

Explanation of the company's plan to deliver now and in the future

Overall strategy for 2010-2015 period and beyond

Our Final Business Plan proposes our targets and objectives for the next five year regulatory period to 2015, reflecting the vision set out in our 25 year strategy document 'Our Sustainable Future' published in 2007. Research carried out by Ofwat (and others) in late 2008 demonstrated a very positive endorsement by Welsh Water's customers of our draft Business Plan. For that reason, we have sought as much as possible to preserve the overall direction and balance of that plan in the face of the increasing economic challenges that have since arisen.

Key features of our strategy to 2015 include:

- ▶ the average household bill will not be higher in real terms in 2015 than it is today;
- ▶ current high standards of service will be maintained, with areas for improvement reflecting customer priorities;
- ▶ the "package" of investments to protect and further enhance drinking water quality and environmental quality will represent good value for money for our customers;
- ▶ an increased level of maintenance will optimise asset performance and address known risks, in particular as identified through Drinking Water Safety Plans;

Price limits and effect on average bills (2007-08 prices)						
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Proposed price limit		2.2	0.1	0.8	0.6	-0.4
Indicative price limit (water service)		-3.1	1.8	1.5	1.1	0.2
Average measured household bill	114	110	111	112	112	112
Average unmeasured household bill	180	176	180	184	188	188
Average household bill	159	154	156	157	158	157
Indicative price limit (sewerage service)		6.3	-1.1	0.3	0.3	-0.8
Average measured household bill	157	166	163	163	162	161
Average unmeasured household bill	245	261	259	262	264	262
Average household bill	217	228	224	223	222	219

- ▶ strategic programmes will begin to address long term challenges, notably in response to climate change and surface water flooding; and
- ▶ challenging efficiency targets and efficient financing plans for the next five years will be vital to keep the plan affordable.

For the first time, our Business Plan has been developed through a long-term asset planning process, which has recently been awarded the PAS55:2008 BSi asset management specification. We can now operate a rolling 5-year investment plan, avoiding the inefficiencies associated with the more rigid 5-yearly investment cycles of the past.

Affordability is a top priority for us. We will continue to develop new tariffs (such as Water Direct, Water Collect and Welsh Water Assist) to help some of our most disadvantaged customers, who already struggle to pay their bills, whilst helping us to keep our cash collection costs down, for the benefit of customers as a whole.

For further information go to: www.dwrcrymru.com

Quality and service improvements in the 2010-2015 (AMP5) period

Highlights of our £1,356 million AMP5 investment programme include:

- ▶ improved treatment at 23 sites to address risks to the quality of drinking water (£101 million);
- ▶ investment at 14 sites to further enhance the high standards of bathing and shellfish waters (£33million);
- ▶ full advanced sludge digestion at 3 sites to reduce energy costs and reduce our carbon footprint plus working towards this at 1 extra site (£88 million);
- ▶ an initial programme to start to remove surface water from our sewers - SUDS (£15 million) and development of our drainage area planning process, to investigate and identify further surface water removal opportunities in 113 catchments (£8 million);
- ▶ ongoing investment to reduce the incidents of sewer flooding (£34 million);
- ▶ replacement of 529km of water mains causing repeated interruptions to supply to worst served customers (£81 million);
- ▶ phase two of our IT Enabled Change (ITEC) programme to improve efficiency and customer service (£73 million); and
- ▶ significant investment to supply new housing and enable economic development (£70 million).

The protection of drinking water, the level of environmental quality and service reliability will all improve and we believe that this, when combined with our proposed bill profile, will be a very positive outcome for our customers.

What's driving the changes in bills? (2007-08 prices)			Water	Sewerage
Average household bill in 2009-10 prices			159	217
Less	1	Past efficiency savings and outperformance	(2)	(6)
	2	Maintaining base services		
			Water	Sewerage
	a)	Changes in revenue	0	(1)
	b)	Changes in operating costs to maintain current services to consumers	4	10
	c)	Changes in costs of maintaining assets	(9)	7
	d)	Changes in impact of taxation	0	0
Plus	e)	The change in the cost of capital	(5)	(12)
	Total		(10)	4
3	Maintaining and enhancing security of supplies to all customers		4	5
4	The impact of improvements in services			
	a)	Drinking water quality	10	
	b)	Environmental improvements		6
	c)	Improvements in service levels	0	1
	Total		10	7
Less	5	Scope for reduction through future efficiency improvements	(4)	(8)
Average household bill in 2014-15			157	219

Estimated expenditure (2007-08 prices)			Annual average for the 2010-15 period (£/property/annum)	
			Water	Sewerage
1	Operating costs to maintain current services to consumers		95	88
2	Operating costs to improve services to consumers and protect the environment		2	3
3	Cost of maintaining assets to deliver current services to consumers		67	66
4	Cost of improving assets to deliver improvements for the environment and consumers		29	28
			Pre tax cost of debt and post tax cost of equity basis (Vanilla)	Fully post-tax basis
5	Assumed cost of capital (%)		5.6%	4.9%