

# Final Business Plan at PR09 High Level Summary

Over the next 5 years (2010/15), the average household bills for South Staffs Water customers will rise in total by 15.5%, excluding inflation, a total increase of £18 per household, which is £3.60 per year. Our current average household bill of £116 is therefore expected to be £134 in 2014/15. Capital investment per property will increase by 17% to £51 per year.

The main reasons for rising customer bills are:

- Increases in operating costs which will add around 11% to customer bills – the Company is going to experience additional annual running costs, most notably:
  - Power costs
  - Pensions costs
  - Abstraction costs payable to the Environment Agency
- Increases in the capital investment programme which will add around 2% to customer bills. The Company's investment programme will increase from £120m in the current 5 year period (2005/10) to £140m in the period 2010/15. The Company is confident that this is essential investment in the customers' interests.
- An increase in the cost of capital to reflect risks in the sector and the difficulty in raising finance.
- A modest increase in customer metering which adds 2% to customer bills.

Key assumptions in this plan include:

- Operating cost efficiencies of 0.3% per annum
- Capital cost efficiencies of 5% over the period
- A cost of capital of 6.3% in line with evidence prepared by NERA
- A modest rise in domestic meter penetration levels from 20% to 35% by 2015
- Steady levels of leakage at levels slightly lower than the current Ofwat target
- Continuation of existing levels of mains replacement activity

This FBP is based on the Company's best estimate of the future. As such, it does not contemplate a worsening of the present economic downturn beyond 2010. However, given recent volatility with respect to operations, including reduced demand, increased bad debt and increased numbers of meter optants, the Company would like to highlight the potential downside risks to this plan. It believes that stakeholders should consider this increased level of risk when evaluating the Company's FBP, including the assumed cost of capital and requested notified items.

The price limits in this FBP are in total 16.8% over five years and the yearly movement is as follows:

	2010/11	2011/12	2012/13	2013/14	2014/15
<b>Price limit %</b>	8.1	4.4	4.2	0.1	0.0
<b>Average h'hold bill £</b>	125	130	135	135	134

