

OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND
<p>We believe four major challenges face the future of our water supply:</p> <ul style="list-style-type: none"> <li>An ageing supply network; more than a fifth of our water mains are over 100 years old</li> <li>Ensuring the resilience of our supply system meets the expectations of our customers</li> <li>The population we serve is increasing</li> <li>Climate change is expected to lead to longer, drier summers. We also need to act and think differently to reduce our own impact in the environment</li> </ul> <p>There are also significant cost pressures to deal with, for example power costs.</p> <p>Addressing these challenges requires a careful balancing act between affordability, service and reliability, and impact on the environment. To help us achieve this balance we have undertaken detailed customer research into customers' priorities and willingness to pay for potential improvements in service. The findings have been used to shape our plan so that it meets our customers' wishes.</p> <p>Our plan requires capital expenditure of £318m over the period 2010-2015. This is over double the level of expenditure in 2005-10. Key reasons for the increase include:</p> <ul style="list-style-type: none"> <li>A move to an optimal and sustainable level of network replacement. Over the period between 2000 and 2010 the average rate of mains replacement has been very low at 0.3% pa and very few communication pipes have been replaced. We plan to increase the rate of mains replacement to 1.0% pa, and to replace lead communication pipes at the same time. This will enable leakage to be reduced.</li> <li>Further investment to ensure water quality meets standards at customers' taps</li> <li>To meet increasing demand arising from a growing population. This requires development of some new small sources and preparatory work for a new reservoir at Cheddar in 2025.</li> <li>We plan four schemes to improve the resilience of supply to customers in the areas around: North and West Bristol; Weston-super-Mare, Glastonbury and Street; Frome; and Tetbury</li> </ul> <p>Our long term strategy is set out in our SDS and Water Resources Plan, available on our website.</p>

QUALITY AND SERVICE IMPROVEMENTS IN 2010-2015 PERIOD AND IN THE LONGER TERM
<p>Our plan delivers to customers:</p> <ul style="list-style-type: none"> <li>Improvements in water quality from a current high base</li> <li>A 10% reduction in leakage from 54 MI/d to 49 MI/d</li> <li>A reduction in the numbers of discoloured water complaints and interruptions</li> <li>A risk of hosepipe bans of less often than 1 year in 20, and of standpipes being required less often than 1 year in 100</li> <li>Improved supply resilience for 1 in 6 consumers ensuring that service can be maintained in the event of a failure or loss of a critical asset</li> <li>Reductions in CO<sub>2</sub> emissions</li> <li>Stable serviceability for infrastructure and non-infrastructure assets – i.e. sufficient maintenance of our assets to ensure that customers see no deterioration in the service they receive</li> </ul>

WHAT IS DRIVING THE CHANGES IN BILLS? (2007-08 PRICES)		£
Average household bill in 2009-10		148
<b>Less</b> (1) past efficiency savings and outperformance		0
(2) maintaining base services		27
of which		
<b>Plus</b> a) changes in revenue	-5	
b) changes in operating costs to maintain current services to consumers	14	
c) changes in costs of maintaining assets	9	
d) Increases in power costs	9	
e) changes in the cost of capital and taxes	0	
(3) maintaining and enhancing security of supplies to all customers		9
(4) the impact of improvements in services		12
of which		
a) drinking water quality	8	
b) environmental improvements	0	
c) Improvements in service levels (resilience)	4	
<b>Less</b> (5) scope for reduction through future efficiency improvements		-9
Average household bill in 2014-15		187

PRICE LIMITS AND EFFECT ON AVERAGE BILLS (2007-08 PRICES)						
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Proposed price limit</b>	0	13.5	4.6	3	2.8	2.8
<b>W Indicative price limit (water service)</b>	0	13.5	4.6	3	2.8	2.8
1 Average measured household bill	138	154	161	167	172	177
2 Average unmeasured household bill	153	173	180	185	190	195
3 Average household bill	148	166	173	178	182	187

ESTIMATE OF EXPENDITURE NEEDS (2007-08 PRICES)		
	Annual average for the 2010-2015 period (£/property/annum)	
1	Operating costs to maintain current services to consumers	93.5
2	Operating costs to improve services to consumers and protect the environment	7.6
3	Cost of maintaining assets to deliver current services to consumers	54.2
4	Cost of improving assets to deliver improvements for the environment and consumers	69.2
	<b>Pre tax cost of debt and post tax cost of equity basis (Vanilla)</b>	<b>Fully post-tax basis</b>
5	Assumed cost of capital (%)	6.50% 5.70%