South East Water - Explanation of the company's plan to deliver now and in the future

OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND

Our strategy is aligned with our Strategic Direction Statement (SDS) published in November 2007. The key strategic themes discussed within the SDS are the key themes of our Draft Business Plan and include:

(1) **Comply with all our legal requirements and further develop our risk based approach**
We intend to fully comply with new legal requirements aimed at increasing the security of our assets. In response to climate change we also consider that it is essential to invest in our assets to improve resilience and to reduce the proportion of our customers who are dependant on a single treatment works.

(2) **Manage the**
Investment is required to meet the increase in demand for water, driven from growth in new customers and in our existing customers using more water. We will manage demand by increasing the percentage of customers on a meter and promoting the efficient use of water.

(3) **Maintain asset serviceability, our consumers preferred level of service.**
We will invest in our assets to ensure that our ageing infrastructure is capable of maintaining our current levels of service.

(4) **Provide a reasonable return for investors**
Maintain a sustainable capital structure that will support our long term plans and key financial indicators.

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

All applicable water quality standards will be met in line with our Water Safety Plan approach. Including increased monitoring and enhanced treatment at our water treatment sites.

Deliver our supply and demand targets, as set down in our Water Resources Plan. Achieved through the delivery of universal metering, promotion of water efficiency, increased interconnectivity of our pipe network and the development of new waters sources.

Continue to maintain leakage at the current absolute level representing a real reduction of 1% per annum as the amount of water we supply continues to increase.

Maintain the current level of service. Delivered through the renewal and refurbishment of just under 4% of our current network, maintenance activity at 75 treatment works, 177 pumping stations and 61 reservoirs.

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

				Water	Sewerage
Average household bill in 2009-10				160.08	
Less	(1) past efficiency savings and outperformance			0.87	
	(2) maintaining base services			33.80	
Plus	of which	Water	Sewerage		
	a) changes in revenue	*6.65*			
	b) changes in operating costs to maintain current services to consumers	*14.51*			
	c) changes in costs of maintaining assets	*12.51*			
	d) changes in impact of taxation	*-2.05*			
	e) the change in the cost of capital	*-7.56*			
	(3) maintaining and enhancing security of supplies to all customers	7.46			
	(4) the impact of improvements in services	2.27			
	of which	Water	Sewerage		
	a) drinking water quality	*2.00*			
	b) environmental improvements	*0.27*			
	c) Improvements in service levels	*0.00*			
Less	(5) scope for reduction through future efficiency improvements			0.67	
Average household bill in 2014-15				192.34	

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)**	**2.20%**	**13.60%**	**4.00%**	**1.30%**	**2.50%**	**2.30%**
1	Average measured household bill	£130.43	£147.24	£151.22	£153.70	£156.33	£159.04
2	Average unmeasured household bill	£180.19	£204.28	£210.33	£212.43	£220.06	£227.19
3	Average household bill	£160.08	£182.02	£185.63	£186.20	£189.45	£192.34
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	
1	Operating costs to maintain current services to consumers	94.72	
2	Operating costs to improve services to consumers and protect the environment	3.54	
3	Cost of maintaining assets to deliver current services to consumers	53.53	
4	Cost of improving assets to deliver improvements for the environment and consumers	80.91	
		Pre tax cost of debt and post tax cost of equity basis (Vanilla)	**Fully post-tax basis**
5	Assumed cost of capital (%)	5.87%	5.15%

For further information go to: http://www.southeastwater.co.uk