



Strategic Direction Statement

Planning for the future



South Staffs Water

Strategic Direction Statement - Our 25 Year Long Term Strategy

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1 Foreword

At South Staffs Water, our vision as a company is to be seen as a highly respected and caring water supplier, offering the highest standard of service to customers, at the lowest possible price.

At the heart of our vision, and key to us maintaining it in the long term in an ever-changing environment, are three key areas, which we have called the 3Cs:

- Carbon
- Customers
- Costs

Carbon

The water industry has a major carbon footprint and a significant role to play in mitigating climate change. We recognise our role in this and take it very seriously. We will seek to work with Government agencies to reduce our carbon footprint.

Customers

At South Staffs Water, we recognise the importance of great customer service and responding to customers' needs. We are committed as a company to uphold this. Customer choice, education and viewpoints - which we have consulted on for this document, will be at the heart of our service delivery approach.



Costs

The reputation of South Staffs Water as a company has been enhanced by the knowledge that we offer high levels of service at a low price. We are proud of this and wish to retain this mantra going forward by aiming to remain in the most efficient category for operating costs and capital costs, as measured by the industry regulator Ofwat.

We believe that the 3Cs are the major areas of challenge to us as a business and are also very important to our customers and stakeholders. Given this, all of our overall future business objectives, aspirations and strategy will be linked to the 3Cs. These objectives are contained within this 'manifesto', which we have called our Strategic Direction Statement. It is a high level, long term 25 year strategy that we hope will demonstrate our vision of how this business, and the broad principles behind it, will look going forward. More detailed plans will be contained in our forthcoming Business Plan, which we produce every five years.

A handwritten signature in black ink, appearing to read 'Jack Carnell'.

Dr Jack Carnell
MD South Staffs Water
December 2007

2 History and Key Facts

We provide clean drinking water to a population of 1.2 million consumers through a network of 6,000 km of mains. Almost half of our water is sourced from boreholes in the ground and the remainder from two major treatment works, one of which takes water from the River Severn and one from surface water (Blithfield Reservoir). Our area of supply incorporates the Black Country conurbation and stretches up to Burton and Uttoxeter. We do not supply sewerage services - our customers receive these from Severn Trent Water.

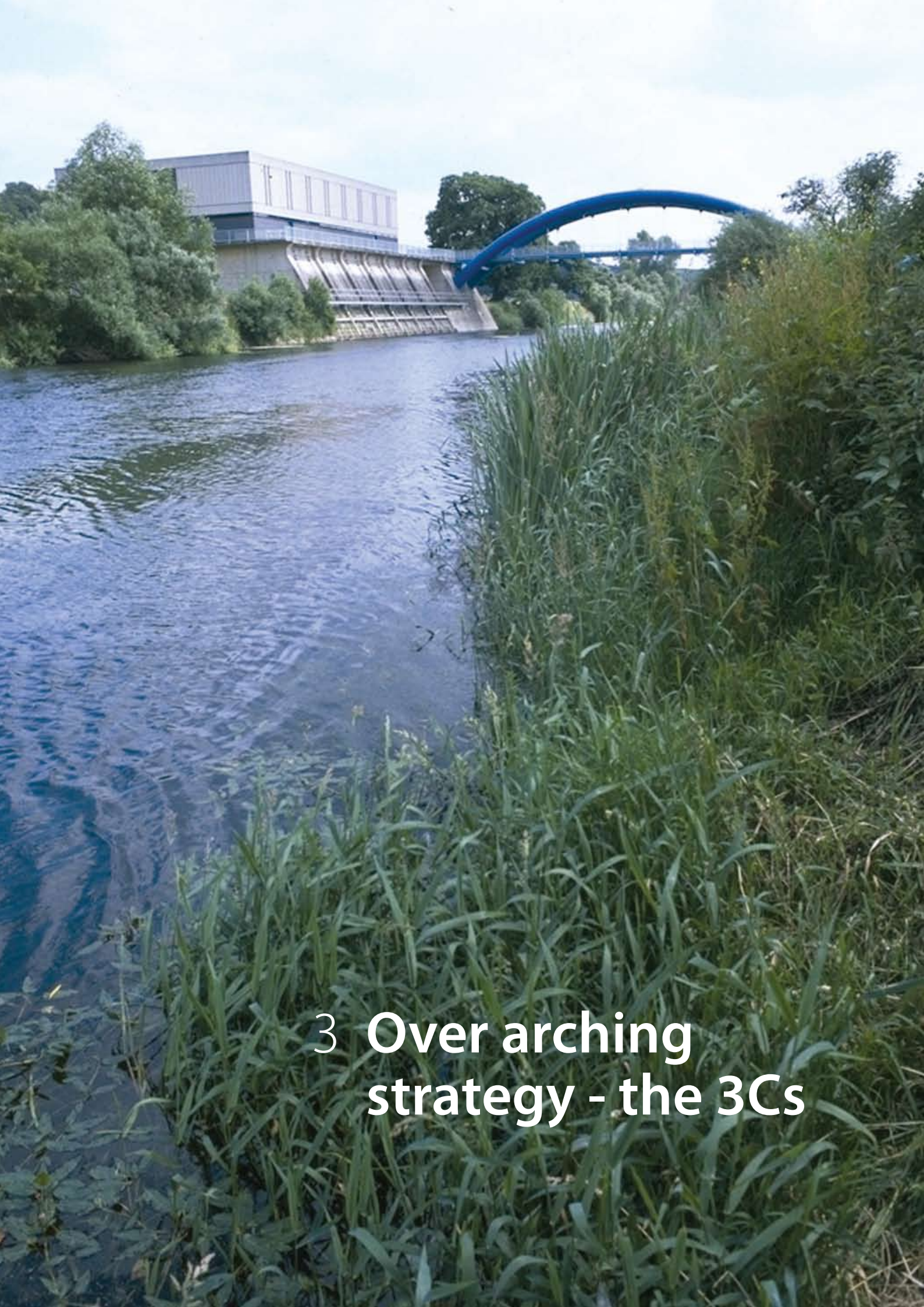
Key Facts: (as at 2007)

Please note, some figures are rounded for ease of reference

Number of employees:	360
Number of water sources:	30
Average daily water supplied:	330 MI/d
Turnover:	£70m
Leakage level:	70-75 MI/d
Average household water bill in 2007/8:	£113 (industry average is £150)
Proportion of household customers metered:	21% (rising by around 2% per year)
Length of mains replaced each year:	70km (about 1.2% of the total length)
Annual capital investment level:	£25m
Number of customers below Ofwat's pressure standard:	Zero
Number of properties experiencing unplanned supply interruptions over 6 hours:	Around 700 per year (0.1% of all properties)
Water quality compliance:	99.97%
Written complaints answered within 10 days:	100%
% meters read each year:	99.8%

Image to the right: Area of Supply Map





3 Over arching
strategy - the 3Cs

Supporting our vision, our over arching strategy falls into three areas:

- **Carbon**
- **Customers**
- **Costs**

We summarise these as the 3Cs. Each of our strategic direction statement themes, as well as overall business objectives, will fall under the heading of one or more of these key strategies. In striving to achieve the 3Cs, we aim to work together with other relevant agencies and Regulators such as the Environment Agency, the Drinking Water Inspectorate, the Consumer Council for Water and Ofwat, where necessary, to achieve our goals.

3.1 **Carbon**

We recognise that the water industry has a major carbon footprint, with huge amounts of energy needed to be able to pump and supply water, and that the industry therefore has a major role to play in mitigating climate change. Furthermore, we as a company, use more energy relative to the size of our customer base than any other water company in England and Wales. This is due to the hilly topography of our supply area, which means that often, water has to be pumped over large distances. We also recognise that we are a major consumer of manufactured products such as pipes, fittings, chemicals, paper and general consumables, which all use significant amounts of energy in their production.

We operate a large fleet of vehicles, which also contribute significantly to carbon emissions. As a result, and in addition to our general Corporate Social Responsibility (CSR) obligations, we have a considerable opportunity to work under our own initiative, and at national level, to reduce overall carbon emissions. We will seek to work with Government agencies and in line with guidelines set out in the Carbon Reduction Scheme to raise awareness of our carbon footprint. We will then set targets for change consistent with the value placed on carbon emissions.



3.2 Customers

Throughout our history we have held, at our core, a desire to be a local, caring water supplier; responsive to customer needs. Since 1999 we have been ranked in the top five of all water companies in Ofwat's Overall Performance Assessment of service. We are committed to performing to the best of our ability and aiming to be one of the best companies in the industry. This high service, combined with our low bills (25% lower than the national average) gives our customers excellent value.

We recognise that all too often customer service tends to be driven to support regulatory outputs and that more "real" customer service standards are needed. This has improved somewhat with the introduction of the customer satisfaction measure, but there remains much to be done. Notably, the customer experience, in terms of their individual inter-relationship with us as a company needs to be measured on all fronts. This may well extend, for example, to meter reading services, payment services, out of hours contact, internet and texting services, information on supply interruptions as they occur, improved information on billing and reasons for price changes. Furthermore, we will seek to meet our individual customer's desires, which may be at odds with or completely different to any service measured by regulatory outputs.

In addition to this, it will be necessary to maintain a closer dialogue with our customers on willingness to pay, on our need to discuss their priorities and on more appropriate and more flexible methods of payment. Customer choice, education and viewpoints will be at the heart of our service delivery approach.

3.3 Costs

The reputation of South Staffs Water as a company has been enhanced by the knowledge that we are seen as one of the best providers of both high service and low price. This is a position within the water industry that we are proud of and is one that we wish to retain. It is also true, however that invariably we are not the first mover with regard to new technologies or new innovations. As a result, our overall strategy towards costs is to be a "fast second" mover, with a culture for cost reduction, celebrating good ideas and best practice. This culture is coupled with financial structures and governance that minimise unnecessary spend or waste.

Our long-term strategy is to remain in the most efficient category for operating costs and capital costs as measured by Ofwat. We recognise that there will be periods where the performance of other companies cannot be foreseen, as a result of which movements outside of Band A may occur in the short term.

We are conscious that the 3Cs may at times conflict. For example, the most carbon-friendly investment solutions may not always be the lowest direct cost solutions. We will seek to work with the Regulators to agree the most appropriate decisions reflecting this challenge.



ACHIEVING THE 3Cs

4 Strategic direction statement themes



The following statements detail our long-term objectives. For each of these, no specific timescale is stated, other than for water resources where the timescale is consistent with the Water Resources Plan, which we submit to the Environment Agency and Ofwat every five years. For other long-term objectives the timescales are taken to be indefinite. Each of these statements links closely to the carbon, customer, cost strategy described in section 3 to varying degrees, please refer to the following key.

Impact with the 3C's:

★★★ high

★★ medium

★ low

4.1 Service to customers, including water quality

carbon ★★ cost ★★★ customer ★★★

Our long-term objective for customer service is to be regarded, under any appropriate measure, as a local, caring water company, whose performance is amongst the best in the industry.

Delivering good customer service goes hand in hand with the need to remain efficient and controlling customers' bills. Given this we wish to see customer service delivery provided not just at the highest level, but also within a low price framework. In delivering customer service, we intend to benchmark ourselves across the sector, other utilities and other commercial organisations.

"We aspire to every contact with us being a positive experience for the customer."

Whilst it is difficult to prescribe the exact definition of good customer service, the factors that do so include:

- Contact resolved first time around;
- Few supply interruptions and incidents of low pressure;
- Excellent water quality;
- Supply continuity (including no hosepipe bans);
- Reducing the amount of unnecessary contact: and
- Providing multiple contact channels – for example phone and internet billing services.

We aspire to every contact with us being a positive experience for the customer. This also includes the water quality experience - notably taste, smell, hardness and its appearance. Customer's acceptability of our water is important to us and we wish to keep water quality contact to a minimum. We will pursue a long term awareness and advice strategy with our customers and health professionals regarding the acceptability of our drinking water.



4.2 Asset management and leakage

carbon ★★★ cost ★★ customer ★★

Our long-term objective for asset management is to primarily maintain the serviceability of our assets. We would prefer to achieve a position where the amount spent on capital maintenance either each year or every five year periodic review period, is such that peaks and troughs are generally avoided. Furthermore, it is our policy to not favour capital or operating cost biased solutions, regardless of the regulatory regime which operates. We seek to use investment solutions with the least total cost over the long term. We also seek to ensure a risk based approach to all functions of maintenance. For example, our current analysis suggests that the risk of our assets flooding is minimal. However, we are conscious that this position could change in the future and that our supply resilience needs to be constantly evaluated.

We will seek, where appropriate, to quantify tangible benefits applicable to asset investment. We will also develop a robust system for data collection on asset performance, such that the timing and nature of investment is optimised. We will look to make investment where there are multiple benefits associated with that investment, such that aggregate costs are minimised.

We will continue to monitor best practice with regard to materials, consumables, treatment solutions, sources of energy and so forth, such that the level of innovation contained within the investment programme is healthy.

We will aim to reduce overall levels of carbon emission through our investment choices. However, we recognise the potential conflict with our cost minimisation objective. Hence we will develop an investment appraisal approach which includes social and environmental costs, which include, for example, the cost of carbon emissions.

We are conscious that leakage is a major issue both for us as a company and for the industry as a whole. We will pursue achieving a level of leakage that takes full account of

- The prevailing social and environmental costs;
- Our resource position;
- The costs of reducing leakage levels; and
- Customer service levels.

This level of leakage may well be different to the current economic level and could change in light of impending carbon reduction targets. We will continue to work together with the relevant agencies, the Highway Authorities-including any Traffic Management Act restrictions and in line with any Ofwat guidance on leakage.

4.3 Sustainability

carbon ★★★ cost ★★ customer ★★

We recognise that sustainable investment in our infrastructure and systems are essential for future generations as well as meeting today's regulations and standards. We will seek to



maintain relatively stable investment patterns rather than a policy that encompasses peaks and troughs in investment levels over time. We will also look to avoid investment which, whilst giving a benefit in the short term, produces difficulties in the long term.

We also recognise that the provision of clean and safe drinking water will be achieved by a risk based approach. Risks in the abstraction, production and delivery through the distribution network of drinking water will be assessed and subsequently managed by sustainable solutions.

“We recognise that sustainable investment in our infrastructure and systems are essential for future generations as well as meeting today’s regulations and standards.”

In terms of water abstractions, we will seek to work with the Regulators to reach agreement on exchanging abstraction rights for water currently used in environmentally stressed areas to localities that are less sensitive. Catchment management solutions may also be required. We believe we can maintain our overall level of water availability to customers but deliver an environmental gain through this approach. Some innovative solutions may be required to meet this aspiration.

4.4 **Cost efficiency and financing**

carbon ★★ cost ★★★ customer ★★

Our long-term objective for cost efficiency and financing is to ensure that the efficiency of our operations is seen to be one of the best in the industry and that our capital investment programme is financed over time in the lowest cost manner. Our ability to achieve further efficiencies will be aided by investments in technology, innovations and sustainable asset maintenance. We will review the debt and equity finance available in the market over time to ensure that our financing structures are optimised, so that funds are raised to finance investment efficiently.

Our objective is to remain recognised as a very efficient company and to make further efficiencies for the benefits of customers and other stakeholders. Although we recognise that balanced against this is the need for us to be able to adequately finance our operations.

4.5 **Innovation**

carbon ★★ cost ★★★ customer ★★★

We are keen to achieve long-term efficiencies and improvements in customer service and believe that our excellent track record in innovation will help us to achieve this. However, our long term approach to innovation has to account for the size of the company, which does not always allow for large scale research and development programmes. For this



reason, our innovation strategy is to follow best practice quickly and to pursue proven technologies in the market. We are especially keen to explore opportunities in automation, information technology (IT) and systems. Technology benchmarking and adoption will need to follow industry best practices - not just those adopted in the water sector.

“...our innovation strategy is to follow best practice quickly and to pursue proven technologies in the market.”

Going forward, it is becoming apparent that we will need to move away from an IT strategy linked largely to maintenance of existing systems to one that looks more radically at the needs of our business going forward. This may involve greater investment in our corporate systems.

Whilst we cannot commit to a large research and development programme, we will seek to promote a workforce culture and philosophy that encourages creativity and innovation in dealing with the risks and opportunities we face as a business. We have an excellent staff suggestion scheme, where staff are invited and encouraged to suggest more cost effective ways to run the business and we are constantly looking at ways to involve employees in our business.

Our business is small enough to adapt to change promptly and will continue to focus on adapting existing technologies to our business needs through bespoke local development. System integration and business process analysis will be a feature of our work and this should support our business intelligence gathering and our service to customers, enabling a prompt first time response to queries.

Our ability to adapt to change is not just down to innovation and system development. We recognise the need for robust HR strategies to ensure the structure and skills of the business adapt to the new risks and opportunities we encounter over time.

4.6 Climate change

carbon ★★★ cost ★★ customer ★★

Our long-term objective is to reduce our carbon footprint. We also recognise that we play a major part in carbon emissions in the UK and that our decisions will have a major influence on the desire to address climate change issues.

We will continue to monitor and develop policies that reflect the actual resource availability in this area relative to customer water use. This includes policies on:

- metering;
- leakage control;
- alternative sources of energy - for example green energy;
- conjunctive water resource use; and
- water efficiency.



Maintaining our ability to supply customer needs is an important issue for us, particularly our ability to meet peak demands.

We recognise the part we play in educating and influencing customer behaviours and attitudes with respect to water usage. We also consider further work is necessary to identify truly effective water efficiency solutions.

More work is needed over the long term to develop an understanding of the impact of climate change on the levels of water available from our sources and the volumes of water our customers will use if the climate does change as predicted.

There are other potential impacts of climate change we will need to prepare for. For example, extreme climate events may affect our burst and leakage levels. Flooding events may lead to us reviewing our supply resilience. More radical reviews may involve assessing if our water sources and storage locations are in the correct location for our topography and our customers.

4.7 Ethics and our Corporate Social Responsibility (CSR)

carbon ★★ cost ★★ customer ★★

Our long-term objective in support of ethics and CSR is that we will strengthen our culture of individual responsibility and integrity. This will be particularly true in the way in which we interact and work with our Regulators, our customers and our employees.

In terms of CSR we recognise that our current community engagement is modest at best. Our long term strategy is to work closer with those organisations who, in particular, society would see as needing our support. These would include schools, institutions and charities. This involvement needs to combine any consultation with education of water related issues.

“...we will strengthen our culture of individual responsibility and integrity.”

Our CSR objective will also extend to long-term employee management - including training, development, succession and retention of such staff as is necessary to ensure that we are able to continue with a sustainable workforce. Initiatives such as the work-life balance are important recruitment and retention tools for us as a company. Our human resources strategy needs to evolve based on changing demographics, skills shortages and competitiveness of contractor/outsourced resources.

Where appropriate, we will develop a procurement strategy that allows us to work more closely with suppliers and contractors that have a low carbon footprint and who can demonstrate their products are ethically sourced.



4.8 Future charging and metering strategy

carbon ★★★ cost ★★ customer ★★

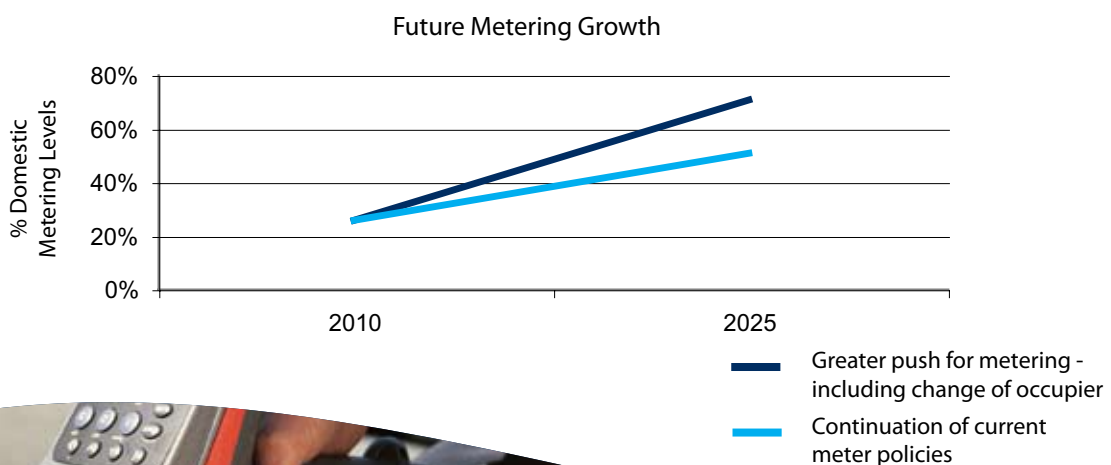
In terms of the level of bills in the future, it is very difficult to speculate on these in the long term. The reality is that many cost pressures that lead to rising bills arise from external pressures, such as new quality standards, Government legislation and prices in other markets that we purchase from, such as the energy sector.

Our current average household bill is some 25% lower than the industry average – a position we wish to retain. However, we also recognise that our supply area has a high level of deprivation, and that many of our customers find affording their bill an issue. This is something we need to take into consideration when introducing new tariffs. We will also aim to avoid, where possible, significant fluctuations in prices, providing our services and assets receive the necessary investment levels. We are fortunate however not to have some of the cost pressures in this area that other companies face, such as a coastline to maintain and the new demands from a rapidly rising population.

We recognise that it will be difficult to charge customers an unmetered charge based on the rateable value of their property in the long term, given that most rateable values were set in the 1970s. The move to metered charges is clearly the way forward, especially given that it also the fairest method of charging because it reduces the subsidisation that exists between certain groups of customers who pay by rateable value.

In the near future, we envisage a two-pronged approach to metering. Firstly, we envisage the introduction of a metered tariff that has a lower volumetric rate in the winter and a higher volumetric rate in the summer, when demand is higher and water is more costly to supply. This type of 'seasonal' tariff structure would discourage excessive non-essential summer use and would also ensure that customers who did want to use large amounts of water in the summer contributed to the costs of providing it. In order for us to introduce this type of tariff, 'smart meters' - capable of reading accurate consumption levels on a regular basis - would need to be installed.

Secondly, we intend to install a meter in unmetered household properties when there is a change of occupier. As can be seen from the graph below, this 'change of occupier' metering will form a significant part of our metering strategy going forward and will help us to achieve our target metering levels by 2025.



Assumptions - competition, tariffs, energy costs, legislation

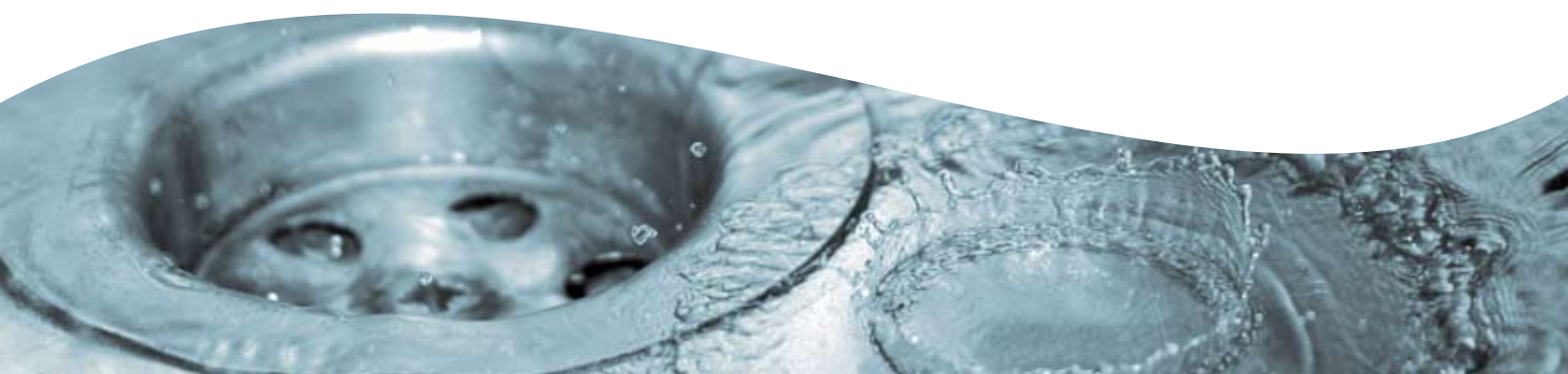
In producing our long term plans and reflecting on the impact of issues on future bills, we have made a number of assumptions. These include:

Water competition – we have assumed that any new regime promoted by the Government would support the drive for efficiencies and innovation, and would not allow cross-subsidies that could lead to some customers paying higher bills to subsidise those benefiting from competition.

Tariffs – we also assume that any new social tariffs to support affordability issues would not be subject to cross-subsidises that increase the bills of some customers.

Energy costs – after manpower costs, the second highest running cost we incur is energy costs to pump the water around the network to our customers. Because of this the market prices we pay for electricity has a direct impact on customer bills. We have assumed that current market energy rates will prevail in the long term. Furthermore, we have assumed that any moves to “green energy” sources would not have significant cost impacts on customer bills.

Government legislation – it is extremely difficult to predict future government legislation or indeed changes to taxation and other treasury financial requirements that may lead to changes in customer bills going forward. We do not envisage that the Water Framework Directive will involve significant new costs for us. Other legislation that may give rise to significant cost increases is the Traffic Management Act and the Water Quality regulations. Currently, there are many customers that are connected to our mains by lead service pipes. A new lower lead standard (maximum allowed lead levels in the water) may result in a risk of large scale lead pipe replacement, which could also impact on traffic management costs.



5 Customer research



During the planning and preparation process of this document, and in addition to our own internal analysis, we held several customer consultation sessions (including telephone interviews) in conjunction with Accent Market Research. These sessions enabled us to gain an insight into the issues that were most important to our customers both now and in the future. The results of both of these studies have been included in this document. In addition to this, the table below highlights the main issues and priorities that arose from the customer research groups, as well as customers' and our response.

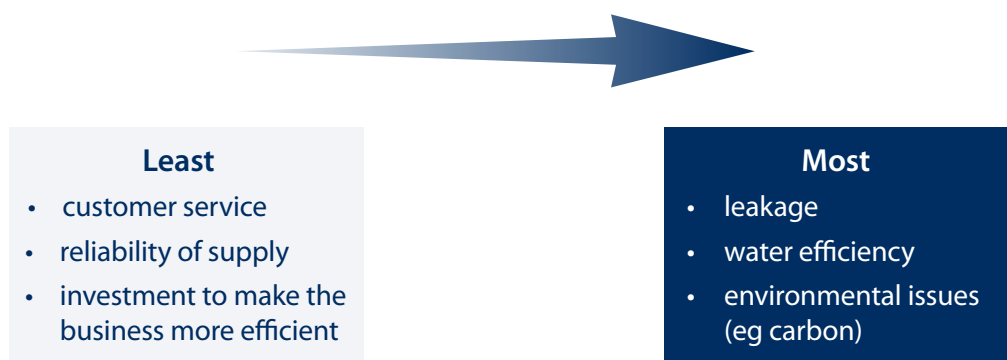
Issue	Customers' views	Our response
New technology	General satisfaction at our approach to innovation and being an early adaptor of new technology.	We will continue to utilise 'the best available technology' and those that have proven to be beneficial rather than investing money into schemes that may not offer many tangible benefits.
Customer service	Customer service was seen to be good and overall, we had a positive image.	We are proud of our good levels of customer service. We will work hard to uphold these in the future and will take into account changing customer expectations.
Pressure incidents	Low pressure was not seen to be a concern overall.	In 2006-07, we had a 100% record for properties receiving adequate pressure. We will continue to manage pressure incidents and keep these to a minimum.
Supply interruptions	Supply interruptions were also not seen to be a concern as they were infrequent. Customers welcomed notification of planned interruptions.	We will continue to work to ensure that planned supply interruptions are kept to a minimum. Where these do occur, we will also continue to notify customers in advance.
Hosepipe bans	Customers welcomed the fact that we have had no hosepipe bans. However, some customers thought that hosepipe bans were a legitimate method of regulating demand and scarce resources.	Going forward, we will continue to ensure that there are no planned hosepipe bans. We do not believe they are a good demand restricting mechanism.
Environmental impact	There is a general lack of awareness of the impact the water industry has on the environment. However, we should all be doing as much as possible to protect the environment through incentives such as bill payment systems, efficient energy use and better working practices.	We agree that everybody has a responsibility to protect the environment, which is why we take issues surrounding our carbon footprint very seriously. We are conscious that we use a lot of energy both as a company and as an industry and are continuously looking at how we can conserve energy.
3Cs	The 3Cs – carbon, costs and customers are appropriate and consistent with our vision. They were all seen as having the same importance and were interlinked.	We are pleased that customers agree with our overarching strategy of the 3Cs and the fact that they are at the heart of our business plan going forward. We will continue to consider their impact both individually and collectively in all aspects of our future work to ensure that optimum results are achieved.

Table continued on the following page

Issue	Customer's views	Our response
Metering	Consensus that metering is the fairest method of charging because it has economic and environmental benefits. Those customers against having a water meter installed also recognised it was inevitable that one day they would need to pay by metered charges.	We agree that metering is the fairest method of charging as it results in customers paying for what they use and eliminates the subsidisation that exists within the RV charging system. We are planning to take a proactive approach to metering by metering on change of occupier and installing smart meters, which will allow tariff development in the future.
Leakage	Leakage was perceived to be an area of major concern and one which requires significant investment. There was also a desire amongst some customers for us to go beyond the economic level of leakage.	We realise that we have high leakage compared to companies of a comparable size within the industry. We are working hard to reduce leakage and maintain our assets. This includes seeking to reduce the number of bursts we experience, as well as investing in mains rehabilitation and leak detection at an economic level.
Water quality	There are no significant issues in this area – only minor issues concerning colour, taste and smell were raised. Hardness is more of an issue, but few respondents thought it needed to be tackled through additional investment.	Water quality levels at 99.97% (2006-07 figures) are the highest they have ever been. We will continue to work with the quality regulators to ensure that our water remains of the highest quality and that issues are kept to a minimum.
Efficient water use and conservation	Water conservation and efficient use was seen to be one of the most important areas to focus on and is linked to other areas such as leakage. Customers thought that greater promotion, information and awareness is needed in this area.	We agree that water conservation issues are of high importance and crossover with other areas such as protecting the environment and reducing our carbon footprint. We will continue to promote water efficiency amongst our customers through incentives such as customer leaflets and the promotion of hippo bags and water butts.

Investment priorities

Below are some issues that customers identified as needing the most investment – where there were improvements to be made and some which needed the least investment – because levels were already seen to be good.





6 Stakeholder comments

In addition to holding customer consultation sessions, we also held various other meetings with our key stakeholders – namely the Drinking Water Inspectorate (DWI), the Environment Agency (EA) and the Consumer Council for Water (CCW) – to obtain their views on our future strategy and objectives. We have also had a written response from Natural England (NE)

There were some issues that were pertinent to all the stakeholders. The table below summarises these and the comments raised in relation to them.

Issue	Stakeholder comments	Our response
Carbon	<p>DWI - High energy use-due to our topography is a major issue and a significant factor in reducing carbon emissions. A precautionary approach to climate change is wise due to future uncertainty in this area.</p> <p>EA - We should have a long term carbon reduction target.</p> <p>NE – We should look for opportunities to develop more innovative solutions that are less dependent on non-renewable resources and less carbon intensive.</p>	<p>We recognise that we have a considerable carbon footprint and that we also use a disproportionate amount of energy for the size of our company. We are committed to reducing our carbon emissions and will work in line with the guidelines set out in the Carbon Reduction Commitment scheme to achieve this.</p>
Asset management	<p>EA - Leakage is a very important policy area. We should look to target supply stressed areas for leakage activity rather than those areas which have the highest leakage. We should audit the risk of supply resilience and respond to the findings accordingly.</p>	<p>We recognise the importance of leakage and that we have high leakage relative to other companies in the industry because of our topography. We will continue to work hard to ensure that leakage is kept to an acceptable level, without compromising customer service.</p>
Sustainability	<p>DWI - We should aim to achieve a sustainable level of operation and maintenance of schemes by using robust capital maintenance strategies to maintain water quality levels.</p> <p>EA - Our work on issues such as pesticide removal and catchment protection to protect raw water resources was noted.</p> <p>NE - Sustainability is a bigger issue than reducing our carbon footprint. It includes the need to manage land and water resources in a way that will allow the environment and biodiversity to adapt to climate change.</p> <p>CCW - Customers should be educated about sustainability issues and in particular about maintaining the resilience of our assets.</p>	<p>We recognise the need for collecting and including more long term data in our schemes and will implement this where possible and where it yields tangible benefits. We will also continue our work on pesticide removal and protection of raw water resources and ensure that we take environmental issues fully into account.</p> <p>We recognise the need for all stakeholders to work together to improve customer education and awareness on sustainability issues.</p>
High levels of service	<p>DWI - We should aim for consistency in the quality of our customer service. Customer acceptability is also very important. Good customer service is the main driver of this because it points to the sufficient operation and maintenance of our assets.</p>	<p>We will continue to aim to provide the highest levels of service to our customers. We also believe that having our customers' support for our strategy going forwards is vital. In order to achieve this, we will continue to work with and inform our customers throughout the process.</p>

In addition to the points detailed above, the following issues were applicable to some of the stakeholders. Here are the generic feedback points on these areas:

Issue	Stakeholder comments	Our response
Tariffs	Support for innovative tariffs such as seasonal tariffs, but recognise that they have to be customer friendly and not overly complex.	We believe that innovative tariffs are the way forward, but recognise that they must be as simple and transparent for customers as possible.
Gradual Metering	Support for a gradual increased metering programme.	We believe that metered charges are fairer and that a more widespread move to metered charges is inevitable. We will take a proactive response to metering in the short term to increase our low levels of metering penetration.
Hosepipe ban	Support for us not planning for hosepipe bans (Apart from the EA).	We welcome the support for our policy on not planning for hosepipe bans. We still advocate that they are not a good demand restricting mechanism and will not be planning for any in the future.
Research and development	Support for us adopting 'best available technology' and being a fast follower of innovation.	We will continue to be a 'fast follower' of innovation and technology, utilising already proven approaches and policies.

7 Key issues for PR09



A major milestone towards achieving our long term objectives, as set out in this strategic direction statement, will be the outcome of the 2009 Periodic Review (PR09). This will set the context for our investment proposals over the period 2010 to 2015 and hence this is integral to our long term vision. However, it is possible that our key issues at the 2009 price review differ somewhat to the overall emphasis of our strategic direction statement. Some issues to resolve at PR09 may be short-term risks to manage rather than significant long term issues to address.

The following table encapsulates the key issues for us to address at PR09:

Issue	Definition
Asset Management and Leakage	The level of asset management activity needs to ensure that we protect the long term sustainability of our operations so that our assets are serviceable. In terms of our infrastructure assets, our relative level of leakage compared to other companies is high. Whilst our resources are satisfactory, we are conscious that some stakeholders may want a significant reduction in our leakage level. This will require a material one-off investment.
Supply continuity	The increase in customer contact during the summer of 2006 suggests an intolerance to even short duration pressure problems. We wish to deliver supplies without restriction, provided customer use is appropriate. Some "hotspot" areas may require investment to strengthen the distribution network to meet customer needs in these localities. We will continue to monitor the risk these areas pose and will respond accordingly.
Operating cost efficiency	We want to ensure that we remain as efficient as possible, whilst ensuring that our efficiency performance is sustainable, and does not jeopardise service to customers.
Financeability	Further capital programmes must attract finance (both debt and equity) and the providers of such finance will only be forthcoming if the returns adequately reflect the investment risk.
Metering	We will take a pro-active approach to metering by looking at installing 'smart' meters capable of adapting to changing tariff structures and metering household customers upon change of occupier.
Green energy	We are looking at alternative methods of energy generation, including constructing a wind turbine at our Hampton Loade treatment works. This may lead to an 8% reduction in our use of carbon.

The next step

The next stage in the strategic direction statement process is for the document to be sent to Ofwat for its comments. It will then feed into our business plan that will focus mainly on the period between 2010 and 2015.

However, as the strategic direction statement process is a continually evolving one, we would still welcome stakeholder comments at any point. If you do have any comments on this document, please write to:

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The finalised document can also be viewed on our website at:
www.south-staffs-water.co.uk