

## Explanation of the company's plan to deliver our customers' and stakeholders' priorities

### 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 to balance our 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**

In August 2008 we published our Draft Business Plan. Independent consultation on this submission has confirmed that 'Striking the Right Balance' in Yorkshire is the correct approach. Our customers and stakeholders want us to continue delivering service and value for money whilst managing the impact of changing economic circumstances

We are listening to our customers and regulators and plan to now invest £1.901bn between 2010-2015 to maintain and enhance our services. Customers require that we maintain the higher service levels - achieved over 20 years - and this means that the majority of this investment, around £1.131bn, will be dedicated to service maintenance.

Our continued investment in the Yorkshire region will play a vital economic role, particularly through the current recession.

All our investment plans are customer focused and supported by cost-benefit analysis taking account of financial, social and carbon costs and customers' willingness to pay. This investment is evidence-based, using 'sound science' and supported by the Drinking Water Inspectorate (DWI) and the Environment Agency (EA)

In this current period, 2005-2010, we have beaten challenging efficiency targets and were recognised by Ofwat as the benchmark in the latest comparative competition results. In this business plan we continue this drive for efficiency within the new Ofwat Capital Incentive Scheme. Our highly skilled people and contract partners are committed to continuing innovation and the drive for further efficiencies. These are key to lower future prices, improvements to customer service and a sustainable natural environment.

The balanced nature of our plan results in a movement in the average annual household bill from £308 in 2009/10 to £328 in 2014/15, an increase of only £4 p.a. in real terms. Overall, this will mean a 1.7% p.a. real increase in Yorkshire Water charges which is driven by the need to fund statutory environmental investment, the unavoidable impact of decreasing demand for water and increasing business rates. We have limited price increases to our customers by continuing to drive efficiencies, challenging the capital programme and implementing the taxation benefits of higher gearing.

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

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Proposed price limit<sup>1</sup></b>	2.10%	1.70%	1.70%	1.70%	1.70%	1.70%
<b>W Indicative price limit (water service)</b>	0.70%	1.40%	1.40%	1.40%	1.40%	1.40%
1 Average measured household bill	124	126	127	129	131	133
2 Average unmeasured household bill	154	156	159	161	163	165
3 Average household bill	143	144	145	146	148	149
<b>S Indicative price limit (sewerage service)</b>	3.40%	2.20%	2.20%	2.20%	2.20%	2.20%
1 Average measured household bill	142	145	149	152	155	159
2 Average unmeasured household bill	179	183	187	191	195	200
3 Average household bill	165	168	171	174	176	179
<b>Average annual household bill (total)</b>	<b>308</b>	<b>312</b>	<b>316</b>	<b>320</b>	<b>324</b>	<b>328</b>

<sup>1</sup> 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](http://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 £1.901bn across the region between 2010-2015 in the key areas of:

- **Maintaining serviceability and services to customers (£1101m)**
- **Maintaining reliability of water supplies and meeting the needs of new customers (£145m)**
- **Protecting the high quality of our drinking water (£55m)**
- **Lead pipe replacements (£35m)**
- **Environmental improvements (£10m)**
- **Protecting Bathing Water to achieve 'sufficient' standards (£70m)**
- **European Directives - Water Framework, Freshwater Fish etc (£245m)**
- **Waste processing and recycling (£40m)**
- **Enhancing service to customers (£186m)**
  - Reducing flooding from sewers (£60m)
  - Reducing pollution from our sewerage system (£60m)
  - Reducing odour from our waste water treatment works (£5m)
  - Improving asset and flooding resilience (£15m)
  - Reducing properties experiencing low water pressure (£1m)
  - Improving bathing water to 'excellent' standards (£45m)

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

	Water	Sewerage
Average household bill in 2009-10	143	165
<b>Less</b> 1) past efficiency savings and outperformance	(5)	(5)
<b>Plus</b> 2) maintaining base service	5	(3)
of which	<b>Water</b>	<b>Sewerage</b>
a) changes in revenue	7	6
b) changes in operating costs to maintain current services to consumers	11	3
c) changes in costs of maintaining assets	9	10
d) changes in impact of taxation	(11)	(11)
e) the change in the cost of capital	(10)	(11)
<b>Plus</b> 3) maintaining and enhancing security of supplies to all customers	1	4
<b>Plus</b> 4) the impact of improvements in service of which	5	19
a) drinking water quality	5	0
b) environmental improvements	0	13
c) improvements in service levels	0	6
<b>Less</b> 5) scope for reduction through future efficiency improvements	0	0
<b>Average household bill in 2014-15</b>	<b>149</b>	<b>179</b>

(NB. Numbers do not add due to rounding)

### 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	77	65
2 Operating costs to improve services to consumers and protect the environment	1	5
3 Cost of maintaining assets to deliver current services to consumers	58	47
4 Cost of improving assets to deliver improvements for the environment and consumers	15	61

### COST OF CAPITAL

	Pre tax cost of debt and post tax cost of equity basis (Vanilla)	Fully post-tax basis
Assumed cost of capital %	5.44	4.8