

Water – planning for the future

In December 2007 we published *Water – the way ahead*, our long term strategic vision. It set out how we want to address the challenges that the future holds for the water industry, its customers and stakeholders.

Since then, and in light of feedback we have received, we have developed a draft business plan for the five years starting in April 2010. This is not our final plan – that will be published next year and will reflect the feedback we receive on this draft, and any new information we find.

What do customers want?

Customers have told us that their priorities are:

- the delivery of basic services in a sustainable way
- that bills should not increase in real terms over the next five years
- that prices should not be cut if they are to increase subsequently.

We have undertaken research to determine customers' willingness to pay for specific improvements in service. This indicates that customers are willing to pay most to see reductions in leakage, improvements in security of supply and a reduction in our greenhouse gas emissions. Customers are also willing to pay for improvements in drinking water quality and to reduce the risk of sewage flooding. It is these views we have sought to reflect in our plan.

Key elements of our plan

Wessex Water has outperformed the assumptions made during the 2004 price control providing the opportunity either to cut bills, improve service, or a combination of the two.

Given what our customers have told us, our draft business plan proposes that we maintain average bills in real terms at the 2009 level until

2015 and, in lieu of a price cut, invest around £1.2bn to make a substantial start to delivering the aspirations of customers and other stakeholders.

The key outputs and investments we propose are:

- integrating our water supply assets to improve security of supply, deal with deteriorating raw water quality and improve river flows
- a 5% reduction in leakage
- metering on change of ownership and new tariffs designed to encourage a more sustainable use of water and improve affordability
- improvements in drinking water quality
- further reductions in the risk of flooding to properties during a 1:20 year storm
- waste water improvements to comply with the Bathing Water, Shellfish and Urban Waste Water Treatment Directives
- a further reduction in our carbon footprint by increasing the proportion of sludge which is digested and turned into renewable energy.

%age change in bills before inflation	Change
Returning outperformance and maintaining existing services	-10.00%
Meeting new demands	+0.50%
Metering	+1.25%
Water supply enhancements	+4.25%
Waste water enhancements	+4.00%
Change in average bills	0.00%

Even though we are keeping average bills constant we will be spending a third more per customer than at present.

Estimated spend (2007-08 prices)	Annual average for 2005-2010 (£/property/an)	Annual average for 2010-2015 (£/property/an)	Change
Operating expenditure	140	166	+19%
Capital maintenance expenditure	114	136	+20%
Capital enhancement expenditure	94	165	+76%
Total expenditure	347	467	+34%

While average bills remain constant, some customers will see increases while others will see their bills fall, depending on the mix of services they receive from us.

Typical household bills (2007-08 prices)	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Average water supply bill	188	191	195	197	197	199
Average sewerage bill	194	194	193	191	191	190
Weighted average bill per service	192	193	193	193	192	192

In addition, in order to recoup income lost when sales decrease and customers switch to meters to reduce their own bill, we will need to increase average prices by 1.25% pa.

Financing

We will need to raise substantial sums from investors if we are to pay for all the improvements we propose. Investors have a choice over where to place their money and we will have to compete with others by offering competitive returns if we are to obtain the funds we require. This will be particularly challenging in the current economic climate.

What may change?

In producing this plan we have had to make a number of assumptions on key issues such as economic conditions, commodity prices and the capital market, all of which are highly uncertain. Moreover, there are a number of other issues – which may be significant – on which we have yet to receive formal guidance, and consequently we have excluded them from this plan.

We will want to consider these matters further and to review the responses we receive to our draft plan, before we prepare our final proposals next April.

What now?

We would welcome your feedback by 31 October 2008. Our detailed plan and feedback form can be found at www.wessexwater.co.uk/draftbusinessplan