

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

The Company's overall strategy is to continue to offer customers a high level of service at exceptional value for money through low water bills.

The capital investment programme of the Company is dominated by capital maintenance.

The issue of carbon has featured heavily in influencing the Company's long term strategy, coupled with a response to rising energy prices.

The Company's plan adopts a least cost package of measures to reduce carbon usage approaching 1.0% p.a., based on optimum levels of metering, leakage and water efficiency activity. The Company will also enhance maintenance activity to improve our pumping efficiency and commence long term plans to change the configuration of our supply network to reduce our energy consumption requirements. By lowering the amount of energy needed to pump water to our customers, the Company will use less electricity going forward and have a lower our carbon footprint. With rising energy costs, this initiative is in the long term interests of our customers.

Customers will continue to receive water quality of the highest standards.

Customers have told us they are content with current service standards, so our customer service strategy is focussed on retaining service provision in line with customer expectations.

The Company will continue to operate without the need for hosepipe bans or other water restrictions.

The Company will continue to seek opportunities for further cost efficiencies, although it is envisaged that savings made will be outweighed by rising input prices. As skilled labour costs, chemical costs, fuel costs, energy costs etc. rise the overall cost of service delivery rises.

At the last review in 2004 the Regulator allowed a cost of capital of 5.7% for South Staffs Water (including a small company premium). This draft business plan acknowledges that the cost of raising debt finance is now lower and hence suggests a cost of capital of 5.4% going forward

Many of the factors driving up customer bills are largely outside of our control.

The largest factor driving up customer bills from 2010 is energy prices. Once our current contract with our energy supplies ends, it is almost certain that the future costs of energy will be more than double, given the steep rises in the price of energy over recent times.

Our customers will experience the following activity from 2010: A continuation of current mains replacement activity levels to maintain burst levels and support efforts to reduce leakage; additional water efficiency activity, including the distribution of cistern displacement devices which appear to be a cost-effective option to pursue; further payment and access points using the latest technologies; investment in systems and automation to yield further efficiencies; and the start of an accelerated programme of metering so that fewer customers pay charges based on their old property value (RV) and to enable more price signals to be given to customers to discourage excessive non-essential water use (e.g. garden watering).

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

There are no specific quality or service improvements. Our current service standards are high, there are no legislative requirements for improvement and our customers have told us they are content with our current service provision and hence would not wish to pay extra for unnecessary service enhancement.

This does not mean that the Company can be complacent.

It is recognised that customer expectations for service provision will change as technology develops and their experience with other service providers changes. Through our maintenance of existing systems the Company will take the opportunity to develop our service offering in line with feedback from our customers.

There are no water quality schemes - the focus now has switched from new installing new treatment processes and instrumentation to instead maintaining such assets installed since privatisation.

The environment programme is not a major cost driver. There are some schemes to monitor the impact of our water abstractions on the environment but there is no business case for major investment in environmental schemes.

A significant focus of our strategy and activity will be adjusting to the challenge of maintaining excellent service and efficiency but through processes with lower carbon usage going forward.

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

Average household bill in 2009-10		£115
<b>Less</b>	(1) past efficiency savings and outperformance	-1.22
	(2) maintaining base services	<b>10.62</b>
	of which	
	a) changes in revenue	-1.11
	b) changes in operating costs to maintain current services to consumers	5.92
<b>Plus</b>	c) changes in costs of maintaining assets	6.26
	d) changes in impact of taxation	0.38
	e) the change in the cost of capital	-0.82
	(3) maintaining and enhancing security of supplies to all customers	3.26
	(4) the impact of improvements in services	0.13
	of which	
	a) drinking water quality	0.13
	b) environmental improvements	0
	c) Improvements in service levels	0
<b>Less</b>	(5) scope for reduction through future efficiency improvements	0
	Average household bill in 2014-15	<b>£128</b>

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

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Proposed price limit</b>	1.3	14.0	1.2	1.0	-0.7	-1.7
1 Average measured household bill	£113.54	£125.59	£126.98	£127.98	£126.65	£124.66
2 Average unmeasured household bill	£116.79	£134.22	£136.32	£138.36	£138.50	£136.96
3 Average household bill	£115.04	£130.17	£131.24	£131.93	£130.61	£127.95

**ESTIMATE OF EXPENDITURE NEEDS (2007-08 PRICES)**

		Annual average for the 2010-2015 period (£/property/annum)	
1	Operating costs to maintain current services to consumers	£79.37	
2	Operating costs to improve services to consumers and protect the environment	£0.74	
3	Cost of maintaining assets to deliver current services to consumers	£47.73	
4	Cost of improving assets to deliver improvements for the environment and consumers	£10.08	
		<b>Pre tax cost of debt and post tax cost of equity basis (Vanilla)</b>	<b>Fully post-tax basis</b>
5	Assumed cost of capital (%)	6.20%	5.4