

## One Page Summary

### General

Cambridge Water (the Company) has submitted to Ofwat on 11<sup>th</sup> August its Draft Business Plan (DBP) for the period 2010/11 to 2014/15. It wants to continue to provide good levels of service to the Cambridge supply area. To do this it considers that it is necessary to increase charges by 20% more than inflation over the period of the business plan.

### Audit Process

The Reporting team has held audit meetings with the Company's staff to obtain a detailed understanding of the key assumptions, data and methodologies on which the DBP is based. Their assumptions have been challenged and investigated. The Reporting team has received extensive co-operation from the Company in conducting the audit. The audit process has picked up errors in the data inputs and in the assumptions built into the plan, that were not picked up by the Company's checking procedures. Where possible they have been corrected by the Company, but some are included in the DBP and will be corrected in the final plan. A number of proposed investment projects need further development and may be revised in the final business plan.

### Company Strategy

The Company Board has adopted a low risk strategy for the DBP and it identifies the key issues as:

- **Growth:** Significant housing and population growth is predicted for the Cambridge sub-region in the East of England Plan. This will increase the demand for water, but the adoption of water efficiency measures including increased metering will limit the growth in demand.
- **Water Supply:** The Company is in the fortunate position that it will have adequate resources until after 2030.
- **Leakage:** The Company plans to maintain leakage at 14 MI/d, reducing per property leakage by 30% by 2035. They are finding it increasingly difficult to hold leakage below 14 MI/d and have introduced a District Meter Area (DMA) system to improve leakage management.
- **Nitrates:** Rising groundwater nitrate levels could lead to nitrate water quality failures before 2015. The Company plans to avoid this by introducing a number of nitrate treatment plants, which will increase treatment costs substantially. Detailed aquifer, catchment and feasibility studies are required to enable the optimal solution to be developed.
- **Maintaining serviceability:** The Company plans to increase significantly the investment in mains renewal to ensure that they can maintain stable serviceability throughout AMP5 and beyond. The increase in mains renewal will reduce bursts and help control leakage.
- **Operational costs:** The large increases in energy and operational costs cannot be avoided and will lead to increasing cost pressures.

The nitrate investment strategy, the increase in the investment in mains renewal and the expected increase in Opex costs mean that water bills could rise significantly. The Company's overall strategy involves increasing customer bills in AMP5 by 20% more than inflation. This is a substantial increase and needs robust justification.

### Audit Concerns

The following concerns have been identified during the audit:

- The late completion of sections of the DBP limited time for audit investigations.
- The justification and the scope of work of a number of projects including the nitrate removal plants and the increase in mains renewal requires further development. This should be provided in the final business plan.
- Asset revaluation has not been carried out for the draft plan. The Company plans to include this in the final plan.