Draft business plan

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

OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND

Overall Strategy for 2010 – 2015 and beyond

Our strategy for 2010 to 2015 is consistent with the long-term view set out in our Strategic Direction Statement and with the expressed needs of our customers and stakeholders. In particular, our strategy takes into account:

- Our customers' expressed preferences and willingness to pay for existing services and specific identified and costed improvements.
- The need to maintain services to our customers, balancing the risks of asset failure with the costs of possible interventions.
- The need to accommodate growth in demand for our services, as identified by Government and other agencies.
- The minimum statutory environmental and drinking water programme required by our regulators.
- The requirement to produce a plan that is sustainable, maximises benefits and is efficient, minimising operating costs and investment.
- The need to provide sufficient returns to investors so that we can finance the plan whilst considering the implications for those few customers for whom affordability will be an issue.

Our plan at this stage is to invest £6.5bn over the period 2010 to 2015. As a result consumers will benefit from:

- Sustained service levels, currently our best-ever, allowing for forecast growth in demand.
- Reduced leakage, flooding from sewers and odour from our sewage treatment operations that customers have said require improvement and are willing to pay for.
- Improved disposal of the end products of sewage treatment sustainably and beneficially.
- Government-endorsed improvements, including environmental quality in the Thames tideway and meeting a new lower standard for lead dissolved in drinking water.

Thames Water is already an efficient company, but our plan assumes we will continue to improve our operating and capital efficiency over the period.

Our plan will require average household bills will to rise to £329 pa by 2015, an increase of £46 over the period but still around the industry average. The increase is less than envisaged in our Strategic Direction Statement and is supported by our customers.

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

Quality and service improvement in 2010 – 2015 and the longer term

We will maintain existing service levels. In addition, by March 2015 we will have delivered:

- Restore and maintain security of supply by reducing leakage by 18%, metering over one million households, supporting customers' efficient use of water and by developing 33Ml/d of new water sources. If approved, start construction of a new reservoir in Oxfordshire.
- Improved compliance with the latest lead standard for drinking water in areas at risk of non-compliance.
- Improvements to local issues of discoloured water, taste and odour.
- Increases in capacity at over 30 sewage treatment works, about 10% of the total, to meet growth
- Completion of the first stage of Thames tideway tunnel and improvements to some 250km of rivers.
- Alleviation of sewer flooding risk for 4700 properties.
- Reduced odour problems from 8 sewage treatment works.
- Improved customer service and experience when customers contact us, reducing the need for repeat calls and complaints.
- Based on the experience of 2007, improved the resilience of our major assets to flooding at over 40 sites
- A 20% reduction in our carbon emissions

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

				Water	Sewerage
Average household bill in 2009-10				171	113
Less	(1) past efficiency savings and outperformance			-8	-3
Plus	(2) maintaining base services			8	-8
	of which	Water	Sewerage		
	a) changes in revenue	-2	-6		
	b) changes in operating costs to maintain current services to consumers	12	6		
	c) changes in costs of maintaining assets	12	5		
	d) changes in impact of taxation	-9	-6		
	e) the change in the cost of capital	-10	-6		
	(3) maintaining and enhancing security of supplies to all customers			27	11
	(4) the impact of improvements in services			5	27
	of which	Water	Sewerage		
	a) drinking water quality	5	0		
	b) environmental improvements	0	21		
	c) Improvements in service levels	0	6		
Less	(5) scope for reduction through future efficiency improvements			-8	-5
Average household bill in 2014-15				195	134

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		1.6	6.3	3.8	5.6	1.2	1.8
W	**Indicative price limit (water service)**	0.8	**12.1**	**3.4**	**3.4**	**-1.1**	**0.5**
1	Average measured household bill	153	164	170	175	173	173
2	Average unmeasured household bill	179	206	215	226	227	232
3	Average household bill	171	189	193	198	195	195
S	**Indicative price limit (sewerage service)**	2.2	**0.5**	**4.3**	**8**	**3.6**	**3.1**
1	Average measured household bill	109	111	114	121	126	130
2	Average unmeasured household bill	116	116	122	130	133	136
3	Average household bill	113	114	119	127	131	134

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	91	49
2	Operating costs to improve services to consumers and protect the environment	4	2
3	Cost of maintaining assets to deliver current services to consumers	53	38
4	Cost of improving assets to deliver improvements for the environment and consumers	88	103
		Pre tax cost of debt and post tax cost of equity basis (Vanilla)	**Fully post-tax basis**
5	Assumed cost of capital (%)	5.46	4.8

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