery of 7 AMP4 schemes. The number of 'satisfactory' intermittent discharges is now 86%, 5% ahead of our Monitoring Plan target. [17](#)

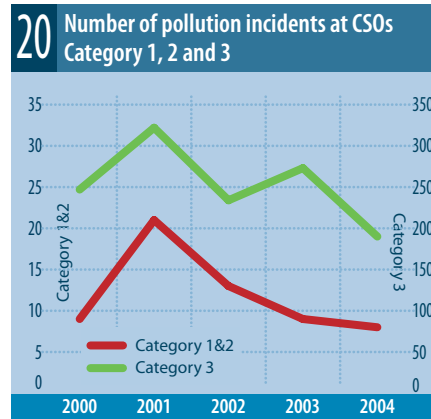
In the year we completed a total of 67 quality outputs and have delayed 3 outputs to AMP4. We have delivered 193 outputs in total and delivered 2 AMP4 outputs early. Agreement and delivery of a prioritised plan to achieve a strategic outcome for shellfish waters was a major achievement in AMP3.



Maintaining serviceability to customers

Over the AMP3 period the Company has targeted a 25% reduction in the rate of sewer collapses, aimed at bringing the number of collapses down to around 27 per 1,000km by 2005. In the reporting year the number of sewer collapses increased from 28.8 per 1,000km in 2003/04 to 29.2 per 1,000km in 2004/05, although as Figure 18 illustrates there has been an improving trend in the number of collapses since 1999. The collapse rate remains significantly higher than the sector average (approximately 13 per 1,000km). In AMP4 we will actively target investment to reverse this increasing trend. Data collected over a number of years will assist in our understanding of deterioration rates and failures and help target investment to allow us to accelerate our sewer rehabilitation programme. During the year we have renovated/replaced 20 km of sewers (including refurbishment of sewers under the CSO programme of work). ^{18 19}

The Company's Monitoring Plan states that we should have replaced or renewed a total of 150km by the end of AMP3. To date we have achieved 113km. This is mainly because a large proportion of this renovation and replacement was expected to be delivered through the CSO programme. However the programme has predominantly addressed aesthetic problems where typically screening is applied to existing discharges rather than providing additional capacity and renewal of sewers.



Our sewer network contract partners have continued to undertake a programme of desilting, cleaning and inspection. The focus on desilting in particular has helped to reduce sewage flooding incidents. A total of 105km of CCTV investigations have been carried out during the year further improving our understanding of asset condition and helping to direct investment.

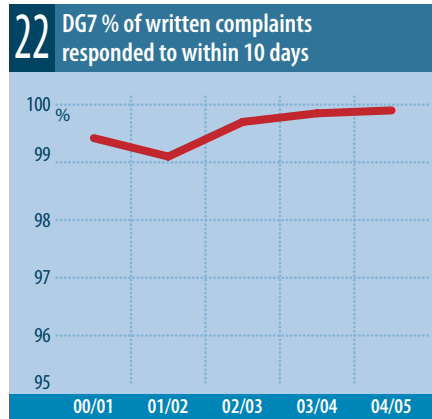
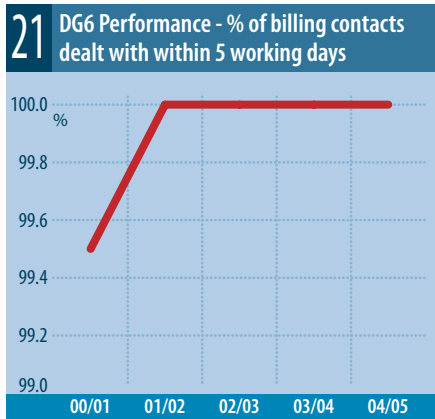
We have reported a total of 8 Category 1 and 2 pollution incidents of which 6 were associated with CSOs and foul sewers (Cat 2).

With the inclusion of 190 Category 3 incidents the total number of sewage related incidents was 198 for the year. Of this total 154 were caused by CSOs and foul sewers, which compares to a figure of 201 for 2003. We have reduced the number of incidents from a total of 343 in 2001 to 198 in 2004, a 42% reduction. ²⁰

Number of pollution incidents associated with CSOs and foul sewers during 2004

Incident Category	No. of incidents associated with CSOs	No. of incidents associated with foul sewers
1	2	0
2	2	2
3	92	56
Total	96	58

Compliance at Wastewater Treatment Works with numeric consents was 97.78% in 2004, up from 97.4% in 2003. Three works failed 'look-up' with the result that 99.94% of 'equivalent' population was served by 'look-up' compliant works in 2004.



Customer Contact

Billing contacts DG6

During the reporting year we handled over one million queries and requests concerning bills, a decrease of some 2.3% compared with 2003/04. Of the total over 153,000 were written contacts and just over 861,000 were telephone contacts. We dealt with 99.99% of billing contacts within a five day period, in line with 2003/04. **21**

Written complaints DG7

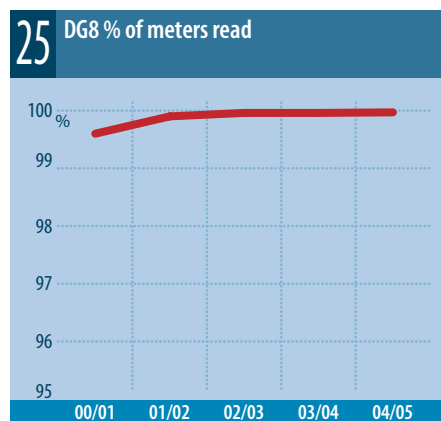
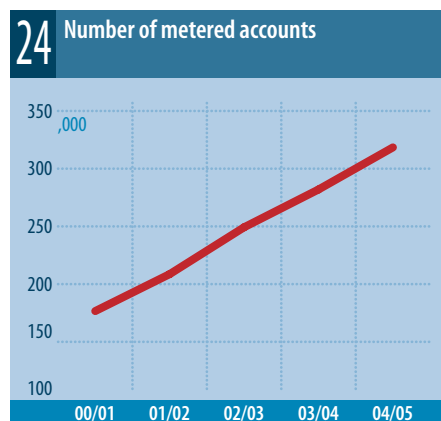
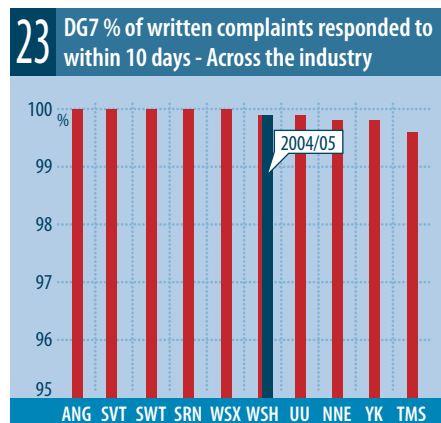
In the reporting year we responded to 8,239 written complaints compared with 10,207 in 2003/04, a decrease of just over 20%. The decrease in the number of complaints reported has occurred mainly in the customer accounts area of the business, which accounts for 76% of the total number of complaints received. We answered 99.7% of these complaints within 10 days which is ahead of Monitoring Plan target for 2005 set at 99.5%. **22 23**

Meter reading DG8

During 2004/05 we maintained our best ever DG8 compliance, with 99.97% of metered accounts being read during the year. The number of meter readings has increased from 278,334 in 2003/04 to 314,219 in 2004/05. **24 25**

In addition, we have reported only 190 meters that have not been read by the Company for two years, well within the Ofwat target of <0.15%.

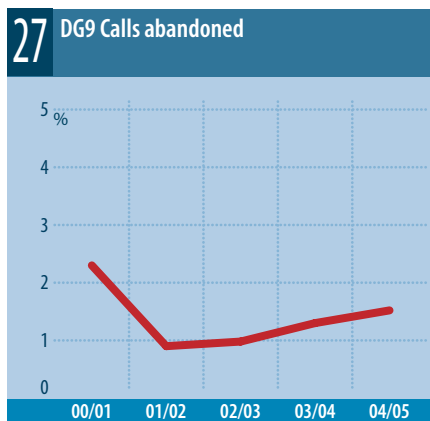
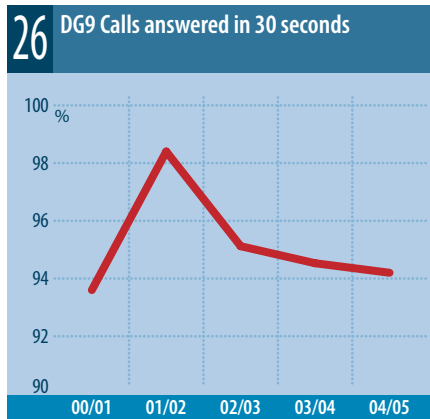
We are continuing to implement initiatives to improve the performance associated with internal meter reading including new working practices and improved job scheduling. Our customers' responses to these initiatives remain positive.



Telephone contact DG9

During the reporting year over one million calls were received on the principal advertised customer contact points, a reduction of nearly 5% compared to 2003/04.

The average time taken to answer telephone calls from customers was 7 seconds with 94.2% of calls being answered within 30 seconds. This performance remains within Ofwat's 'acceptable' category. [26](#) [27](#)



Health and Safety

Our health and safety management system applies to all contract partners who work with the Company to deliver services to water and sewerage customers, and is described in a published annual health and safety report. The 2005 Health and Safety Report will be issued to the Members of Glas Cymru at the 2005 Annual General Meeting and will be published on 8 July 2005.

In general terms, we assess the health and safety competence of contractors before appointment, we set proactive performance targets and monitor against this on a monthly basis to promote continuous improvement and robust health and safety practice. Furthermore, we operate an innovative process of internal cross auditing of health and safety performance in addition to independent external auditing. Under our management system, all incidents and 'near hits' are investigated and this allows us to set proactive targets and continually improve health and safety performance. In 2004/05 we further enhanced our management system to capture key data from contract partners and their lead subcontractors.

Performance in 2004/05

On a like for like basis, reportable incidents fell by 12%, having been reduced by 40% in the year before, and the total number of non reportable incidents fell by over 30%. This continues a steady improvement year on year over the period that Welsh Water has been owned by Glas Cymru.

	2002/03	2003/04	2004/05
Reportable incidents	57	32	28
Non-reportable incidents	402	345	263
Dangerous occurrences	2	4	3

In 2004/05 we set 165 individual targets of which over 90% were met during the year, with the remainder rescheduled and on target to be achieved in 2005/06. To have achieved this level of performance in a year of significant challenge and organisational change, during which we re-let major outsourced contracts, is worthy of note and it sets a solid benchmark for future performance.

In 2004/05 Welsh Water completed a competitive procurement process to select contract partners to work with the Company beyond April 2005. The appraisal of occupational health and safety was an integral part of this process. During the procurement process, a multi stage assessment was undertaken on prospective partners applying for contracts to provide operational and maintenance services, asset-investment and income and billing services. This process involved:

- assessment of a written pre-qualification questionnaire
- assessment of the written responses to the invitation to tender
- site visits to assess deployment of health and safety systems and processes
- the submission of a report and recommendation.

Our proactive approach to managing health and safety is delivering wider benefits to the business, not simply to the health and well being of our own people. Monitoring of days lost related to accidents and staff ill health shows that in 2004/05 we lost around 2% of available man-working days, which compares favourably with industry benchmarks, but even at this level, it represents a cost to the business of over £2 million a year. Importantly, segmental analysis of the cause of ill health absenteeism can identify risks to health that can be reduced by management action. For example, the most frequent cause of absence is muscular-skeletal injuries of which the single biggest type is hand injuries. Having identified this we have raised staff awareness and introduced a new 'glove policy' among contract partners to reduce the incidence of such injuries in the future.

In 2005/06 our focus will be in driving further improvement in health and safety performance more widely in the supply chain and in maintaining and consolidating the very good performance we have delivered in the last four years.

Financial

performance measures

Glas Cymru has significantly outperformed the financial targets it set in 2001, and has secured a strong financial position at the end of AMP3.

Glas Cymru's financial strategy is to offer a secure, low risk investment to long-term investors. By strengthening our financial position, our aim is to keep our future borrowing costs low, enabling us to finance future investment in the business efficiently, whilst having the scope to give our customers better value for money by paying 'customer dividends'.

Welsh Water

Welsh Water made a profit before tax of £20 million, as compared to a loss of £17 million in the previous year. As before, the £10 million tax credit was all in respect of deferred tax, giving a profit after tax of £30 million (2004: £13 million loss).

Welsh Water's turnover in the year to 31 March 2005 was £494 million (2004: £470 million). The increase primarily reflects the RPI+K price increase of 4.3% allowed by Ofwat for the year, which resulted in some £22 million of additional revenue. The effect of 'customer dividends' in the year was that turnover was some £12 million below the level allowed by the price control (2004: £12 million). Some 31,000 customers opted to switch to metered charging during the year (2004: 32,000 customers).

Customer debt recovery remains subject to very close attention by Welsh Water and by Thames Water, the billing and income services contract partner. Despite a difficult environment - not least because water companies are not allowed to disconnect supplies to domestic customers due to non-payment - cash collection performance was ahead of target. The bad debt charge for the year of £8 million (2004: £9 million) represents less than 2% of annual turnover.

Welsh Water's operating costs (excluding depreciation and amortisation) were unchanged at £219 million, which represents a reduction in real terms of

some 3%, continuing the trend of real reductions in operating costs over the previous three years. Since March 2001, operating costs have been reduced by some 18% in real terms, after the absorption of the cost impact of operating additional assets and meeting new quality standards.

Around 70% of Welsh Water's operating costs during that period were incurred under outsourced service contracts, including the contract with United Utilities Operating Services (UUOS) for the operation of the water network and Wastewater Treatment Works. Welsh Water has now entered into new operating contracts with UUOS and with Kelda Water, effective from 1 April 2005, which are expected to result in further improvements in operating efficiency in the period up to March 2010.

Capital expenditure by Welsh Water during the year was £238 million (before capital grants and contributions), bringing the total expenditure over the five years of the AMP3 period to £1,193 million. This figure includes some £22 million of expenditure on schemes advanced from 2005/06, the first year of the AMP4 programme, to ensure the delivery of required regulatory outputs on time. Completion of the AMP3 investment programme at a total cost some 5% below that allowed by Ofwat at the 1999 'price review' represents a considerable achievement by Welsh Water and its capital investment partners.

key supporting information

Under Welsh Water’s competitive procurement policy, specialist service providers undertake most of the day to day operation of assets and service delivery. Over the last 4 years we have delivered sustained improvements in services to customers and also enabled a better environmental performance that has led to our region having some of the highest quality rivers and coastal waters in the UK.

The largest element of operating expenditure is undertaken by UUOS. They report expenditure over the various functional expenditure categories in line with Ofwat definitions. Overall operating expenditure for the water and sewerage services was £212.6m. Allowing for inflation and the operating cost impact of new treatment works, this represents an improvement in underlying cost efficiency of around 3% in real terms.

The operating expenditure position at the end of the year outsourced contracts is shown in the Table 1.

	£000
United Utilities (Operations)	94,567
Thames (Customer Contact)	19,356
Severn Trent (Labs & Sampling)	7,645
Various (Sewerage Network)	11,283

Water operating expenditure by purpose
Analysis of water operating expenditure shows a reduction per property served in 2003/04 of over 3% in real terms, compared with last year. Total water service operating expenditure for the year was £114.4m, a comparison with last year and the Final Determination is shown in Table 2.

	Previous year Opex 2003/04 (Outturn)	Actual Year Opex 2004/05 (Outturn)
Base	106.6	106.8
Enhanced service	0.3	0.3
Supply & demand and IDOK	2.0	2.6
Quality and IDOK	4.5	4.7
Total water service (£m)	113.4	114.4

Capital expenditure

At the end of the fifth year of AMP3 the Company had met its key output targets including undertakings agreed with the DWI. A breakdown of capital expenditure during the reporting year is shown in Table 3. In 2004/05 we delivered the following major outputs from our Water Service investment programme:

- **Water Treatment Works:** Only one Water Treatment Works remained for completion during the report year. Betws y Coed WTW was abandoned during the report year to meet the iron undertaking at the works.
- **water mains programme:** 501km of water mains refurbished to improve water quality and reliability of supply to meet the 2,230km overall AMP3 target. In addition we have, over AMP3, replaced a total of 260km of water mains which caused worst servicability problems to customers. This compares with the Monitoring Plan target of 250km.
- **leakage reduction:** Leakage identification and prevention work has achieved a reduction of average leakage per day from 231MI to 226MI this year
- **new assets for new development:** 76km of new water mains to serve new development

- **water supply asset maintenance:**
Investment to maintain the performance of Water Treatment Works, Service Reservoirs, Impounding Reservoirs, Water Pumping Stations at over 681 sites and 49km of water mains.

Table 3: Capital expenditure by purpose water service (£m)

	Previous year Capex 2003/04 (Outturn)	Actual Year Capex 2004/05 (Outturn)
Base - Infrastructure	28.3	24.9
Base - Non infrastructure	32.7	19.1
Enhanced service	0.0	0.0
Supply & demand and IDOK	13.2	13.9
Quality and IDOK	27.0	24.1
Total water service (£m)	120.0	82.0

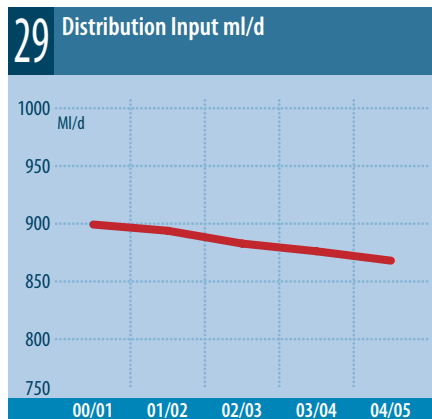
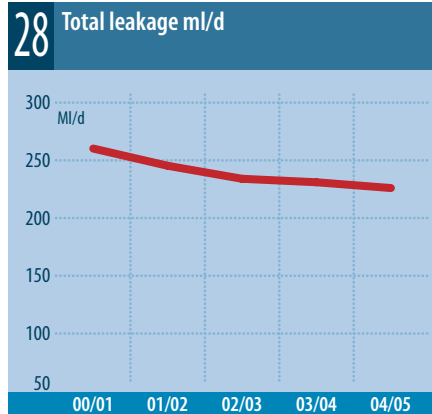
**Total Capex for water and sewerage (2004/05) was £239 million gross of infrastructure contributions.*

Table D requires the Company to identify any Water Treatment Works where maintenance investment in the year has exceeded 25% of the MEA value of the work. This threshold is too high and does not reflect the amount of capital maintenance actually carried out by the Company.

During the reporting year we have carried out planned capital maintenance work at 50 of our 81 operational Water Treatment Works, with 1 works having more than £100k invested during the year. Reactive maintenance was carried out at 87 Water Treatment Works (which includes works on standby during the year). Expenditure did not exceed the 25% MEA Value for any single Water Treatment Works.

Planned maintenance work has been undertaken, during the year, at 23 Service Reservoirs and 46 Water Pumping Stations, with further reactive maintenance work being undertaken at 248 service reservoirs and 346 Water Pumping Stations. Again, expenditure did not exceed 25% MEA Value on any single Water Pumping Station or Service Reservoir asset.

During the year we renewed a total of 382km of water mains, which includes 333km of water mains renewed to meet the DWI S19 undertaking and 49km renewed under prime purpose maintenance, and we relined 168km of unlined iron water mains. In the first four years of AMP3, relining has accounted for some 35% of the S19 mains refurbishment programme.



Leakage

Last year we made further progress to reduce leakage in our region. The annual leakage figure for the reporting year is 226MI/d, which is 4MI/d below the Ofwat target for 2004/05.

The rate of leakage was 8.3m³/km/day, down from 8.5m³/km/day in the previous year.

Our leakage performance is in line with the rest of the sector, although in a number of resource zones leakage remains above estimated Economic Level of Leakage (ELL) and work is under way to reduce leakage further. ²⁸

Distribution input and water delivered

Mainly as a result of leakage reduction, we have reduced the amount of water we need to abstract by around 12% since 1998.

The average distribution input for 2004/05 was 868MI/d. During the reporting year we have continued to carry out a programme of work to verify the accuracy of meters measuring input to the distribution system and this too contributed to the lower leakage figures reported. ²⁹

Metering

During the year an additional 31,387 customers have chosen to switch to a measured charge. 47,313 surveys have been processed resulting in 26,574 actual meter fits. There have been 4,813 cases where it has been impractical to fit a meter and these customers have been allowed an Assessed Measured Charge (AMC).

Since April 2000 we have undertaken 215,590 customer surveys resulting in 128,838 actual meter fits and 14,925 AMCs making a total of 143,763 customers switching from an unmeasured to a measured charge. The Company now has 20.6% of its total households on a measured charge.

GSS – Payments

The total number of GSS payments made by the Company in the reporting year relating to the water service, both automatically generated and claimed was 12 (excluding Enhanced GSS). GSS payments are categorised as follows:

Reason for GSS payment	No.
Planned interruptions	11
Unplanned interruptions	1
Total	12

Sewerage

Operating expenditure by purpose

Total sewerage service operating expenditure for the year was £98.2m. A breakdown is shown in Table 4.

	Previous year Opex 2003/04 (Outturn)	Actual Year Opex 2004/05 (Outturn)
Base	72.6	70.8
Enhanced service	0.3	0.4
Supply & demand and IDOK	0.6	0.7
Quality and IDOK	24.9	26.3
Total sewerage service (£m)	98.4	98.2

Capital expenditure

Total sewerage service capital expenditure for the year was £153.8m. A breakdown is shown in Table 5

	Previous year Capex 2003/04 (Outturn)	Actual Year Capex 2004/05 (Outturn)
Base - Infrastructure	20.3	16.9
Base - Non infrastructure	29.4	24.1
Enhanced service	3.2	2.2
Supply & demand	8.2	3.6
Quality and IDOK	87.1	107.0
Total sewerage service (£m)	148.2	153.8

*Total Capex for water and sewerage (2004/05) was £239 million gross of infrastructure contributions +3rd party costs.

Capital works activity

We achieved the agreed regulatory outputs within the overall capital investment allowance included in the Final Determination. Last year we delivered the following outputs from our Sewerage Service investment programme

- **Wastewater Treatment Works:**
67 identified quality outputs have been delivered. Overall we have delivered 99% of the expected population equivalent identified in the Monitoring Plan.

- **sludge:** Continuing work at 18 of our 36 sludge centres across Wales to meet HACCP requirements for sludge recycling to agriculture
- **Section 101a:** First time sewerage has been provided for 25 communities within the AMP period. This includes 21 out of the 23 schemes identified at the outset of AMP3. One scheme was cancelled after residents carried out remedial work, whilst a second scheme has been delayed due to ongoing discussions with a developer in the area. Four additional schemes have been incorporated into the programme and delivered by the end of the AMP3 period
- **CSOs:** 715 schemes completed to date in AMP3 with 124 schemes completed during the report year. Major works were undertaken at Afan, Llanelli and Western Valley sewers
- **sewer flooding:** 35 properties were removed from the 'at risk register' and a further 6 properties were removed from the HO Severe risk register
- **new sewers and other sewer refurbishment:** 70km of new sewers were laid and 20km of sewers refurbished in the year. A programme of CCTV surveys is being undertaken ahead of further investment
- **asset maintenance:** Work was carried out at over 300 sites to improve asset quality and serviceability and ensure compliance with consents.

The total sludge disposed of during the reporting year was 75ttds. All sludge was disposed of satisfactorily and 74% was treated to the enhanced standards.

Table D requires the company to identify any Wastewater Treatment Works, intermittent discharges, Sludge Treatment works, Pumping Stations and Sea Outfalls where maintenance investment has exceeded 25% of the Modern Equivalent Asset Value (MEA) of the asset. However, this is an extremely high threshold and is unlikely to reflect the amount of capital maintenance carried out by the Company. There were no sites which exceeded this threshold. Capital maintenance has however been carried out at 214 Wastewater Treatment Works, 7 CSO sites, 18 Sludge Centres, 58 Pumping Stations and 7 Sea Outfalls during the report year.

Sustainable procurement

Further to the competitive procurement process, which commenced in 2003, we have appointed key service delivery partners for asset operations, asset investment and billing & income.

UUOS was appointed as our operations partner for water services across Wales and Hereford and for wastewater services in north Wales. Kelda was appointed as our operations partner for wastewater in south Wales and Hereford. Amec, Morrison, Costain and Laing O'Rourke will support civil work and Black & Veatch and Meica the process area of work. Thames Water was appointed to deliver billing & income services.

As part of the selection exercise, we paid particular attention to the procurement and supply chain strategies proposed by the partners. Along with Health & Safety, Quality of Delivery, Human Resources and the Environment, the proposed Procurement and Supply Chain area was investigated and assessed during the procurement process and formed a key

input into the decision making process. We were particularly interested in the approach and relationships our proposed partners intended to adopt within the broader supply chain. We support the principles outlined in the British Water "Guide to Sustainable Procurement" and amongst our partners, Black & Veatch and EC Harris are founding members of the group which proposed the guide.

We have established an Asset Management Alliance (AMA) with our partners, with the objectives of improving service performance and reducing our operating and investment costs. The AMA will be the focus for a number of Business Support Teams (BST) which will comprise members of Welsh Water and its partners and which will support and develop collaborative working and continuous improvement across the wider Welsh Water business.

The following Business Support Teams have been established:

- Asset Strategy
- Health and Safety
- Business Development
- IT
- Knowledge Management
- Supply Chain

The Supply Chain BST is "responsible for setting the standard for best practice Supply Chain management across the AMA. It will develop and establish an aligned approach encompassing effective expenditure, relationship and supplier management." The team will be responsible for supporting delivery through the establishment of efficient and cost effective arrangements with the supply chain. Additionally a Commercial Management group has been established to support the development and implementation of an agreed set of terms and conditions for use with all partners across the supply chain. Such approaches and deployment will build upon the principles outlined in the guide.

We will continue to embody the key principles in the guide in our procurement processes. A number of significant procurement exercises will be undertaken over the next year and we are committed to ensuring that the key criteria established in the guide are adopted and assessed to ensure effective utilisation and engagement within the supply chain.

Efficiencies

Operating efficiencies

Operating costs for the year were £213.2m. Allowing for inflation and the operating cost impact of new treatment works this represents an improvement in underlying base cost efficiency of around 3% in real terms as compared to 2003/04.

Capital efficiencies

We undertook a thorough review of the capital investment programme following the change of ownership in May 2001. The AMP3 capital expenditure programme has been delivered for £1,193 million (before capital contributions). This represents additional efficiency savings compared to those assumed in the Final Determination in the order of 5%. Welsh Water's Capital Alliance has worked well and good results have been achieved in delivering the AMP3 capital investment programme on time and within budget.

Competition

Competitive procurement

Our Asset Operation, Customer Billing and Contact Centre Management and Capital Alliance Service partners delivered good results throughout the AMP 3 period. In May 2003 we published three notices in the Official Journal of the European Union (OJEU) inviting organisations to express their interest in the provision of Asset Operations, Asset Investment and Billing and Income services to commence from April 2005 and carry on throughout AMP 4 and beyond.

The OJEU notice attracted a large number of responses that were then subjected to a highly competitive and robust process. The organisations who expressed an interest in tendering for the work were invited to complete a pre-qualification questionnaire and the evaluation of the applications resulted in Invitations to Tender/Business Enquiry documents being issued to a reduced list of qualifying applicants.

A detailed evaluation of the qualitative and commercial proposals was undertaken culminating in a reduced list of tenderers being invited to the next stage of evaluation which comprised meetings covering key differentiating areas. We were seeking to appoint partners who would successfully integrate to produce the optimum combination of innovation and efficient delivery from a whole asset life and service perspective.

In September 2004 we conferred preferred partner status on two Asset Operations tenderers and six asset investment tenderers and duly completed negotiations on contractual terms and conditions. In January 2005, the following companies were appointed as from April 2005;

- United Utilities Operational Services Limited to undertake water activities and services for the whole of the north Wales and the south Wales operating areas and waste water activities and services for the north Wales area for a term of up to 15 years subject to the reviews set out in the contract
- Kelda Water Services Limited to undertake waste water activities and services in the south Wales operating area for a term of up to 15 years subject to the reviews set out in the contract
- Laing Utilities Limited to undertake civil engineering works principally for mains rehabilitation for a term of up to 10 years subject to the reviews set out in the contract
- Amec Group Limited to undertake civil engineering works principally for south east Wales for a term of up to 10 years subject to the reviews set out in the contract
- Costain Limited to undertake civil engineering works principally for north Wales for a term of up to 10 years subject to the reviews set out in the contract
- Morrison Construction Services Limited to undertake civil engineering works principally for south west Wales for a term of up to 10 years subject to the reviews set out in the contract
- Black & Veatch Contracting Limited to undertake process engineering works principally for the clean water programme for a term of up to 10 years subject to the reviews set out in the contract.
- Meica Process Limited to undertake process engineering works principally for the waste water programme for a term of up to 10 years subject to the reviews set out in the contract

In March 2005 we appointed Thames Water Services Limited to undertake billing and income services for a term of up to 7 Years subject to the reviews set out in the contract and commencing in April 2005.

The above appointments are based on contracts which reward our partners for delivering sector leading performance measured through a suite of key performance indicators. Our procurement strategy is designed to ensure we appoint the most capable and competent operators and construction companies in the marketplace who are able to deliver the best combination of value for money and quality of service for our customers.

Network access

Our Network Access code was published in August 2000 and updated in August 2002. It was not updated during the reporting year, but will need to be reviewed in the context of the changes introduced by the Water Act 2003.

Inset Appointments

There has been no activity relating to new inset appointments during the reporting year.

Board endorsement

On 3 June 2005, the Board of Welsh Water duly endorsed this Overview of the June Return 2005. The Reporter attended the Board Meeting for this matter.