Draft business plan

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

OVERALL STRATEGY FOR 2010-15 PERIOD AND BEYOND

Our draft Business Plan proposes our targets and objectives for the next five year regulatory period to 2015, reflecting the vision set out in our 25 year strategy ducument 'Our Sustainable Future', published last year (available at www.dwrcymru.com).

We have sought to find the optimal balance in our plans between service, investment and customer bills. Key features of our strategy to 2015 include:

- Average household bills will be flat in real terms, with targeted help for disadvantaged customers, who already struggle to pay their bills;
- Current generally high standards of service will be maintained, with areas for improvement reflecting, as far as possible, customer priorities;
- The "package" of investments to protect and further enhance drinking water quality and environmental quality will represent good value for money for our customers;
- An increased level of maintenance will optimise asset performance and address known risks, in particular as identified through Drinking Water Safety Plans;
- Strategic programmes will begin to address long term challenges, notably in response to climate change; and
- Challenging efficiency targets for the next five years will be vital to keep the plan affordable.

For the first time our plan has been developed with the aid of our Strategic Investment Planning System (SIPS) which will enable us to operate a rolling 5 year business plan, including full cost benefit analysis of the programme. Our priorities are based on customer views obtained through extensive customer research and have been discussed exclusively with key stakeholders via the PR09 Forum, chaired by the Welsh Assembly Government.

There are inevitably major uncertainties at this stage, most concerning upward cost pressures (such as increases in power prices) and potential additional legal and regulatory requirements.

We will consult openly with customers, Ministers, regulators and other stakeholders to ensure that, when finalised, our plan for the next five years comprises the right balance of priorities and is affordable, deliverable and financeable. We welcome views and comments from all interested parties on our draft plan.

QUALITY AND SERVICE IMPROVEMENTS IN 2010-15 PERIOD AND IN THE LONGER TERM

Highlights of our AMP5 investment programme include:

- Improved water treatment at 26 sites to address risks to the quality of drinking water (£153 million)
- Investment at 92 sites to protect the quality of river, coastal and shellfish waters (£106 million)
- Advanced sludge digestion at 4 sites to reduce energy costs and to reduce our carbon footprint (£98 million)
- An initial programme to start to remove surface water from our sewers - SUDS (£30 million)
- Ongoing investment to reduce the incidence of sewer flooding (£37 million)
- Phase two of our IT Enabled Change programme (ITEC) to improve efficiency and customer service (£90 million)
- Significant investment to supply new housing and to enable economic development (£94 million)
- Adapting to the possible impacts of climate change through a 25% reduction in our carbon footprint, improved resilience of key assets to flooding risks, and trials of catchment management and low carbon technologies.

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

				Water	Sewerage
Average household bill in 2009-10				165	225
Less	(1) past efficiency savings and outperformance			(2)	(6)
	(2) maintaining base services			(11)	9
	of which	Water	Sewerage		
	a) changes in revenue	*(2)*	*(3)*		
	b) changes in operating costs to maintain current services to	*3*	*3*		
Plus	*c) changes in costs of maintaining assets*	*(5)*	*17*		
	d) changes in impact of taxation	*2*	*2*		
	e) the change in the cost of capital	*(8)*	*(11)*		
	(3) maintaining and enhancing security of supplies to all customers			1	5
	(4) the impact of improvements in services			7	11
	of which	Water	Sewerage		
	a) drinking water quality	*7*			
	b) environmental improvements		*8*		
	c) Improvements in service levels		*3*		
Less	(5) scope for reduction through future efficiency improvements			(3)	(11)
Average household bill in 2014-15				157	233

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)**		**(8.3)**	**0.9**	**1.9**	**1.8**	**3.5**
1	Average measured household bill	115	114	114	114	114	114
2	Average unmeasured household bill	180	180	181	182	183	183
3	Average household bill	165	150	150	152	153	157
S	**Indicative price limit (sewerage service)**		**2.6**	**0.6**	**2.6**	**0.4**	**1.4**
1	Average measured household bill	159	159	159	159	158	158
2	Average unmeasured household bill	246	246	247	248	249	249
3	Average household bill	225	229	229	232	232	233

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	92	82
2	Operating costs to improve services to consumers and protect the environment	2	7
3	Cost of maintaining assets to deliver current services to consumers	69	80
4	Cost of improving assets to deliver improvements for the environment and consumers	33	39
		Pre tax cost of debt and post tax cost of equity basis (Vanilla)	**Fully post-tax basis**
5	Assumed cost of capital (%)	5.3	4.7

For further information go to www.dwrcymru.com