

Table A0 - Sutton & East Surrey Water - Explanation of the company's plan to deliver now and in the future**OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND****Introduction**

Sutton & East Surrey Water, together with its predecessors, has provided an essential service to the people living or working in its area of supply for 150 years. Given the essential nature of this service, the Company's objectives are fundamentally governed by statute and regulation, and in more recent years customer service standards have been added.

Our strategic objectives, built around customer research and consultations with stakeholders, can be summarised as follows:

- to maintain the supply of the highest quality water to our customers and to achieve 100% compliance with water quality standards;
- to maintain an adequate, continuous supply of water to our customers;
- to improve resilience, and to overcome a deficit in resources to meet peak demands;
- to maintain very high levels of service to our customers;
- to carry out our operations in an environmentally friendly and sustainable way; and
- to maintain an appropriate level of return to our shareholders.

Implicit in achieving the above are that we have to:

- maintain our asset base;
- comply with all relevant legislation and similar obligations;
- manage our water resources with a view to the future;
- ensure our charges represent reasonable value for money;
- minimise our burden on the environment;
- continue to innovate and make the most effective use of modern technologies;
- meet new challenges and obligations;
- be efficient;
- maintain an appropriate level of security at all of our sites;
- be a good and progressive employer; and
- maintain our credit ratings.

Key Issues

It is our key aim at this price review to achieve the best balance of outputs, investment and prices that will meet customers' aspirations for their water supply as well as enabling the Company to invest appropriately in existing and future assets whilst making an adequate return to satisfy its investors

The key issues that arise from our selected outputs and strategic objectives, at this price review are:

- Security of supply;
- Renewal and maintenance of existing assets;
- Large increases in specific uncontrollable operating costs;
- The cost of capital necessary to raise new debt and equity;
- Metering policy; and
- Risks and uncertainties;
- Competition;
- The need to operate efficiently; and
- The need to maintain high standards of service.

Prices

A total price increase of 25% is needed for the five-year period 2010-15. The reasons for the increase are given in the table below :

Base service and metering	10.7%
Enhanced service levels	1.0%
Security of supply – Bough Beech	3.4%
Increases in the costs of power and chemicals	9.2%
The maintenance of adequate financial ratios and returns	0.7%
Total	25.0%

If the costs of power and chemicals, which are outside the Company's control, are removed, prices increase at 3.2% per annum.

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

We have continued to deliver a high standard of service to our customers, and our research confirms that our customers are pleased with this performance. However, the research has also highlighted a 'Willingness to Pay' for further service improvements in the forthcoming period. The service improvements comprise the following :

- Water restrictions – Drought orders only to be required once every 40 years.
- Network improvements – Unplanned Interruptions to supply from 10,900 to 9,750.
- Network improvements – Discolouration contacts from 110 to 100.
- Water efficiency – Additional 0.11 Ml/d per annum.

Water quality improvements

The Company has included in its Draft Business Plan projects to address emergency planning requirements issued by Defra and to accommodate the recommendations of the interim report of the Pitt Review into the floods of Summer 2007. It has also included a programme to enable it to deal with the reduction of the lead standard to 10ug/l in 2013.

The Company expects to agree an Authorisation with the DWI in the near future for it to investigate the presence of the pesticide metaldehyde in its raw water source at Bough Beech. The concentrations detected are not harmful to health. However, the Company is involved in an industry wide research to consider how best to deal with the situation, either at source or with treatment.

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

		Water	Sewerage
Average household bill in 2009-10		153	
Less	(1) past efficiency savings and outperformance	0	
	(2) maintaining base services	153	
	of which	Water	Sewerage
	a) changes in revenue	0	
	b) changes in operating costs to maintain current services to consumers	19	
	c) changes in costs of maintaining assets	6	
	d) changes in impact of taxation	0	
	e) the change in the cost of capital and financeability	1	
Plus	(3) maintaining and enhancing security of supplies to all customers	14	
	(4) the impact of improvements in services		
	of which	Water	Sewerage
	a) drinking water quality	2	
	b) environmental improvements	0	
	c) Improvements in service levels	1	
Less	(5) scope for reduction through future efficiency improvements		-3
Average household bill in 2014-15			193

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

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Proposed price limit						
W Indicative price limit (water service)	-1.1	12.6	3.3	5.1	3.0	1.0
1 Average measured household bill	138	145	149	155	159	160
2 Average unmeasured household bill	158	184	191	202	209	211
3 Average household bill	153	173	179	187	192	193
S Indicative price limit (sewerage service)						
1 Average measured household bill						
2 Average unmeasured household bill						
3 Average household bill						

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	106	
2	Operating costs to improve services to consumers and protect the environment	4	
3	Cost of maintaining assets to deliver current services to consumers	56	
4	Cost of improving assets to deliver improvements for the environment and consumers	42	
		Pre tax cost of debt and post tax cost of equity basis (Vanilla)	Fully post-tax basis
5	Assumed cost of capital (%)	6	5.45

For further information go to [\[hyperlink to company's website\]](#):