

Southern Water - Explanation of the company's plan to deliver now and in the future**OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND**

In our 25 year SDS we set out how we would prepare this 5 year Business Plan in the context of the longer term. We stated our key objectives were to:

- Provide value to customers
- Deliver resilient services
- Enable sustainable growth

In the period 2010-2015 we will:-

- Enhance our asset base to ensure resilient services.
- Deliver the portfolio of Environmental Improvement Schemes required by European legislation.
- Provide new infrastructure to allow sustainable growth in the South and South East.
- Deliver full metering to enable customers to control their bills.
- Reduce the number of properties at risk of flooding.
- Ensure that when customers contact us we will resolve queries first time.
- Further improve the quality of drinking water.
- Increase mains replacement and reduce leakage levels.
- Develop additional water resources in the more water-stressed areas.
- Reduce pollution events and sustain our improvement to WW compliance.
- Implement cost beneficial schemes to reduce our energy consumption and carbon footprint.

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

- Install 500,000 meters to enable customers to control their bills.
- Reduce leakage, improve pressure and burst performance - integrated with renewal of 454 km of water mains.
- Target improvements to high risk critical assets to reduce high consequence risk, e.g. Eastney Pumping Station and vulnerable single water sources.
- Complete the National Environment Programme of 329 wastewater schemes.
- Increase the capacity of our WWTWs and install 317 km of new or larger sewers to meet the demand from new housing and commercial development.
- Reduce the number of properties flooded or at risk of flooding.

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

			Water	Sewerage
Average household bill in 2009-10			122	230
Less	(1) past efficiency savings and outperformance			-4
	(2) maintaining base services		12	18
	of which	Water	Sewerage	
	a) changes in revenue	3	4	
	b) changes in operating costs to maintain current services to consumers	2	6	
Plus	c) changes in costs of maintaining assets	7	8	
	d) changes in impact of taxation	4	6	
	e) the change in the cost of capital	-4	-6	
	(3) maintaining and enhancing security of supplies to all customers			10
	(4) the impact of improvements in services			6
	of which	Water	Sewerage	
	a) drinking water quality	6		
	b) environmental improvements		27	
	c) Improvements in service levels		6	
Less	(5) scope for reduction through future efficiency improvements			-4
				-6
Average household bill in 2014-15			146	281

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			14.8	2.7	2.8	3.4	-0.3
W	Indicative price limit (water service)		15.0	1.9	1.2	0.1	-0.2
1	Typical measured household bill	111	124	126	128	128	127
2	Typical unmeasured household bill	130	153	156	168	159	159
3	Average household bill	122	141	144	146	146	146
S			14.7	3.0	3.3	4.5	-0.3
1	Typical measured household bill	189	218	223	229	238	240
2	Typical unmeasured household bill	256	291	300	312	328	320
3	Average household bill	230	261	287	273	283	281

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	73	81
2	Operating costs to improve services to consumers and protect the environment	1	7
3	Cost of maintaining assets to deliver current services to consumers	67	102
4	Cost of improving assets to deliver improvements for the environment and consumers	42	108
		Pre tax cost of debt and post tax cost of equity basis (Vanilla)	
5	Assumed cost of capital (%)	5.5%	4.8%

For further information go to : www.southernwater.co.uk