

Bournemouth & West Hampshire Water - Explanation of our plan to deliver now and in the future

OVERALL STRATEGY FOR 2010-2015 PERIOD BEYOND

This final business plan builds upon our 2008 draft plan and our customers' feedback and reaction to it. During the consultation process we found a high degree of customers (64%) supported our proposals for asset maintenance and service improvements and considered the associated costs to be acceptable. Our customers' interests are at the heart of our plan and we have reflected their views about what they want and expect to receive both now and in the longer term. We aim to deliver bills that are as low as possible whilst delivering the best possible outcome, however we are also facing significant cost drivers that are beyond our control, for example energy costs. These cost drivers have an inevitable impact on bills, and to mitigate the effect, and reflect customers' preference for stable bills, we have deferred a portion of the increases until later in the plan's 5-year period.

Our strategic planning approach can be summarised in a number of key themes:

Reliability of the water supply - It is fundamental that we ensure a reliable, value-for-money water supply to all customers, meeting all the obligations placed on us in providing an essential service.

Drinking water quality - Closely related to reliability, the water we supply must meet all the legal and regulatory standards of quality and safety. We aim to achieve 100% compliance in drinking water quality, although this is a challenge to achieve because of occasional problems with customers' pipes and fittings.

Managing the demand for water - An important focus for us is the application of a number of tools to manage demand, including the promotion of customer metering and water efficiency, and leakage control. By doing this we can postpone the need for new water resource development, which we acknowledge will be difficult in this locality because of the sensitive nature of the water

Asset robustness and resilience - We must ensure that all our assets are designed and maintained in such a way as to protect the reliability and quality of the supply. In our case, this will entail increased activity in renewing and replacing water mains, and further links between key assets.

Sustainability - By operating in a sustainable way today we can ensure that future generations will also be able to operate without compromising the quality of the service.

Cost reduction - We have reduced our costs of operation in recent years, and we will continue to strive to make efficiencies. This is likely to become more difficult in the face of rising cost pressures.

Corporate governance - It is essential that we operate to, and can demonstrate that we operate to, high standards of integrity, compliance and corporate governance.

Consistency and continuity - Our customers are generally satisfied with our performance and approach, and expect us to deliver our commitments consistently, and to build on them in the future.

QUALITY AND SERVICE IMPROVEMENTS IN 2010-2015 PERIOD AND IN THE LONGER TERM

- 1 Increase mains renewal activity to 12km each year from a current level of around 7km
- 2 Keep non-infrastructure and general asset maintenance broadly at its present level
- 3 Further reduction in risk of cryptosporidium at one water treatment works
- 4 Improve asset and service robustness and resilience by a number of schemes. Especially mains links, to reduce the risk of supply interruptions and similar service failures
- 5 Continue with demand management measures, especially household metering, leakage control, and water efficiency to postpone the need for any new resource development schemes
- 6 Keep customer service levels broadly as at present, taking incremental opportunities for improvement where possible
- 7 Explore the potential for developing cost-beneficial renewable energy sources, and reduce energy consumption where possible
- 8 Continually strive for improvements in efficiency

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

Average household bill in 2009-10		124
Plus	(1) maintaining base services	14
	of which	
	a) changes in customer mix and characteristics	9
	b) changes in operating costs to maintain current services to consumers	6
	c) changes in costs of maintaining assets	3
	d) changes in impact of taxation	-2
	e) the change in the cost of capital	-2
	(2) maintaining and enhancing security of supplies to all customers	3
	(3) the impact of improvements in services	3
	of which	
	a) drinking water quality	1
	b) improvements in service levels	2
	(4) impact of rep profiling bills to smooth price increases	4
Less	(5) scope for reduction through future efficiency improvements	-1
Average household bill in 2014-15		147

PRICE LIMITS AND EFFECT ON AVERAGE HOUSEHOLD BILLS (2007-08 PRICES)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Proposed price limit (%)		9.9	5.9	2.3	2.2	2.1
1 Average measured household bill	124	128	135	138	141	143
2 Average unmeasured household bill	135	163	174	179	184	188
3 Average household bill	124	136	143	144	146	147

ESTIMATE OF EXPENDITURE NEEDS (2007-08 PRICES) ALL CUSTOMERS

	Annual average for the 2010-2015 period (£/property/annum)
1 Operating costs to maintain current services to consumers	92
2 Operating costs to improve services to consumers and protect the environment	1
3 Cost of maintaining assets to deliver current services to consumers	40
4 Cost of improving assets to deliver improvements for the environment and consumers	15
5 Assumed cost of capital (%)	
Pre-tax cost of debt and post-tax cost of equity basis (Vanilla)	6.18%
Fully post-tax basis	5.56%