

ANGLIAN WATER - Draft Business Plan Summary - PR09

OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND

Anglian Water's fundamental goal is to deliver a reliable supply of clean, safe drinking water and effective wastewater services at an affordable price. This Draft Business Plan sets out our plans to achieve this goal in a region that is growing and where the impact of climate change is likely to be significant. We always consider the needs of our customers first and foremost. Our work with customers and significant regional organisations played a major part in shaping this plan. In summary, our plans will:

- secure reliable and resilient supplies of clean, safe drinking water and effective sanitation for present and future customers through targeted and cost-effective maintenance and enhancements
- build the additional capacity in water and wastewater networks that is needed to meet the housing growth required by government and changing demographics
- reduce the risk of customers being without water because of the loss of critical assets, for example because of drought or flooding
- continue the steady improvement in areas of our service that concern customers most, particularly the prevention of flooding from sewers
- conserve water by increasing the level of metering, driving down leakage and assisting our customers to become more water efficient
- secure the further improvements to the water environment that are required by legislation.

In December 2007 we published our Strategic Direction Statement, which set out our long-term strategy and set the scene for this period review. In our SDS we identified the seven critical challenges that we face over the next 25 years - growth, climate change, our customers' expectations, the effects of environmental pressures, innovation, employees and employment and the structure of the industry. Our strategy takes account of these challenges, the views of customers and those we serve in our region, with an appropriate balance of service and risk. The need to meet these challenges has been a guiding principle behind our Draft Business Plan.

Our capital investment plan for AMP5 totals £2.5bn. The investment plan:

- delivers an appropriate balance of service performance, risk and return while keeping increases in bills within current levels of affordability over the next five years
- takes account of the priorities of customers
- delivers improvements for which customers are willing to pay
- reflects the programme set out in our Strategic Direction Statement and will effectively deliver the first steps of our strategy.

Specifically, our plans will enable us to achieve four key objectives:

- to meet our customers' key priority that we maintain a resilient and reliable service at least at current levels
- to provide for growth in our region in a changing climate
- to improve levels of service to customers where benefits justify the costs
- to enhance the quality of drinking water and the environment as required by legislation.

We will deliver all of these benefits for a moderate increase in average bills of 0.7% p.a. in real terms. This is significantly less than the rises that have been seen recently for other elements of household spending, even though we face substantial pressure on operating costs from rising prices of energy and materials.

Overall we believe that the package of measures described represents value for money for our customers.

QUALITY AND SERVICE IMPROVEMENTS IN 2010-2015 PERIOD AND IN THE LONGER TERM

Base Service Maintenance - Customers have consistently told us that their over-riding priority is the maintenance of the quality and reliability of our services. Our extensive consultation with our customers and those we serve in our region has not revealed any customer support for a plan which offers lower levels of service in exchange for lower bills. We plan to invest £1.4bn over the 5 years to maintain service to our customers at current levels.

Service Enhancements - We are proposing £69m of investments in AMP5 which tackle the problems that are of particular concern to customers, including reducing the risk of flooding from sewers, and reducing odour from sewage treatment works and pumping stations.

Quality Enhancements - We have a legal obligation to comply with the regulations and standards for drinking water quality and for environmental improvements. Our proposed investment program of £412m in AMP5 will enable us to meet our obligations while still representing a package which delivers significant benefits to our customers.

Supply / Demand Balance - Climate change and growth are the two main challenges facing our region over the next 25 years. We expect population and property numbers in our region to accelerate over the medium term, driven by central and local government plans. Climate change has a substantial impact on how we provide for growth on both water and wastewater services. We have put forward investment proposals to provide for growth in our region, totalling £646m, which are sustainable; encourage and help customers towards responsible water usage; provide for flexibility to deal with greater risks and uncertainties; take account of the short term decline in growth; secure water supplies and the wastewater service; and deal with the short term needs while preparing for the longer term challenges.

WHAT IS DRIVING THE CHANGES IN BILLS? (2007-08 PRICES)

		Water	Sewerage
Average household bill in 2009-10		160	200
Less	(1) past efficiency savings and outperformance	-0.5	-0.5
	(2) maintaining base services	2.0	3.3
	a) changes in revenue	-1.5	-2.5
	b) changes in operating costs to maintain current services to consumers	2.6	4.6
Plus	c) changes in costs of maintaining assets	1.8	3.0
	d) changes in impact of taxation	0.0	0.0
	e) the change in the cost of capital	-1.0	-1.8
	(3) maintaining and enhancing security of supplies to all customers	2.2	2.9
	(4) the impact of improvements in services	0.7	3.8
	a) drinking water quality	0.7	
	b) environmental improvements		3.1
	c) Improvements in service levels	0.0	0.7
Less	(5) scope for reduction through future efficiency improvements	-0.1	-0.2
Average household bill in 2014-15		164	209

PRICE LIMITS AND EFFECT ON AVERAGE BILLS (2007-08 PRICES)

Proposed price limit	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
W Indicative price limit (water service)		6.3	1.0	2.4	1.5	1.9
1 Typical measured household bill	142.04	144.67	146.59	150.40	151.13	151.18
2 Typical unmeasured household bill	197.09	205.36	213.33	227.76	238.90	251.36
3 Average household bill	159.87	162.08	162.83	165.64	165.14	164.19

S Indicative price limit (sewerage service)	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1 Typical measured household bill	181.12	192.62	191.51	191.38	191.18	192.20
2 Typical unmeasured household bill	238.02	261.41	264.31	271.58	280.13	292.74
3 Average household bill	200.33	213.77	211.20	209.80	208.72	209.28

ESTIMATE OF EXPENDITURE NEEDS (2007-08 PRICES)

		Annual average for the 2010-2015 period (£/property/annum)	
		Water	Sewerage
1	Operating costs to maintain current services to consumers	80.99	85.15
2	Operating costs to improve services to consumers and protect the environment	3.62	6.89
3	Cost of maintaining assets to deliver current services to consumers	55.71	52.11
4	Cost of improving assets to deliver improvements for the environment and consumers	56.30	57.92
		Pre tax debt, post tax equity basis	Fully post-tax basis
5	Assumed cost of capital (%)	5.44%	4.80%

For further information go to: www.anglianwater.co.uk