

PR09 DRAFT BUSINESS PLAN SUMMARY BY THE REPORTER

Introduction

As part of the regulatory process, water companies' submissions to the Water Services Regulation Authority are audited and reported on by a Reporter. I, Roger Sawdon of Atkins Limited, am appointed as the Reporter for Northumbrian Water and I and my team have audited Northumbrian Water's 2009 Draft Business Plan. I have submitted my full Report to the Chief Executive of the Water Services Regulation Authority and the Directors of Northumbrian Water; this document summarises my opinions as to the process established by the Company to ensure that the public domain summary is well founded and consistently supported by the textual and numerical information in the draft business plan submitted to Ofwat. These opinions are based on our audits and on the extent to which those audits represent Northumbrian Water's Draft Business Plan I can confirm that the public domain summary is consistent with the numerical information drawn from the draft business plan tables. My review has indicated that the supporting text is consistent with the material assumptions made in the business plan.

Overall Strategy

The overall strategy is firmly supported by the Directors of Northumbrian Water. Northumbrian Water's Draft Business Plan includes expenditure to meet key objectives set out in the Summary. Customer research has indicated that there is limited willingness to pay for improvements to service. The Company intends to maintain its high level of service to its customers, to maintain security of supply, to maintain stable serviceability of its asset base and to meet legal environmental and quality obligations. The Company also proposes to improve customer service without additional cost to customers. Major investment is proposed to address sewer flooding. Investment is also proposed to reduce the number of customer complaints regarding discoloured water, to improve customer satisfaction with taste & odour of drinking water and to address the risk in failing the new standard for lead in drinking water. The Draft Business Plan includes efficiency targets to further reduce the Company's operating costs.

Co-operation from the Company

Overall, the Reporter team has had very good co-operation from the Company, but pressure of time reduced the time available for audit and this impacted upon our ability to complete all audits to the degree of detail that we would have wished. Further work will be required by both the Company and the Reporter team over the coming months to ensure that the Final Business Plan is as robust as possible. The Company has committed to agree a detailed audit programme to ensure that the Reporter is able to complete his audits in good time for the Final Business Plan.

Proposed Price Limits and Effect on Average Bills

Northumbrian Water has provided details of the Increase in Price Limits (the K factor) over the period 2009/10 to 2014/15. The effect on average bills has been correctly extracted from the Draft Business Plan.

Projected Expenditure Needs

The annual average expenditure on Operation, Capital Maintenance and Capital Enhancement have been correctly extracted from the Draft Business Plan

What is Driving the Changes in Bills?

Northumbrian Water's figures given in each of the categories reducing or increasing bills are derived from the Company's Financial Model and are exposed in tables in Part A of the Draft Business Plan.

Roger Sawdon, 22 August 2008 Atkins Limited, Woodcote Grove, Epsom, Surrey, KT18 5BW