

Explanation of the company's plan to deliver now and in the future

OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND

Our draft business plan for 2010-2015:

Proposes a total investment programme of more than £4 billion representing investment of over £1,300 for each of the three million households we serve. This is £800 million higher than our current 2005-2010 investment programme, mainly because of issues that arose in earlier periods and where we only now have the approvals and clarity to be able to invest.

Reflects the geography and history of the North West. Our region has relatively small rivers draining the major urban centres in the south of the region; a legacy of pollution from heavy industry; sewer systems that combine both storm drains and sewage; and changes to the natural environment. Ten per cent of rivers are in poor or bad biological condition, twice the national average, even though that proportion has fallen by two thirds since 1990.

Invests:

- **in our water business** with key priorities including constructing the west-east pipeline link across the south of the region, protecting our water assets from flooding risk and enhancing site security, all to improve the resilience of the network. We also propose to expand the cleaning of our water network to enhance drinking water quality, and improve the taste and odour of our tap water.
- **in our wastewater business** where the priorities are to invest in upgrading storm overflows significantly reducing the number of discharges into the environment. We propose to improve the treatment capability at our works at Liverpool and Bromborough on the Wirral; and to ensure our treatment works can meet the additional demands of population growth in our region.

We also plan to halve the number of incidents of flooding of homes by overloaded sewers.

- **to address climate change** challenges such as arresting the growth of our carbon footprint; improving understanding of surface water flood risk across the region and building climate change impacts into our water resource plans.
- **to improve standards of service and our infrastructure** where we know there are weaknesses. A greater proportion of our equipment requires more frequent replacement and refurbishment, reflecting the more sophisticated treatment processes we use today.

Proposes an increase in bills of 11p per day by 2015, or on average 2.1 per cent above the rate of inflation between 2010 and 2015. This is around the historical rate of increase in household incomes.

Helps our more vulnerable customers through the United Utilities Trust whose funding we are increasing by 67 per cent. We will also investigate new tariffs that help address issues of affordability and expand our programme to help customers use water more efficiently.

Estimates that our investors will, on average, expect returns of 4.7 per cent. This return is lower than the assumed level at the last price review, reflecting the sustained reduction in the cost of debt finance available to the water sector since 2004. Financing a programme of this scale represents a significant task, particularly in a more uncertain financial environment.

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

Our approach to quality and service improvements has been to work with our regulators who define the environmental and drinking water quality standards we must meet and build a robust investment programme to meet those requirements.

In addition, we have identified where we can improve our quality of service in areas where customers have told us they would like to see better service and where we can do this at comparatively low cost.

Our drinking water quality programme tackles, in particular, the acceptability of water to our customers, reducing the risk of discoloured water by cleaning our larger water pipes and improving taste and odour at locations where this is known to cause a particular problem.

We have a substantial programme of environmental improvement: making our contribution to improving the region's bathing beaches against new, higher standards; improving river quality by reducing storm discharges and meeting tighter wastewater treatment standards. We also need to enhance the

quality of wastewater sludge so that it can continue to be recycled to agricultural land in the face of more stringent regulatory requirements.

We believe we can improve the value for money of our services in several areas. We will tackle sewer flooding of homes and open spaces such that the number of incidents of homes flooding each year as a result of storms will halve. We will make our water network more secure through the construction of a major new pipeline crossing the south of the region. We will protect our critical water facilities against flooding and improve the information we receive about the water network, both of which will make interruptions to supply less likely.

We want to reduce our climate change impacts by producing more of the energy we use in a renewable way. We also want to make the land we own better able to act as a store of carbon. Together, these measures will allow us to arrest the substantial increase in greenhouse gas emissions we have seen over the past seventeen years as a result of earlier investment programmes.

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

	Units	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Proposed price limit	%	3.0	4.2	4.4	3.1	1.3	0.7
W Indicative price limit (water service)	%	1.9	13.0	4.4	2.7	0.0	-1.1
1 Average measured household bill	£	147	162	167	170	169	167
2 Average unmeasured household bill	£	165	186	195	200	200	198
3 Average household bill	£	160	180	187	190	189	186
S Indicative price limit (sewerage service)	%	3.6	-2.2	4.4	3.4	2.3	2.1
1 Average measured household bill	£	176	171	176	180	183	186
2 Average unmeasured household bill	£	198	193	202	208	212	216
3 Average household bill	£	191	186	193	197	201	203

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

		Water	Sewerage
Average household bill in 2009-2010		160	191
Less	1 Past efficiency savings and outperformance	0	(2)
	2 Maintaining base services	14	(8)
	of which	Water	Sewerage
	a) changes in revenue	(1)	(7)
	b) changes in operating costs to maintain current services to consumers	10	5
Plus	c) changes in costs of maintaining assets	12	5
	d) changes in impact of taxation	0	(1)
	e) the change in the cost of capital	(7)	(10)
	3 Maintaining and enhancing security of supplies to all customers		6
	4 The impact of improvements in services		14
	of which	Water	Sewerage
	a) drinking water quality	13	-
	b) environmental improvements	-	26
	c) Improvements in service levels	1	1
Less	5 Scope for reduction through future efficiency improvements		(8)
			(9)
Average household bill in 2014-2015		186	203

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	84	80
2	Operating costs to improve services to consumers and protect the environment	5	9
3	Cost of maintaining assets to deliver current services to consumers	58	79
4	Cost of improving assets to deliver improvements for the environment and consumers	44	80
		Pre-tax cost of debt and post-tax cost of equity basis	Fully post-tax basis
5	Assumed cost of capital (%)	5.3%	4.7%

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