

Northumbrian Water Limited: Northern operating area - Explanation of the company's plan to deliver now and in the future**OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND****The starting point**

We have undertaken comprehensive customer research to understand the value our customers place on the various aspects of service they receive. Our research, and that of CCWater, demonstrates that our customers are generally very satisfied with both service and value for money. These findings are consistent with our measured performance: compliance with drinking water and environmental standards is very good and service levels are excellent in most areas. The main challenges relate to the need to reduce sewer flooding caused by increasingly frequent and intense summer storms and make further reductions to complaints of discoloured drinking water.

Customers' views

Our customers have told us that there is limited willingness to pay for further improvements in services. This is not surprising given the already high levels of satisfaction and the prevailing difficult economic circumstances. Our assessment identified only one cost beneficial improvement to service, this relating to measures to address the taste and odour of drinking water.

Identifying objectives for the 2010-15 period and beyond

In November 2007, we published our Strategic Direction Statement. This set out our longer-term goals and aspirations and can be found on our website (www.nwl.co.uk). The objectives for AMP5 in this plan are an important step towards our long term objectives, phased in accordance with the willingness to pay information from our customer research. The drinking water and environmental quality enhancements included in our plan are those required to meet drinking water quality compliance standards and the requirements of the draft National Environment Programme (NEP).

What we will deliver for customers and the environment

Our plans bring significant benefits for customers and the environment. These include:

- Reducing customer complaints and improving the customer contact experience (without additional cost to customers)
- Investing to address the risk of failing the new standard for lead in drinking water
- Addressing the risk of iron and manganese failures and further reducing discoloured water complaints
- Improving customers' satisfaction with the taste & odour of drinking water
- Improvements to bathing water and river water quality
- Major investment to address properties flooded from sewers in 2005-10 and to deal with new flooding in 2010-15
- Increasing asset maintenance to safeguard improvements delivered in the past
- Reducing energy use and carbon emissions to combat climate change

Costs of delivering our plan

We aim to deliver the objectives shown above efficiently and effectively, to ensure customers' bills are no higher than they need to be. Investment in the North East region will be higher than previously. Although there is less investment required to improve drinking water and environmental quality (as standards are already high), there is substantial investment needed to address sewer flooding and maintain assets. There are also increases to operating costs, most notably from rising energy prices, that are putting upward pressure on bills. We have assumed challenging operating cost efficiency savings and an allowed return on capital much lower than at the last review, partially offsetting the impact on bills of increased investment and higher operating costs.

The outcome for customers

The price limits required to finance our plans are shown below. We have applied the overall water service price limit differentially between the North East and Essex & Suffolk, to reflect higher investment in Essex & Suffolk. It would have been unfair to charge customers in the North East for investment in the South East. The combined average household bill for the North East in 2014-15 will be lower in real terms than it was in 1999-00, despite the massive investment in improvements in that 15 year period.

We believe our plan provides significant benefits for customers with a relatively small overall price increase between 2009-10 and 2014-15.

PRICE LIMITS (%) AND EFFECT ON AVERAGE BILLS (£ in 2007-08 PRICES)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Proposed price limit (%)	1.3	1.3	1.3	1.3	1.3	1.3
W Overall indicative price limit (water service)	2.1	2.1	2.1	2.1	2.1	2.1
Price limit applied to North East (water service)	1.5	1.5	1.5	1.5	1.5	1.5
1 Average measured household bill	108	110	112	114	116	118
2 Average unmeasured household bill	128	131	133	135	137	140
3 Average household bill	123	125	127	129	131	133
S Indicative price limit (sewerage service)	0.1	0.1	0.1	0.1	0.1	0.1
1 Average measured household bill	135	135	135	135	135	135
2 Average unmeasured household bill	166	167	167	167	167	167
3 Average household bill	159	159	159	158	158	157

We welcome comments on our proposals - for details of how to do this please go to the website shown below.

For further information go to: www.nwl.co.uk

QUALITY AND SERVICE IMPROVEMENTS IN 2010-2015 PERIOD AND IN THE LONGER TERM**Drinking water quality improvements**

In AMP5 we will:

- Undertake a multitrack approach to meet the new standard for lead in drinking water, including targeted lead communication pipe replacement
- Further reductions to iron and manganese non compliance and discoloured water complaints as part of our long term programme to address this problem
- Deal proactively with taste and odour problems and produce a long term reduction plan

Protecting the environment

In AMP5 we will:

- Undertake schemes at Spittal and Newbiggin to improve bathing water quality and twelve schemes to improve river water quality under WFD and Flow compliance drivers
- Undertake a number of investigations to establish if investment is required in the future to protect the environment

Protecting our assets

In AMP5 we will:

- Undertake necessary investment to protect our assets from rising sea levels and river flooding

Customer service improvements

Without additional costs to customers in AMP5 we will:

- Improve customer satisfaction with service and value for money (as measured by our customer tracking research)
- Reduce the overall number of customer complaints, resolve more at the first point of contact and reduce the number of complaints being escalated
- Improve our communications with customers, provide the option of paperless services and improve our debt collection approach (including helping customers who struggle to pay)

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

		Water	Sewerage
Average household bill in 2009-10		123.5	158.84
Less	(1) past efficiency savings and outperformance	6.32	5.15
	(2) maintaining base services	0.58	-13.24
	of which	Water	Sewerage
	a) changes in revenue	0.43	-11.79
	b) changes in operating costs to maintain current services to consumers	0.69	0.76
	c) changes in costs of maintaining assets	5.46	6.29
	d) changes in impact of taxation	-2.27	-3.10
	e) the change in the cost of capital	-3.72	-5.40
Plus	(3) maintaining and enhancing security of supplies to all customers	3.58	7.94
	(4) the impact of improvements in services	2.12	4.63
	of which	Water	Sewerage
	a) drinking water quality	1.98	0
	b) environmental improvements	0	4.63
	c) Improvements in service levels	0.14	0
Less	(5) scope for reduction through future efficiency improvements	-3.3	-5.93
Average household bill in 2014-15		132.81	157.4

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	84.86	73.98
2	Operating costs to improve services to consumers and protect the environment	0.17	0.20
3	Cost of maintaining assets to deliver current services to consumers	59.96	86.94
4	Cost of improving assets to deliver improvements for the environment and consumers	5.30	8.50
		Pre tax cost of debt and post tax cost of equity basis (Vanilla)	Fully post-tax basis
5	Assumed cost of capital (%)	5.32%	4.70%