# Severn Trent - Explanation of the company's plan to deliver now and in the future

## OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND

Last December we published our Strategic Direction Statement (SDS) setting out the 25-year vision for Severn Trent Water. This plan, setting out our proposals for the next five years, makes significant progress in achieving the long-term objectives in the SDS.

Before preparing our plan we carried out extensive research into customer priorities and willingness to pay for improvements. We are proposing improvements which stakeholders want, while ensuring that our plans are affordable.

Key elements of our plan are:

- Broadly flat bills - average household bills will rise by 1% in real terms by the end of the period.
- Improved services including:
  - increased resilience of our network to ensure a continuous supply of quality water.
  - reduced sewer flooding.
- Environmental improvements delivered through increasing sewage treatment and reducing pollution incidents.
- Increased spending on maintenance to ensure that the environmental and drinking water improvements achieved since privatisation are maintained.
- Setting ourselves challenging efficiency targets, so that improvements can be delivered while keeping bills down.
- A financeable plan which strikes the right balance between keeping prices low and maintaining investor confidence.
- Increased generation of renewable electricity to retain our water industry leadership position.
- Working with other stakeholders to develop sustainable solutions, including catchment management and innovative approaches to surface water drainage.

The plan reflects the views of the stakeholder groups we have consulted during its preparation. We will be working on refining the plan before final submission next April, and now look forward to a constructive dialogue with Ofwat and other stakeholders on our plan.

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

Our plans include the following improvements in the next five years. These are all consistent with the areas which we have targeted for our long-term improvements:

- Significant increases in our resilience to the failure of a water treatment works or aqueduct.
- 11 water treatment schemes to ensure that we continue to meet drinking water standards.
- Balancing supply and demand by reducing leakage and distributing resources more effectively.
- Reducing sewer flooding incidents by around 100 per year.
- Meeting new sewage treatment standards at over 150 sites to improve river quality.
- Reducing pollution incidents by around 100 per year.

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

| | | | | Water | Sewerage |
|---|---|---|---|---|---|
| Average household bill in 2009-2010 | | | | 147 | 142 |
| **Less** | (1) past efficiency savings and outperformance | | | (1) | (2) |
| **Plus** | (2) maintaining base services | | | 5 | (6) |
| | of which | *Water* | *Sewerage* | | |
| | *a) changes in revenue* | (7) | (5) | | |
| | *b) changes in operating costs to maintain current services to consumers* | 8 | 4 | | |
| | *c) changes in costs of maintaining assets* | 8 | (1) | | |
| | *d) changes in impact of taxation* | (3) | (4) | | |
| | *e) the change in the cost of capital* | (1) | - | | |
| | (3) maintaining and enhancing security of supplies to all customers | | | 8 | 7 |
| | (4) the impact of improvements in services | | | 8 | 8 |
| | of which | *Water* | *Sewerage* | | |
| | a) drinking water quality | 4 | - | | |
| | b) environmental improvements | - | 7 | | |
| | c) Improvements in service levels | 4 | 1 | | |
| **Less** | (5) scope for reduction through future efficiency improvements | | | (12) | (12) |
| Average household bill in 2014-2015 | | | | **155** | **137** |

## 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** | | | | | | | |
| | **Overall price limit** | 2.3% | -0.1% | 1.0% | 1.0% | 0.3% | 0.3% |
| **W** | **Indicative price limit (water service)** | 2.4% | 4.9% | 1.0% | 1.0% | -0.2% | -0.6% |
| 1 | Average measured household bill | 136 | 139 | 140 | 142 | 141 | 140 |
| 2 | Average unmeasured household bill | 148 | 158 | 160 | 162 | 162 | 161 |
| 3 | Average household bill | 147 | 154 | 156 | 157 | 157 | 155 |
| **S** | **Indicative price limit (sewerage service)** | 2.3% | -4.6% | 0.9% | 1.0% | 0.8% | 1.1% |
| 1 | Average measured household bill | 130 | 125 | 125 | 126 | 127 | 128 |
| 2 | Average unmeasured household bill | 150 | 144 | 145 | 145 | 145 | 145 |
| 3 | Average household bill | 142 | 136 | 136 | 136 | 136 | 137 |

## 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 | 70.50 | 58.03 |
| 2 | Operating costs to improve services to consumers and protect the environment | 3.70 | 3.65 |
| 3 | Cost of maintaining assets to deliver current services to consumers | 46.71 | 40.05 |
| 4 | Cost of improving assets to deliver improvements for the environment and consumers | 26.77 | 30.62 |
| 5 | Assumed cost of capital (%) | 4.94% | |

For further information go to [hyperlink to company's website]: www.stwater.co.uk