South West Water Draft Business Plan

Summary of Part A

Delivering pure water, pure service and a pure environment

1 Introduction

We have delivered many significant service and quality improvements since South West Water was formed in 1989.

The initial focus was on providing sufficient water resources. Roadford reservoir, completed in 1990, was the last major reservoir built in the UK. It was, with Colliford and Wimbleball, the third strategic reservoir built by South West Water and its predecessors over a period of fifteen years, which led to a quadrupling of water storage capacity for the company's supply area.This has enabled us to avoid supply restrictions for 11 years.

Investment in the 1990s involved the renewal or reconstruction of many of our water treatment works and the creation of new water distribution systems to bring in new supplies from strategic resources and treatment works. The wastewater programme comprised new and uprated wastewater treatment plants to improve river quality and Clean Sweep, the £2bn wastewater treatment programme, designed to intercept 250 crude or inadequately treated sewage discharges to the marine environment and to improve one third of the bathing waters in England and Wales.

The emphasis in the period from 2005 to 2010 has been on improving customer service and completing a 15-year major programme of water mains replacement and refurbishment. The focus of the next five year period will be:

- A requirement for higher capital maintenance to support service improvements and maintenance of assets. Adequate asset maintenance is essential to ensure that our services to customers and environmental performance do not deteriorate from their current high levels; and
- Undertaking a wide range of studies to define longer term environmental obligations and the investment needed to adapt our infrastructure to deal with climate change pressures.

Our vision defines our three main aspirations:

- Pure Water – investment in maintaining our assets to give our customers the highest quality drinking water;
- Pure Service – improving the services that customers experience; and
- Pure Environment – delivering sustainable sewerage services for the region's benefit.

Underpinning this vision is a strategy of striking the right balance between investing to improve our services, financeability, efficiency and, importantly, customer affordability.

Our proposals for the next Periodic Review period to 2015 have been informed by our Strategic Direction Statement published in December 2007, by consultation with stakeholders and regulators and by assessing Government policy for the water industry.

We have developed asset management models, assessed future service needs, customer priorities and requirements in response to legislation. We have taken into account forecast external issues such responding to the requirements of competition. The Pitt Report recommendations and other cost drivers are addressed.

We are taking a number of proactive steps to adapt to and mitigate climate change effects, including comprehensive carbon emissions measurement and minimisation, implementing energy efficiency projects and assessing infrastructure robustness.

Our plan has been developed as a coherent whole and is supported by extensive customer research. It represents our current view, as much can change between draft and final plans particularly in the external aspects of capital markets and energy prices. All known costs are in the plan, mitigated by demanding efficiency targets and a reliance on innovation to operate

the business more sustainably and efficiently. The graph at the end of this document summarises the main strategies and outputs in our plan.

The draft plan submitted today (11 August 2008) is for the period 2010-2015, and will be finalised in 2009. This is the first leg of a two year process to agree the business plan with Ofwat.

What did our customers say?

We consulted our customers widely before producing our draft plan. Customers told us their priorities were:

- Stable prices
- Tap water that is always safe and pleasant to drink
- No supply interuptions
- No sewer flooding
- Tackling visible leakage.

What else must we do?

As well as our economic regulator, Ofwat, we have regulators looking at customer service, tap water quality, and how well we look after the environment. Often, the job of these regulators is to help us comply with European and UK legislation. Sometimes, what we are required to do does not match our customers' top priorities – but they must be done all the same.

What are we going to do?

We have put forward a plan which meets these requirements, with an investment programme of £813million for 2010-2015.

To meet our customers' priorities, we plan to

- Invest £69million improving tap water to ensure it is a drink people would choose
- Duplicate water mains at key points so we can maintain supplies when problems arise
- Tackle visible leaks quicker
- Continue our innovative WaterCare support package for struggling customers
- Reduce our own future operating costs by around £20million
- Investigate how we can improve storm drainage and stop sewer flooding.

To respond to climate change and protect the environment, we plan to:

- Improve flood protection for major treatment works and pumping stations
- Champion low-carbon solutions
- Implement or investigate 51 projects protecting shellfisheries
- Protect the unique habitats of Exmoor, Dartmoor and key rivers
- Investigate what additional work may need to be done to meet new EU bathing water standards.

What will the effect be on customers' bills?

The effect of our plan on average bills will be a rise of less than £7 a year excluding inflation, or 1.4% a year at today's prices.

By 2010 70% of customers will be on a water meter and a further 80,000 are forecast to switch to a meter during 2010-2015, saving on average £400 each. By 2015 we expect 82% of customers will have a metered supply.

Summary

We have balanced the priorities of all our stakeholders: the plan balances the needs of our customers, the environment, the Government and our investors. We have extensively researched our customers' and stakeholders' requirements in preparation. Wherever possible, we have ensured that the benefit outweighs the cost.

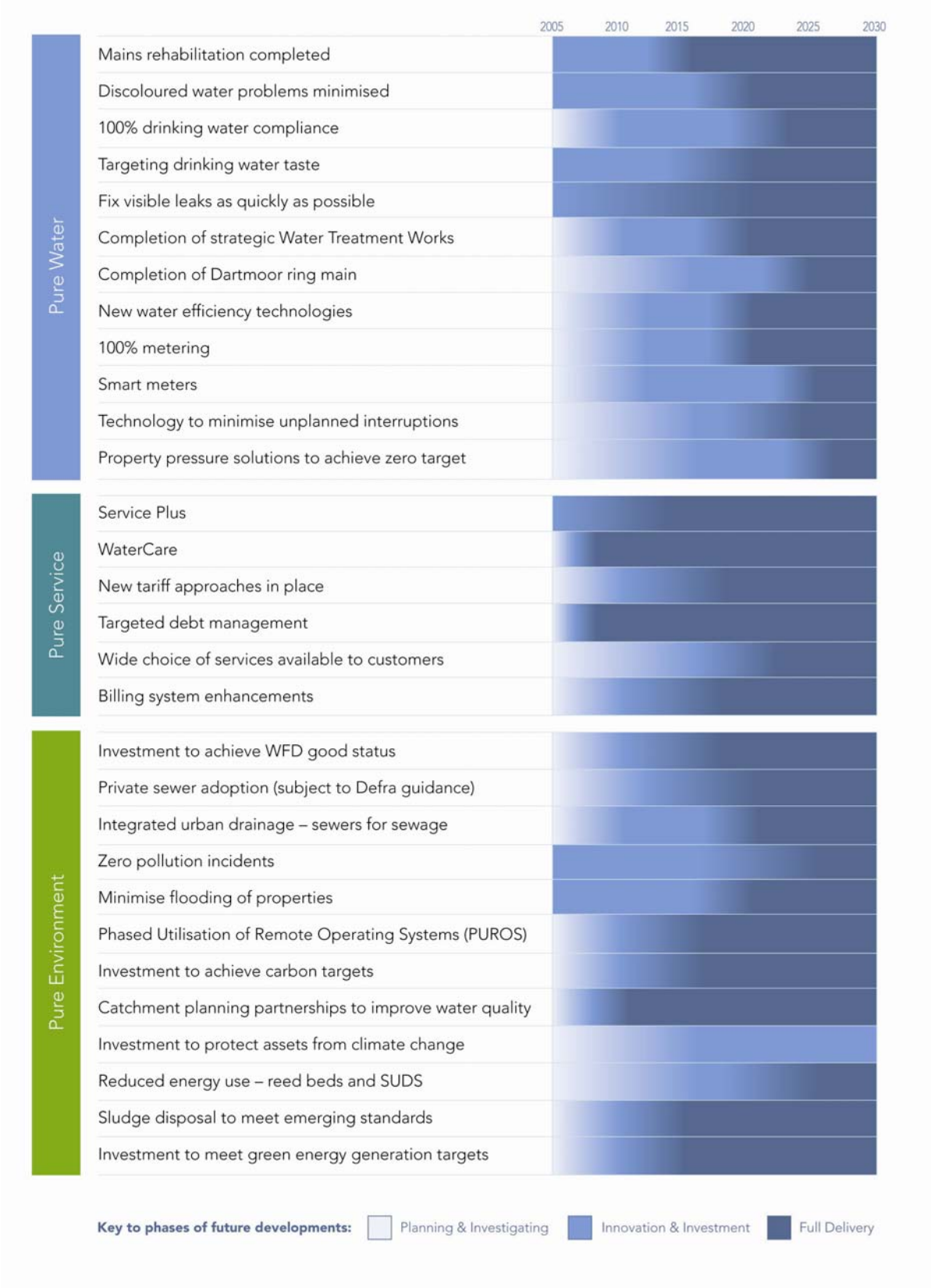
Stable prices: we have put forward a plan with price increases as low as possible in each year and no sudden price shocks. Despite high energy costs, we plan to meet our customers' and our stakeholders' expectations and our plans will add just 1.4% to the average bill.

In the last 10 years, 280,000 customers have seen their bills go down by switching to a meter, and we expect another 80,000 people to benefit in this way in the next five years.

Maintaining what we have built: the majority of the £813million investment between 2010-2015 will be aimed at maintaining the much-improved infrastructure to safeguard the environmental and economic transformation brought about by Clean Sweep as well as our investments in water mains, leakage and water supply.

Leaders on sustainability: South West Water will be specifically addressing the issue of climate change, often in partnership with others, with investment in this period by championing low energy, low carbon solutions, catchment management, water conservation and innovative ways of responding to climate change.

Making tap water people's favourite drink: tap water is near perfect at 99.97% but we know there are areas where we can improve the taste so we plan to spend £69million on improving raw water and upgrading water mains to make our tap water always a pleasure to drink for everyone.

Achieving our 'pure' vision: we aim to be one of the best water companies by serving our customers better, looking after the environment and becoming more efficient to off-set our own high energy prices. In this plan we will be cutting our future costs by around £20million.

Planned timescales on delivering the Draft Business plan