

## South-East water companies submit Final Business Plans to Ofwat continued



Thames Water's plans for the next five years will deliver customer priorities and first-class services, at under a pound a day per household, said its Chief Executive, David Owens.

The company plans to invest £5.5 billion from 2010-15, with almost 60 per cent to be spent on maintaining current service levels, including accommodating expected population growth in the region.

A further 30 per cent is required to meet new statutory obligations and the London Tideway Tunnels projects. These projects, required by the Government, will substantially reduce pollution entering the River Thames, especially during storms. Spending on service improvements (mainly sewer flooding and odour reduction) will account for around 10 per cent of capital expenditure.

"The work we are planning includes protecting hundreds of homes from the misery of sewer flooding, replacing hundreds of miles of Victorian water mains and securing safe, clean and secure supplies of drinking water," said David Owens.

To help fund the investment, an average bill increase of 3.4 per cent p.a. is proposed, with the average combined charge for drinking water and wastewater services rising from the current £283 in 2009/10 to £331 by 2014/15, equivalent to 91 pence a day.

### Headlines from the Plan

- £5.5 billion – total proposed cost of programme
- 765,000 – number of extra people the sewage treatment system will be able to cope with after expanding the capacity
- 1,500km – of ageing, leaky water mains to be replaced by 2015
- 28 million litres – daily reduction in leakage from pipes by 2015 – enough to supply more than 175,000 people
- 4 per cent – amount of leakage reduction by 2015 (without investment for impacts of climate change)
- 487,721 – water meters to be installed, increasing household penetration to 41 per cent
- 12 million litres – amount of water saved each day by 2015 by promoting the wise use of water, enough to supply more than 75,000 people
- 3,529 homes – to be alleviated from risk of sewer flooding (one-in-30-year storms)
- 20 per cent – reduction in carbon emissions by 2015 (compared to 1990 levels)

### K factors (price limits):

The annual increase in charges by which an appointed water company can increase (or must decrease) its charges is controlled by the price limit formula  $RPI \pm K + U$ .

K is a number determined by Ofwat for each company, for each year, to reflect what it needs above inflation, in

order to finance the provision of services to consumers. It may be changed at an interim adjustment between price reviews. RPI is expressed as the percentage increase in the Retail Price Index in the year to the November before the charging year and U is the amount of unused K not taken up in previous years.



Portsmouth Water's Plan includes the following key proposals:

- Customers will continue to receive secure water supplies such that hosepipe bans are no more frequent than one in 20 years
- The company will reduce licensed abstractions to preserve the important wildlife habitats of the River Itchen and Chichester and Langstone Harbours
- Improvements will be made at one treatment works to reduce the risk of occasional taste and odour problems in customers' supplies
- 23km of mains infrastructure will be renewed each year to ensure interruptions to supplies are minimised
- Leakage will be reduced by 10 per cent by 2015
- To provide for these improvements and to maintain high standards of service, the company proposes to increase customers' bills on average, in real terms, by £1.93 (2.1 per cent) p.a. Even then, the average bill in 2015 will still be below £100 p.a. – the lowest charges in England and Wales.
- The key elements, other than those set out above, driving the proposed increases are:
  - Rises of 10 per cent per annum in the Environment Agency's charges for the right to abstract water
  - A re-evaluation of business rates will add 20 per cent to those costs
  - Significant rises in fuel costs, which until now the company has absorbed

Finance & Regulation Director, Neville Smith, said: "We appreciate that this increase in bills will be unwelcome news for customers and have done all we can to manage the impact of increased costs, as well as phasing prices to avoid a large unacceptable increase in 2010/11.

"Climate change is likely to impact upon the availability of water resources and we had hoped to include the effects in our water resource forecasts. Unfortunately the climate change forecasts currently available are not sufficiently robust. As soon as new forecasts from the United Kingdom Climate Impact Programme (UKCIP) are published, we will update our forecasts and send them to Ofwat. That could have an impact upon our proposals and on customer bills".

## Environment Agency calls for views on Regional Action Plans



The Environment Agency is asking stakeholders to comment on its draft Water Resources Regional Action Plans during the summer. This follows the launch of the national strategy, Water for people and the environment, earlier this year.

- The national strategy has four main aims:
- Adaptation and mitigation to climate change
  - A better water environment
  - Sustainable planning and management of water resources
  - Water and the water environment are valued.

The message of the strategy is a familiar one: we need to start planning now to ensure that we have enough water for people and the environment in the future. Pressure on water is growing. We need a more integrated and planned approach to manage the risks and uncertainties ahead.

The Environment Agency stresses that with long term plans such as these, solutions and actions need to be flexible and incremental.

The Regional Action Plans build on the work already done in the national strategy. It will show how local actions can continue to keep water in our taps and in our rivers. The plans will look regionally at pressures such as population growth, demand for water and the impacts of climate change on river flows, and rainfall on future water supplies.

Proposed actions will range from targets for water metering and increased water efficiency in industry and homes to actions to mitigate climate change.

The Regional Action Plans will be linked to other related water strategies, including the River Basin Management Plans and Catchment Abstraction Management Strategies (CAMS).

### Have your say

We want your help. Some of the suggested actions may be down to you, so it's even more important for you to have your say before the plans are finalised. Please take a look at the plans for your region and let the Environment Agency know what you think.

For more information or to find out the contact for your Region, please email [juliette.daniels@environment-agency.gov.uk](mailto:juliette.daniels@environment-agency.gov.uk)

## Companies await response on Draft Water Resources Management Plans

Water companies submitted Draft Water Resources Management Plans (WRMP) to Defra in March 2008. They were prepared in accordance with Environment Agency guidelines.

The Plans considered the options available for meeting growth in demand for water in the period from 2010 to 2035 and took into consideration such things as:

- Future demand for water from existing customers
- Growth in demand arising from new properties
- Non-household consumption
- The potential effect of climate change on resources and demand
- Demand management (leakage, water efficiency and metering).

The Plans were made available for public consultation for a minimum of six weeks from Spring 2008 and all stakeholders were invited to submit comments to Defra. All representations received by Defra were forwarded to the companies, which prepared and published statements in response.

Companies' statements of response were forwarded by Defra to the Environment Agency for review. Subject to that review, Defra may do one or more of the following:

- direct companies to make changes to their Plans
- direct them to publish their Final WRMP
- direct the Plan to public inquiry.

Assuming the Plans are not directed to public inquiry, the companies should be able to publish their Final WRMP by November 2009.

## Business Plans must be acceptable to customers says CC Water

The Consumer Council for Water says that while some companies have based their Final Business Plans around what their customers would find acceptable, others clearly have not.

This is the second stage in a price setting process which happens every five years. The regulator, Ofwat, will use the information submitted to determine the maximum amount that each water company will be allowed to raise prices between 2010 and 2015.

Reasons given by water companies for the

price increases vary but include tighter environmental and drinking water quality standards, higher energy costs, new financial pressures, and work needed to protect assets from natural disasters such as flooding.

Late last year, the Consumer Council for Water, together with industry bodies, undertook research to check customers' reaction to the original price increases proposed by the water companies.

Dame Yve Buckland, Chair of the Consumer

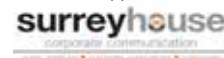
Council for Water, said: "In the current economic climate, price increases will be unwelcome for most of us.

"We recognise that some price increases may be necessary to enable companies to meet the pressures being put on water companies from growing populations, climate change, and tighter EU and UK standards.

"We expect Ofwat to make sure that consumers' views are taken fully into account as they scrutinise each company's plans and remove any excess as they work towards their final decision on prices later this year.

"Customers need to see the justification for any proposed price increases, and to understand exactly what they will get for the extra money. Price rises should be acceptable to, and affordable for, customers."

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### For further information you can contact your supply company on:

Folkestone & Dover Water	0845 888 5888	<a href="http://www.fdws.co.uk">www.fdws.co.uk</a>
Portsmouth Water	023 9249 9888	<a href="http://www.portsmouthwater.co.uk">www.portsmouthwater.co.uk</a>
Southern Water	0845 278 0845	<a href="http://www.southernwater.co.uk">www.southernwater.co.uk</a>
South East Water	0845 301 0845	<a href="http://www.southeastwater.co.uk">www.southeastwater.co.uk</a>
Sutton and East Surrey Water	01737 772 000	<a href="http://www.waterplc.com">www.waterplc.com</a>
Thames Water	0845 9200 800	<a href="http://www.thameswater.co.uk">www.thameswater.co.uk</a>
Three Valleys Water	0845 782 3333	<a href="http://www.3valleys.co.uk">www.3valleys.co.uk</a>

SOUTH EAST

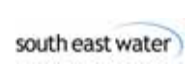
# WATER Resources Update

Spring 2009

## Water companies publish Final Business Plans



Update on Water Resources Management Plans



# South-East water companies submit Final Business Plans to Ofwat

Water companies in the South-East have submitted their Final Business Plans for the next five years (2010-15) to Ofwat, the industry's economic and performance regulator. Submission of the plans is another step in the long process which will lead to Ofwat setting charges in November for the next five years from April 2010.

The companies say the key aims and strategic objectives set out in their plans have been heavily influenced by extensive national and local customer research, and consultations with regulators and stakeholders. The industry has carried out the most extensive customer consultation in the history of the water sector. Customers, they say, have clearly stated that their top priority is to receive reliable, high-quality water and their plans will ensure that they continue to provide it.

They also say they have striven to take full account of the fact that the recession is putting pressure on customers and have made a number of changes to their plans which significantly reduce price pressures. Proposed charges, they say, are no higher than they need to be to provide the essential service levels customers expect.

Presentation of the Final Business Plans follows production of Draft Business Plans in August last year which began the lengthy consultation process.

**Common themes are that companies are:**

- Improving customer service and engaging more with customers
- Doing more to promote water efficiency
- Metering more customers
- Continuing to reduce leakage
- Taking measures to reduce carbon emissions
- Investing more in infrastructure and other improvements
- Facing substantial increases in costs for such things as power, materials, business rates and pensions
- Proposing that customer bills will have to increase.

Ofwat will publish the price limits that it thinks should be set in a Draft Determination in July. The companies and customer groups will then be able to make representations before a Final Determination on prices is made in November.

Here we present a summary of each of the South-East water companies' plans. All figures exclude inflation. More details of their plans can be found on their websites. See the back page for addresses.



Southern Water's Final Business Plan includes proposals for a £2.2 billion programme to maintain and improve services to its four million customers, creating and maintaining about 6,000 jobs through the company's supply chain in the south.

The plans would mean an average annual increase in bills of £8 or 2.9 per cent a year excluding inflation, taking the average bill for customers receiving both water and wastewater services from £353 to £397 during the five years.

The proposals detailed in the Plan are significantly impacted by European environmental legislation, which the company has to meet and a need to further safeguard water resources.

Southern Water CEO, Les Dawson, said: "We have taken into account the views of our customers and worked hard to balance the need to spend money on improvements with the desire to keep down bills, particularly in the current economic climate."

"We have reduced our original spending plans by £390 million to come up with proposals to maintain and upgrade our water and wastewater services that broadly need no real price increases."

"However, we face a £641 million programme of work to deliver 154 schemes, more than anywhere else in the UK, specifically to meet environmental legislation imposed on us from Europe."

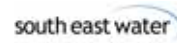
"We have no choice but to do this and, while we totally support this programme, customers need to note it is simply not possible to meet these requirements and invest to safeguard water resources in the drought-hit South-East without price rises and borrowing substantial amounts of money."

Proposed improvements, supported by Southern Water customers during consultation, include:

- Drinking water quality improvements
- A reduction in flooding and pollution incidents
- Full household metering
- Carbon reduction measures, including power generation from waste.



Bowl Water reservoir, near Lamberhurst, Kent, full



South East Water has outlined a £930 million programme to maintain and deliver improved water supply services, in a region classified as water stressed, to its 2.1 million customers.

The Plan outlines the company's largest ever capital programme – some £502 million – of which nearly half (£207 million), is needed to provide new water resources, such as reservoirs; a phased 10-year compulsory metering programme, water efficiency initiatives and leakage reduction, to help meet and manage the growing demand for water.

**The company is also proposing to deliver:**

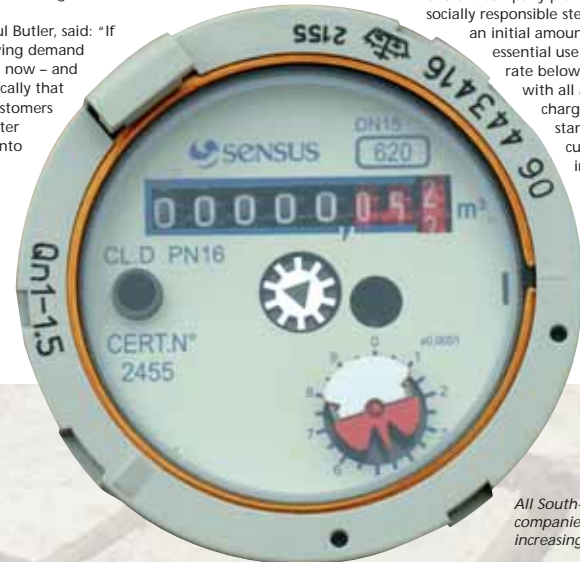
- £127 million on maintaining and improving its 14,500km of underground water mains
- £113 million on maintaining and improving its 93 water treatment works, 155 booster stations, 216 water storage sites and 150 boreholes
- £19 million on improving service levels for those customers reliant on a single source of water for their drinking water supply
- £18 million on meeting enhanced drinking water and environmental quality standards.

To help fund the investment, South East Water is proposing an average bill increase of 5.7 per cent p.a. over the five-year period, with the average charge for drinking water rising from the current £158 in 2009/10 to £193 by 2014/15.

That would mean customers paying, on average, 69 pence a week more in 2014/15 than they do now.

South East Water says there are unique, serious challenges that are specific to the region. Not only are existing customers using more water, but forecasts say there will need to be a 25 per cent increase in homes for 300,000 new customers. This is why much of the extra long-term investment is necessary.

Managing Director, Paul Butler, said: "If we are to meet the growing demand for water we need to act now – and for the South-East specifically that means metering more customers to encourage greater water efficiency, while we tap into and develop new water sources and invest in treatment works, pumping stations and new pipelines to treat it and deliver it."



All South-East water companies are increasing metering



Folkestone & Dover Water's Plan outlines how £42.3 million will be invested in improving and further developing water supplies.

Proposed price limits show an average increase of 5.2 per cent a year. The average metered bill will rise from £152.85 in 2010 to £193.92 in 2015, an increase of £41.07 over the five-year period.

The company's Draft Business Plan proposed capital expenditure of £66 million and it worked hard to reduce this figure to £42 million and so keep down customer bills.

To achieve the reduction in capital expenditure some investment has been moved to a later date. Costs have been reduced by project re-evaluation and re-costing and by use of alternative engineering solutions. The mains renewal programme has been held at existing levels despite the company having one of the lowest replacement rates.

Managing Director, David Walton, said the plans were cost-effective. "We want to continue our successful twin track approach which teams major capital spending with the strong promotion of water saving."

"We only have very limited local water resources and live in one of the driest areas of the country. Our plans must ensure that we have a water supply system which can both operate effectively in periods of sustained drought and also support a growing population."

"Our compulsory metering programme will put most customers on meters by 2012, encouraging the careful use of water, and we plan to make an early start on the next round of capital investment in our supply system. In the five years to 2010 we are already investing more than £33 million in capital projects."

In 2013 the company plans to introduce a socially responsible stepped tariff. Under this an initial amount of water to cover essential use will be charged at a rate below the standard rate, with all additional water charged at a higher than standard rate. The tariff is currently being trialled in Lydd.



Three Valleys Water's Plan proposes an investment package of £456 million. Key points are:

- We have improved customer service markedly without increasing costs and are rolling out a programme which puts our people and customers and their requirements at the heart of the business.
  - Our customers are now benefiting from a supply-demand balance which we predict to be in surplus during the next period. Investment in increasing resources has been deferred until after 2026. We will concentrate on containing demand rather than increasing abstraction, mainly by continuing to reduce leakage coupled with a metering programme at a rate linked with house moves.
  - We have a fuller understanding of our above ground assets which has enabled us to optimise our investment decisions based on risk. Our analysis clearly indicates that we need to increase investment in this vital area. We propose to continue with mains renewals at the same rate as in 2005-10 because it is reducing bursts.
  - We plan to invest in schemes which will improve water quality and have a direct benefit for customers.
  - Operating costs have been consistently higher in this five-year period than assumed at the last price setting (2004). We have made significant efficiency gains but these have been eroded by costs beyond our control, such as energy, council charges, pensions and bad debts.
  - We will ensure that we mitigate greenhouse gas emissions and adapt to the effects of climate change. We have sought prudently to balance risk against cost in drawing up this challenging Plan which we are confident we can implement. Given this wider picture, the cost of our capital programme is relatively low.
- The company's average bill would rise by £19.55, or £1.63 per month (38p per week), above the level of 2009/10 to an average of £173.75 for the five-year period. This is equivalent to an average increase of 2 per cent each year.



Bowl Water during the drought of 2004-6



Sutton and East Surrey Water says the key aims and strategic objectives in its Plan would:

- Meet customers' specific requirements for adequate, uninterrupted supplies of water
- Overcome a deficit in resources to meet peak demands
- Maintain the supply of the highest quality water to our customers and to achieve 100 per cent compliance with water quality standards
- Improve the resilience of the company to the various challenges it faces
- Provide customers with a high level of service that represents fair and reasonable value for money
- Enable the company to carry out its operations in an environmentally friendly and sustainable way
- Provide adequate returns to enable it to finance its future developments.

One of the largest items of capital expenditure during the next five years will be to further increase the output of the company's Bough Beech Treatment Works from 45 million litres per day (ML/d) to 70 ML/d by 2016.

Managing Director, Nick Fisher, said: "We can only secure the long-term future of water supply in our area by increasing our investment in water treatment and distribution systems, flood and security protection."

"We also have to face the impact of significant increases in power and chemical costs predicted over the five-year period covered by the current review. There is also the issue of cost increases driven by Government agencies, for example: business rates, Traffic Management Act costs and costs of abstracting water."

The company says a total price increase of 27.6 per cent is needed. An average bill would increase by £42 over the five-year period – from £154-£196. Or 85 pence per week per household by 2015.

**The reasons for the increase are:**

Base service – including metering	4.9%
Operating cost efficiency adjustment	0.4%
Increases in the costs of power and chemicals	9.5%
Increases in other operating costs	5.8%
National Environmental Programme.	
Investigations into local environmental issues	0.5%
Security and resilience	1.2%
Flooding protection	1.1%
Bough Beech – additional water	4.2%
<b>Total</b>	<b>27.6%</b>