YorkshireWater

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

OVERALL STRATEGY FOR 2010-2015 PERIOD AND BEYOND

The Yorkshire Water vision is to be **'Clearly the Best Water Company'** in the UK. To help achieve this vision, we published our 25 year Strategic Direction Statement (SDS) in December 2007 and this sets the context for our business plan. The SDS sets out five strategic objectives of:

- A customer **service** experience second-to-none
- A strong **environmental** focus
- The lowest possible **prices** for customers
- Attractive **returns** for investors
- World class **asset** management and great people

This plan has been developed after extensive consultation with our customers and stakeholders and it reflects their priorities.

As we enter the fifth water Industry price review, it is clear that we are facing a series of new and demanding challenges. We will continue to maintain a high quality service in the face of a harsher economic climate, demands of a growing population and the impacts of climate change.

We propose to invest £1.930bn between 2010 and 2015 to maintain and enhance our service. These plans are customer focussed and supported by cost-benefit analysis taking account of financial, social and carbon costs and customers' 'willingness to pay'. In addition, all investment is evidence-based, using 'sound science' and supported by the Drinking Water Inspectorate (DWI) and the Environment Agency (EA). Fewer statutory obligations in this period have also allowed us to include customer supported infrastructure investment and start to tackle the long term sustainability of our networks.

It is pleasing to note that our plan results in a reduction in the cost of water services. As a direct result of customer supported environmental improvements, there is an increase in the cost of sewerage services. The balanced nature of our plan results in a small overall real increase in prices of 0.6% p.a. over the period with the average household customer paying less than £2 p.a. more in real terms. This gives an average bill in 2014/15 of £317.

In balancing our strategic objectives, we are **'Striking the Right Balance'** for Yorkshire and fulfilling the early part of our SDS.

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

		2009-10	2010-11	2011-13	2012-13	2013-14	2014-15
	Proposed price limit[1]	2.10%	0.60%	0.60%	0.60%	0.60%	0.60%
W	**Indicative price limit (water service)**	**0.70%**	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**
1	Average measured household bill	127	125	124	123	122	121
2	Average unmeasured household bill	157	155	154	152	151	149
3	Average household bill	145	143	141	139	137	135
S	**Indicative price limit (sewerage service)**	**3.40%**	**2.10%**	**2.10%**	**2.10%**	**2.10%**	**2.10%**
1	Average measured household bill	145	148	151	154	158	161
2	Average unmeasured household bill	181	185	189	193	197	201
3	Average household bill	167	171	173	176	179	182
	Average household bill (total)	**312**	**314**	**314**	**316**	**316**	**317**

[1] We have smoothed the price profile over the period to give stable price movements

To read a more detailed copy of our proposals visit: **www.yorkshirewater.com/pr09**

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

In line with our customers' highest priorities and to meet statutory obligations, we propose to invest £1.930bn across the region between 2010 and 2015 in the key areas of:

- **Maintaining serviceability and services to customers (1140m)**
- **Maintaining reliability of water supplies and meeting the needs of new customers (£110m)**
  - Rehabilitation of the water main and trunk main network to further reduce discolouration (£60m)
  - Protecting the high quality of our drinking water (£50m)
  - Lead pipe replacements (£25m)
  - Protecting Bathing Water to achieve new standards (£85m)
  - European Directives - Water Framework, Freshwater fish etc (£320m)
  - Waste processing and recycling (£10m)
- **Enhancing service to customers (£130m)**
  - Reducing flooding from sewers (£55m)
  - Reducing pollution from our sewerage system (£70m)
  - Reducing odour from our waste water treamentworks (£5m)

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

				Water	Sewerage
Average household bill in 2009-10				145	167
Less	1) past efficiency savings and outperformance			(6)	(5)
Plus	2) maintaining base services			(10)	(3)
	of which	**Water**	**Sewerage**		
	a) changes in revenue	0	0		
	b) changes in operating costs to maintain current services to consumers	(2)	1		
	c) changes in costs of maintaining assets	7	11		
	d) changes in impact of taxation	(5)	(5)		
	e) the change in the cost of capital	(10)	(10)		
Plus	3) maintaining and enhancing security of supplies to all customers			2	2
Plus	4) the impact of improvements in services of which			4	21
	a) drinking water quality	4	0		
	b) environmental improvements	0	16		
	c) Improvements in service levels	0	5		
Less	5) scope for reduction through future efficiency improvements			0	0
Average household bill in 2014-15				135	182

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	68	60
2	Operating costs to improve services to consumers and protect the environment	1	4
3	Cost of maintaining assets to deliver improvements for the environments	54	50
4	Cost of improving assets to deliver improvements for the environment and consumers	17	55

COST OF CAPITAL

	Pre tax cost of debt and post tax cost of equity basis (Vanilla)	Fully post-tax basis
Assumed cost of capital (%)	5.45	4.75