

South Staffs Water

incorporating



# Our Long-Term Strategy

and proposed focus  
for the next 25 years

(Consultation version)



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# Foreword



As a responsible water company, it is vital that we have a sensible, realistic long-term strategy which meets our customers' expectations. The nature of our business means that our assets are expected to last for many years and require extensive maintenance to ensure we continue to deliver the very best service to our customers.

Our price limits are set for five-year periods and Ofwat, the economic regulator, will be setting prices for 2015-2020 by the end of 2014. That's why we are reviewing our long term strategy, to make sure that our five-year plan fits with our longer term direction of travel and that it will help us to manage the many challenges we face.

This document sets out some of the key issues that we face and our strategy for dealing with them in the longer term. We've discussed these issues with our Customer Challenge Groups (CCGs), independent groups in both the South Staffs and Cambridge regions which represent customer and regulators' views. We meet regularly with the CCGs to discuss current issues for the company and our business plans and our strategy reflects their views where possible.

There are some issues in our business plan however, which are mandatory, for example investment needed to meet stringent water quality and environmental standards which are set by the EU and monitored by our regulators. Here, our challenge is to deliver the required standards as cost-effectively as possible.

We want to take account of everyone's views in shaping our plans and we invite you to comment on our proposals by 9 September 2013 – details of how to do so are set out at the end of the consultation document.

■ We're planning for the future, to ensure we can continue to provide high-quality, reliable services to all our customers. We face some key challenges and we'd like your views on how we manage them over the next 25 years.



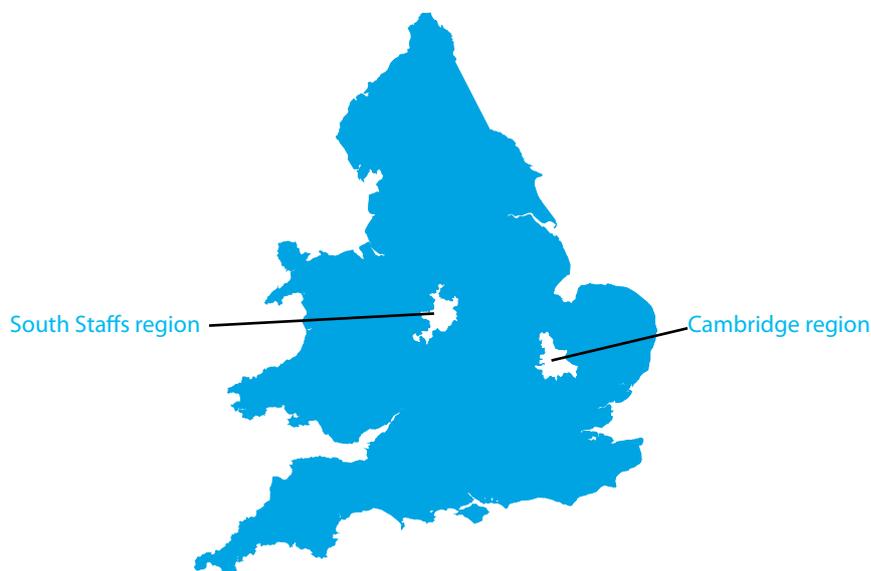
■ This proposed strategy covers customers in both South Staffs and Cambridge regions. We discuss our plans with stakeholders and customers and while there will always be competing priorities, we believe our proposed strategy of providing the best possible service at the lowest possible price is supported by both customers and regulators. To deliver this strategy, we are focusing on five key outcomes.

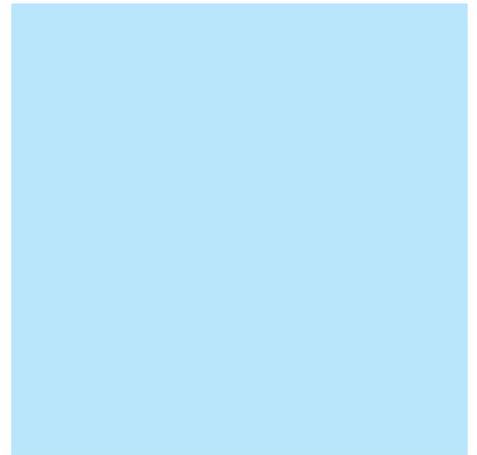
## Introduction

In 2007, both South Staffs and Cambridge Water published 'Strategic Direction Statements', which set out our long term strategy for the 25 years from 2010 to 2035. This document was part of the last price review and was the first time that the regulator had asked companies to set out their long term strategy across all of their operations.

We are not planning to change direction significantly from that set out in our Strategic Direction Statement, but the issues that face us are changing, and so is our Company.

In 2011, South Staffordshire Plc, which owns South Staffordshire Water, bought Cambridge Water. This strategy therefore covers both South Staffs Water and Cambridge Water. The two companies have been operating under a combined operating licence since April 2013 and our plans will also look at how to share the best elements of each company to further improve efficiencies, resilience and service. While there are lots of similarities between the two companies, both provide excellent quality water and customer service with low bills, there are also some differences, which will be set out in this strategy.





We carry out regular research among our customers, as well as discussing the detail of our plans with our Customer Challenge Group. Most recently, we consulted with customers on our new draft Water Resources Management Plan and undertook some initial research in the South Staffs Water area with 500 domestic customers and 300 business customers with the aim of understanding customers' willingness to pay for service improvements. We refer to the results from this research, as well as our regular tracking research, throughout this document when we are setting out customers' views. Cambridge Water Company has recently launched its "Your CH<sub>2</sub>Oice" campaign, which will be conducting research in its region later in 2013 about its plans for 2015-2020.

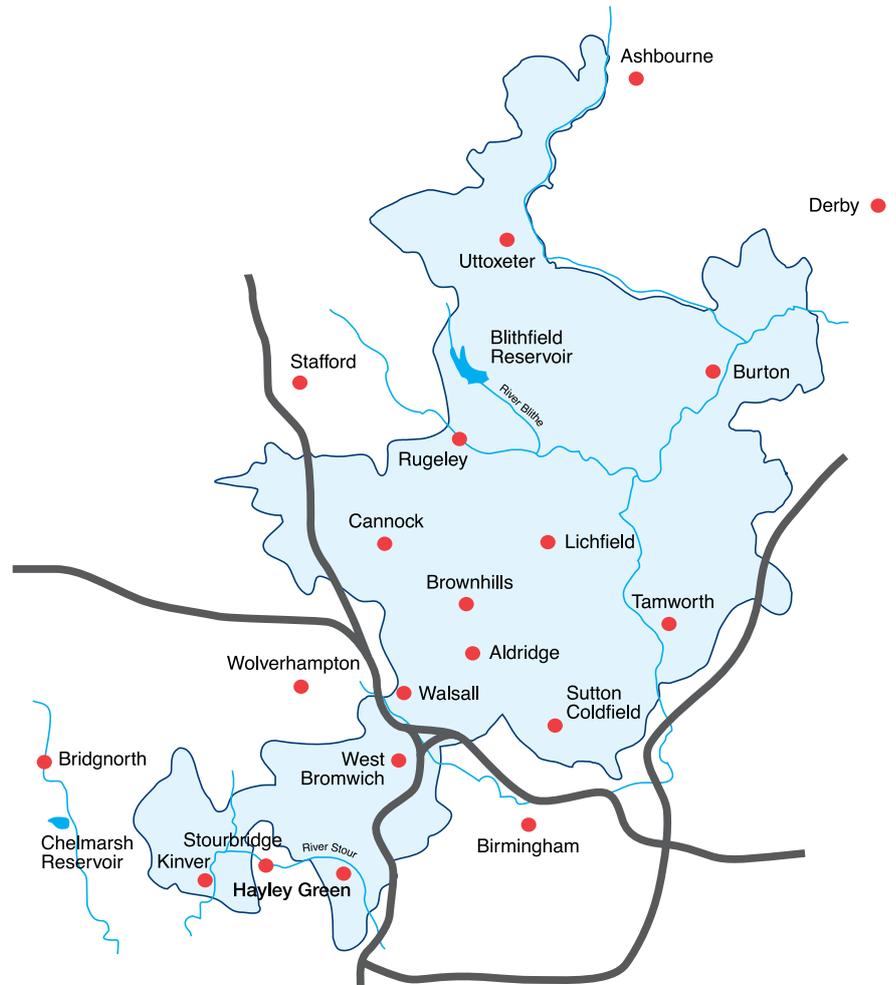
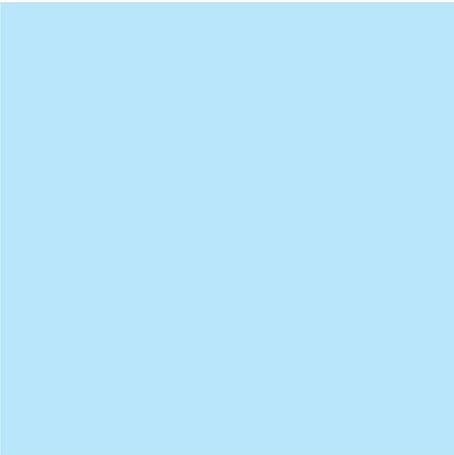


While there will always be competing views and priorities, we believe that our long term aim of providing the best possible quality of service at the lowest possible price is supported by both our customers and regulators. Within this overall aim, we need to make choices, for example, how to best balance risk to service against affordability and in doing this, we have focused on five key outcomes, which we know are important to all our stakeholders:

1. Excellent water quality – now and in the future
2. Secure and reliable supplies – now and in the future
3. Delivering an excellent customer experience to customers and the community
4. Operations which are environmentally sustainable
5. Fair customer bills and fair investor returns

The remainder of this document sets out the challenges we face, the context in which we operate and our overall aims for each of these outcomes.





### About South Staffs Water

South Staffs Water was originally formed in 1853. We serve a population of 1.2 million and supply 300 million litres of water every day across a network of pipes that total 6,000 km in length to approximately 570,000 homes and businesses in an area covering 1,500km<sup>2</sup>.

We provide high-quality drinking water and our water bill is one of the lowest in England and Wales; in 2013-14 it is, on average, £144, which is 23% lower than the national average of £186. This is partly because we are one of the leading companies in England and Wales for operating efficiency.

We continually work and invest to improve our services. In the current five-year period investment will total £140m. As well as ensuring we meet water quality standards and are capable of supplying all the water our customers need every day, this includes investment to continue to meet our leakage targets, to replace around 60km of mains each year, to manage around 1,300 bursts on our pipes and install around 10,000 meters each year.







■ We face significant challenges in the long-term, including providing reliable, high-quality services in a changing climate and keeping bills affordable in challenging economic times

Population  
increases by 2040:

**27%**

Cambridge region

**12%**

South Staffs region

# A summary of the challenges we face

Despite the significant progress in improving quality and standards we have made since the current water industry structure was formalised in 1989, the water industry faces numerous challenges and our long-term strategy must recognise and manage these for future generations. Some of these are set out below:

## Climate

Our climate is changing, with more extremes of weather leading to the potential for flooding and droughts and cold snaps in winter causing burst pipes and leaks.

The Department for Environment, Food and Rural Affairs (Defra) published the findings of a study into the potential impact of climate change in 2012, in CCRA - UK Climate Change Risk Assessment 2012. This report found that:

- There will be increases in the amount of winter rainfall, but decreases in summer rainfall
- The UK will have more days of heavy rainfall, increasing the amount of flooding
- Water resources will come under increased pressure, from a combination of climate change, population growth and a desire to improve the ecological status of rivers

Our population is growing, so we need to make sure we can continue to provide enough water for all our customers, including future generations. Companies must work together to manage their resources sensibly, possibly by transporting water between regions rather than building new resources. We must also work better with customers, stakeholders and regulators to manage our catchment areas (rivers and groundwater) to avoid damage to the environment and to avoid difficult to treat chemicals finding their way into our raw water sources.



While both South Staffs Water and Cambridge Water are currently in a reasonably healthy position for water resources, we need to plan for the future. Cambridge Water in particular faces a significant challenge in this area – East Anglia is a drier area, with a higher than average predicted population growth.

There are also significant environmental challenges for South Staffs Water. The Water Framework Directive in particular will offer challenges for both regions after 2020 in managing the environment in a sustainable fashion and protecting wildlife and river levels.

### Customers and competition

Water companies have also changed significantly. We have become more efficient, with improved operating efficiency saving customers over £100 each year on their bill, according to our regulator. We are more customer-focused, with both South Staffs and Cambridge Water scoring highly in the new regulatory measures of customer experience. We are also more strategic in our thinking and planning, but we cannot stand still – there is much still to do. We are rightly proud of how we have developed our customer service culture, listening and responding to customers' views and expectations, but again, we recognise that there is still more to do and that customers' expectations will continue to change.

Customers have told us that they expect us to make decisions that protect water services now and for future generations. Our research shows that customers would rather see smaller, steady increases in their bills, than face large increases to fund specific investment. This allows them to budget more easily and allows us to plan to minimise the risk of service failures, by investing to maintain our infrastructure.

■ Customers tell us that they expect us to protect water services now and for future generations and that they would rather see small, steady increases in bills now to fund this, than risk service failure in the future.



*As in other areas of life, you improve things now instead of waiting until things get very bad, where they will cost a lot more to put right.*

– customer view

For the first time, in 2015 the regulator will set separate price limits for our wholesale (that is the cost of sourcing, treating and supplying water) and retail (the costs of billing and customer contact) operations, encouraging greater transparency and paving the way for more competition. Direct competition for customers will also continue to develop, with the potential for all business customers to be able to choose their supplier from April 2017. This will provide both challenges and opportunities for all companies and new entrants to the market.

#### Economic factors

We are operating in a tough economic climate. We know that customers are worried about paying bills and, despite our support for customers who have difficulty paying, our debt levels are still rising, although we are working hard to arrest this.

We will continue to work to ensure bills are as affordable as possible, while also developing our tariffs and payment schemes to help those who are struggling. In the South Staffs Water area, we have a higher than average number of families on low incomes, so it is vitally important that we focus on affordability and how we can help customers.

We are also facing increasing unavoidable costs – for example, just as for our customers, our power costs have increased dramatically. This is particularly important for South Staffs Water, as our geography means we have much higher than average power costs from pumping water over the Beacons. We will continue to carefully manage these costs and improve our operations where possible to reduce our electricity consumption.



## Maintaining standards

There is a need for us to continue to invest to improve and maintain our existing high levels of service and continue to meet stringent quality standards. While overall quality and reliability has improved over the last 25 years, we cannot stand still – we need to manage risk and ensure that our assets are ready and capable of meeting customers' desire for a safe and reliable water supply.

Many of our assets, such as below-ground pipes, are old and will need to be replaced or improved as part of a continuing programme. With 8,300km of underground pipes, even though we refurbish or replace around 70km of pipe a year, some of our pipes are 100 years old. To maintain supplies to customers, we must continue this programme and invest to maintain our overground assets, such as water treatment works, boreholes, reservoirs and pumps, to ensure they are also working efficiently and effectively. Overground assets have a shorter life expectancy than our network assets and will require more frequent refurbishment and renewal.

There is also the potential for water companies to be given responsibility for customers' supply pipes, the pipes that run from the boundary of a property to the point of entry and for South Staffs Water that may require significant investment, as potentially, we believe that around 50% of these may contain lead and that there may also be significant leakage on these pipes.

■ We need to manage risk sensibly, to ensure our assets are ready and capable of meeting customers' and communities' expectations.

*Something obviously needs to be done now. Water isn't everlasting. We need to look after it better.*

– customer view



■ Working with customers, regulators and stakeholders, we have developed five key outcomes which will help to ensure we deliver our long-term strategy.

## Outcomes

One key change being introduced for this price review is the emphasis on outcomes, rather than inputs and outputs. Companies, in consultation with customer and other key stakeholders, will set out in their business plans the long term outcomes they are aiming for and the milestones and measures they will use to demonstrate progress towards reaching those outcomes. This recognises the long-term nature of the industry and incentivises companies to innovate – to deliver the right, sustainable solutions in the most cost-effective manner.

Of course companies will need to ensure that their plans will deliver against statutory obligations, such as maintaining and improving drinking water quality – there is no element of choice in these areas. Companies can, however, engage with customers and stakeholders to understand their priorities and reflect these in their plans.

This section outlines the key outcomes that South Staffs Water and Cambridge Water have been discussing with their Customer Challenge Groups.

# Outcome 1: Excellent water quality - now and in the future



## Our current position and future challenges

### – Drinking water quality

Thanks to our planned investment programme, our customers enjoy high-quality drinking water. The last significant investment in water quality ensured that we continued to meet stringent water quality standards, by dealing with emerging problems such as nitrates, solvents and cryptosporidium in our water sources.

To maintain the high quality of our drinking water into the future, however, there is a need for on-going investment in our treatment works and related assets to ensure they remain effective.

### – Public health

Large water pipes are not made of lead, but some older, smaller pipes, such as those laid before around 1970 which connect the mains to a property's boundary and those leading from the boundary to the property may be. At concentrated levels, lead is known to affect children's development and our customers want to be sure that they are not at risk from lead in drinking water. Customers tell us we need to be more proactive in raising public awareness of the issue and in pursuing innovative ways of reducing the potential risk to ensure public health is protected.

### – Protecting raw water sources

Farmers use chemicals to manage pests and improve their crop yields. Unfortunately, some of the chemicals that are used (nitrate fertilizers and pesticides) can reach the rivers and aquifers which water companies use to abstract drinking water from.

■ Customers consistently tell us that having a safe, reliable supply of water is their number one priority, both now and in the future.



Before the water can be supplied to customers these pollutants have to be removed. The cost of building and running treatment plants to remove these chemicals is expensive. In addition, every 25 years or so the treatment plant needs either a lot of maintenance or needs replacing altogether. We need to find more innovative and cost-effective ways of managing our water catchments, so that we can protect raw water sources for future generations.

#### – Security issues

Protecting water supply is a matter of public security and water companies must comply with security advice notes provided by Government. Whilst we do not envisage any major changes in this area, we must continue to act to ensure supplies are secure at all times.

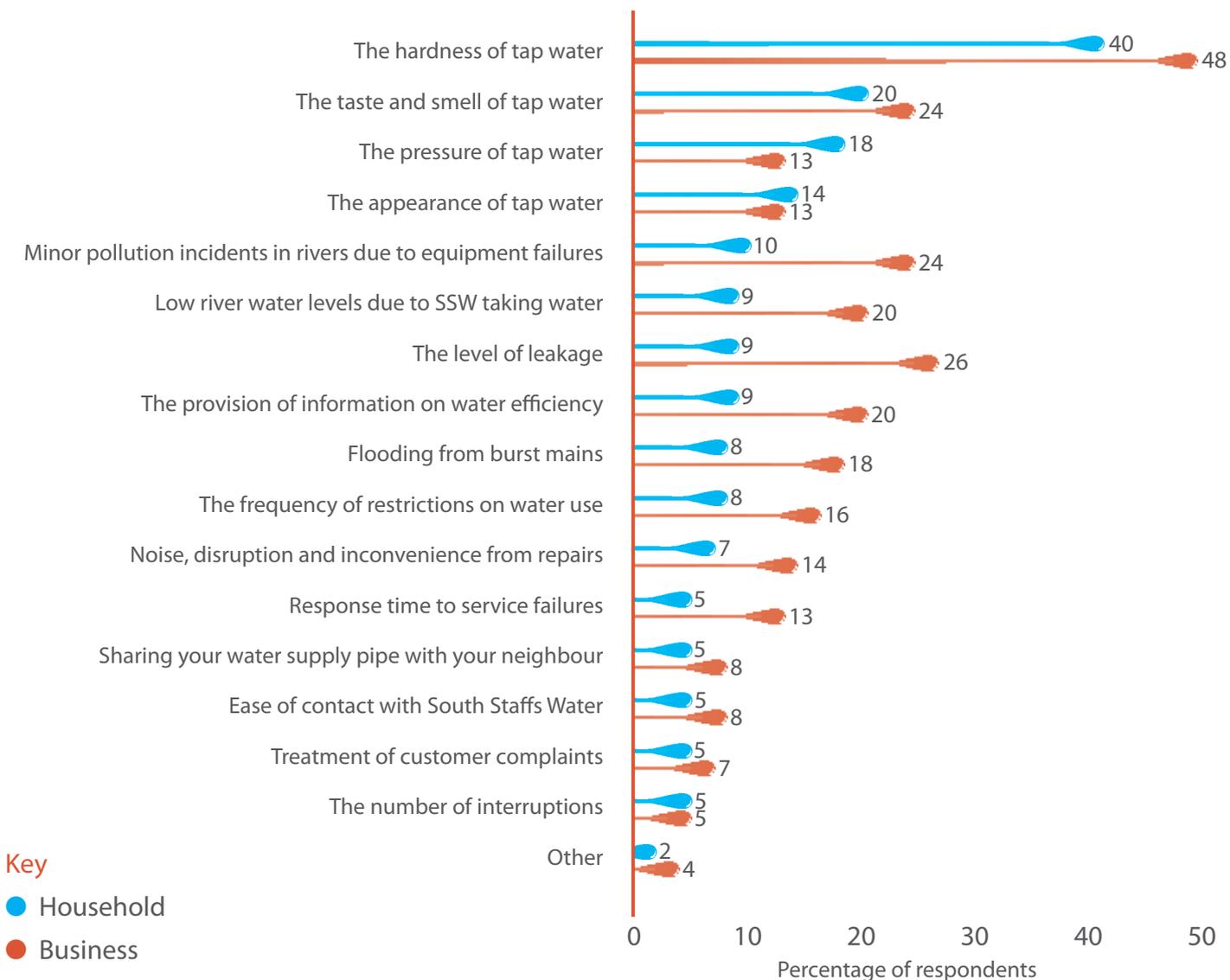
#### Your views

Customers consistently tell us that a safe and clean supply of drinking water is their top priority, both now and in the future.

Customers judge the quality of their water on the basis of taste, smell and appearance, although these aesthetic parameters do not feature in the drinking water standards that we have to meet by law. We agree, however, that it is important that water is judged to be acceptable by customers on the factors that are important to them and we will continue to assess whether there are actions we need to take in this area.



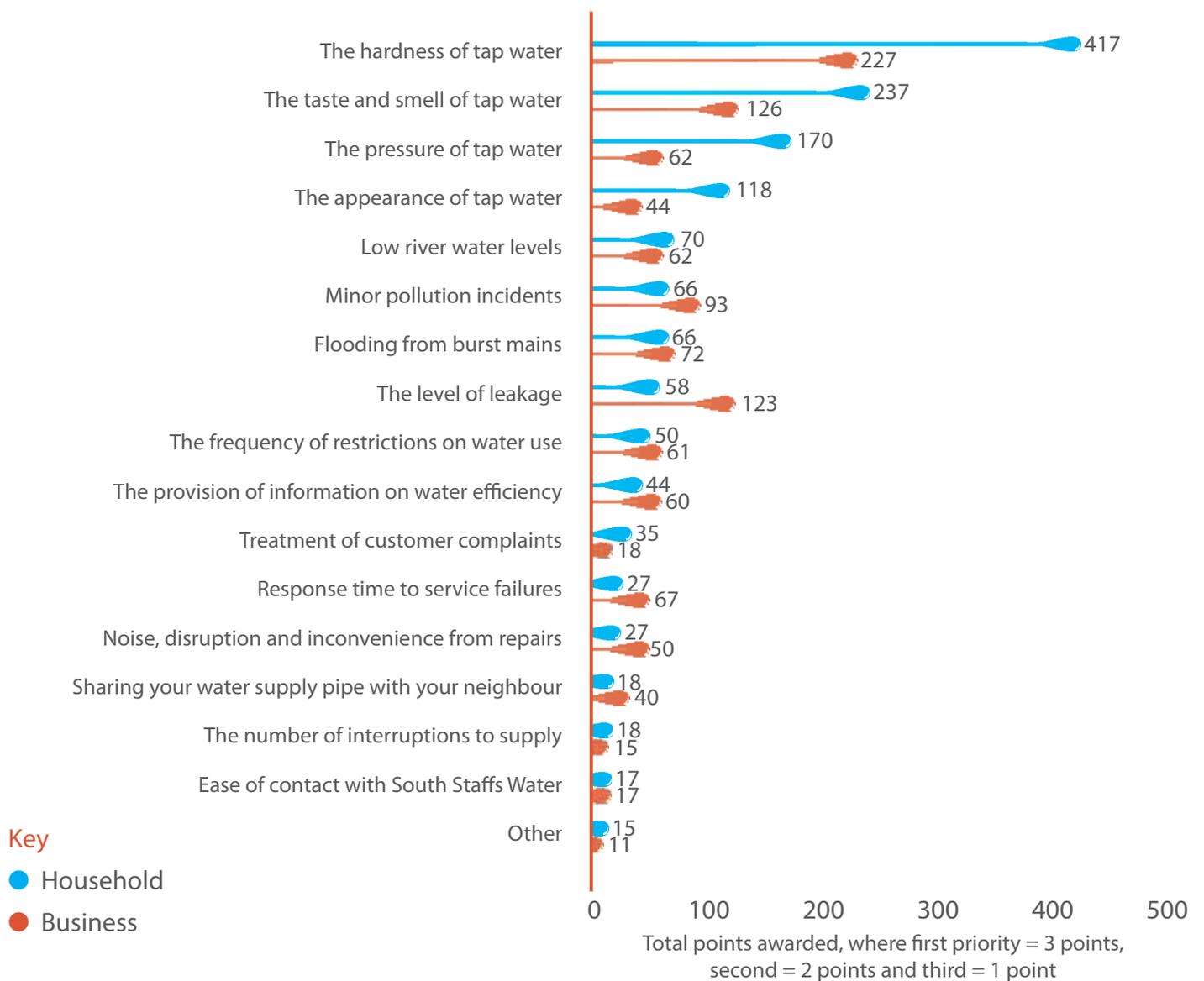
In the recent willingness to pay research, more customers in the South Staffs region mentioned improvements in drinking water quality than any other area of service:





When customers were asked to prioritise the top three improvements they felt were needed, drinking water quality was again at the top of the list:

### Priorities for service improvement





## Our long term plans

We will continue to focus on ensuring that customers get excellent water quality, now and in the future, and be assured that associated operations are environmentally sustainable, cost-effective and secure.

In order to address our customers' needs we are taking a long-term view as to how an excellent water quality can be maintained. In addition to an appropriate level of asset maintenance or capital replacement, which will be focussed on maintaining the actual level of quality currently supplied, there is a need to innovate and develop long-term sustainable solutions to reduce some of the chemical pollutants which are currently mitigated by treatment or blending of waters and which may offer an alternative to treatment in the future.

### – Drinking water quality

While there is no need for major investment to meet current water quality standards, there is a need for us to continue to invest to ensure that our water quality assets, including treatment works, service reservoirs and pumps remain serviceable. Many of these overground assets have a far shorter life expectancy than underground assets, so it is vital that we continue with a planned maintenance and replacement programme to ensure a reliable service. In addition, falling demand overall presents its own challenges for water quality, as less water moves through the network, we will need to manage our sources and network intelligently to maintain water quality. We will look to innovate to meet these challenges cost-effectively.

■ We will develop innovative, sustainable, long-term solutions to ensure we continue to deliver high-quality water through effective and reliable assets and networks.



### – Aesthetic issues

### – Water Hardness

There is much interest nationally about the issue of water hardness. Customers' views of the quality and acceptability of their water may be affected by their perception of its hardness and the effect this may have on their sanitary ware or clothes washing. We understand that symptoms of hard water such as scaling on household appliances such as kettles and washing machines can be of concern to some customers, and that they would prefer softer water.

We do not, however, have a significant number of customer contacts regarding this issue (about 35 a year). Additionally health professionals report that there is some health benefit to cardiovascular disease with hard water.

In addition, the cost of softening water supplies is extremely high; to treat all water would require a capital investment of around £50m, with an annual operating cost in excess of £5m.

Bearing all of these issues in mind, the Company has decided, at this time, not to invest significant sums of money that would only satisfy a minority of customers. We will, however, improve our engagement with customers on this issue and provide information about managing water hardness in the home.

### – Lead

We will continue to invest to protect public health, primarily by continuing to work on removing lead from drinking water. We manage lead by treating drinking water with phosphates, which helps prevent the lead



from dissolving in drinking water. It does not, however, prevent all lead dissolving, so, at times, it is better to replace the lead pipes. To ensure that this work is as cost effective as possible, we will focus our lead pipe replacement programme on vulnerable groups, such as schools and nurseries. This will ensure that the local community gets the maximum benefit from the investment.

This approach is supported by the Drinking Water Inspectorate (DWI) who reports that larger scale street-wide lead pipe replacement (often referred to as 'strategic' lead pipe replacement) is not, in most situations, the most cost-effective solution. Only part of the lead pipe is owned by the Company, the other part is owned by the home owner. If we aimed to replace all the Company's pipework, we believe it would cost around £200m, and present many years of social upheaval to our customers as street by street pipework is replaced. We would also be left with the obvious problem that all the lead pipes not owned by the Company, that is, those from the mains to the customer's property, remain in place.

### – Catchment management

An innovative way of improving the quality of our raw water sources is to more closely manage the catchment area that affects the river or aquifer. By working with farmers and experts on the type of soil, crops and the way fertilizers and pesticides are used, it may be possible to stop or slow down the amount of chemicals that are washed into rivers or percolate down through the rock.

This process of Catchment Management may take a long time to yield results, somewhere between 10 and 40 years. The cost of Catchment Management is relatively cheap, however, and aims to avoid expensive capital solutions.



If successful, Catchment Management can be a sustainable alternative to treatment. However, in the case of nitrates three to five years of investigation would have to be supported before it is known whether there is a possibility of success a few decades later. With regards to pesticides, these affect rivers more than aquifers and so Catchment Management could have a more timely impact.

We will work with stakeholders, farmers and communities to investigate sustainable catchment management schemes, while ensuring that there is no unacceptable risk to our customers.



### – Security issues

The Company's strategy for security at source stations, boosters and reservoirs will continue in line with the requirement of the Directions of National Security within the Water Act 1991.

The detail of security guidance for the Water Industry is provided by DEFRA which requires the Company to comply with 'Advice Notes' and 'Operational Standards' that specify how operational sites need to be risk assessed and protected.

On-going low level investment is required to complete the necessary protection of both designated and non-designated operational sites and for the Company's monitoring centres.



## Outcome 2: Secure and reliable supplies - now and in the future



### Our current position and future challenges

Our assets are expected to last for many years, for example, despite our on-going mains renewal programme some of our underground pipes are 100 years old. This is not surprising when you realise that we have more than 8,300Km of underground pipes, so even with our current mains renewal programme replacing 70km of pipe per year, it would still take us a century to replace our total pipe network.

It is absolutely vital that we maintain our existing assets, to make sure that we can continue to reliably supply our customers with high quality drinking water. This is at the very heart of our business and we must continue to maintain them for future generations. Given the extent of this work, it cannot be postponed or ignored as any deterioration in the serviceability of our assets will affect our core services. Customers tell us that they do not want to see any deterioration in service and would rather pay for investment now to protect services for future generations.

Our population is also growing and customers' water-using behaviour is changing. Water using appliances are becoming more water efficient, but we still need to ensure we have enough water to supply everyone now and into the future.

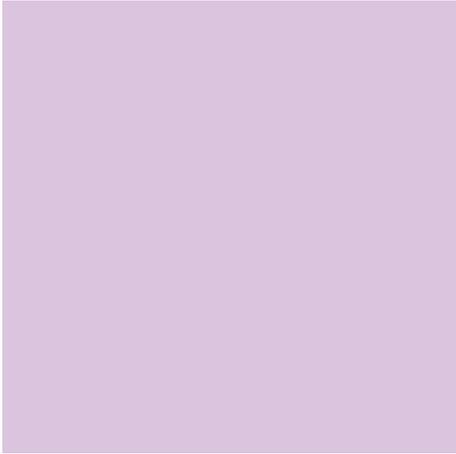
Finally, our weather is also changing, with more extremes of weather in evidence. The heavy rain and prolonged wet spell in spring 2012 for example, followed two extremely dry winters.

Despite these challenges, we need to ensure that we have enough water available to meet our customers' needs 24 hours a day, all year round and that our network and assets are resilient.

■ With a network expected to last many years, population growth and the predicted changes in our climate mean we will have to work hard to maintain a reliable service for all customers.

***“The faster this investment is done the better it will be for your customers. It is also becoming essential that we spend money on our infrastructure and water plays a major role in our life.”***

– customer view



We believe that our leakage is currently at or around the ‘sustainable economic level of leakage’, that is, the level beyond which it costs more to find and fix the leaks than it would do to provide the water needed through other means. We have also met our water efficiency target each year since it was introduced by our regulator, Ofwat.

There are key differences between South Staffs Water and Cambridge Water in respect of water resources and reliability; Cambridge sits in a much drier region, with greater predicted population growth and also relies on boreholes for its water supply, whereas South Staffs Water takes water from rivers and reservoirs as well as boreholes. Given its resource position, the metering programme is also far more advanced in Cambridge’s area, with more than 60% of customers there already metered, compared to around 33% of customers in South Staffs’ area.



### Your views

Our household and business customers tell us that having a reliable supply of water available where and when they need it is one of their main priorities.

Customers want us to avoid water restrictions wherever possible and also work to ensure that low pressure problems and interruptions to supply are minimised. However, customers recognise that it may be more sensible to expect the occasional restriction in use, such as a hosepipe ban, than to invest significant sums of money to provide limitless water at times of peak demand.

Customers want more information about water efficiency measures and metering, which they perceive as being the fairest way of paying for water services, as well as encouraging efficient water use.





## Our long term plans

We produce long term plans to ensure we have enough water to supply our customers in the long term, including ensuring our infrastructure is resilient to drought conditions.

We are required by Government to produce a Water Resources Management Plan every five years, setting out how we plan to manage resources over the next 25 years. Our next draft plans, which will cover the period 2015-2040, have been produced for consultation and can be found on our websites at

[www.cambridge-water.co.uk/home/dwrmp](http://www.cambridge-water.co.uk/home/dwrmp)

and

[www.south-staffs-water.co.uk/dwrmp](http://www.south-staffs-water.co.uk/dwrmp)

In addition, we also produce a Drought Management Plan, setting out the framework within which we will manage operations if a drought becomes a realistic possibility. Our latest Drought Management Plans were published in February 2013 and can be also be found on our websites at

[www.south-staffs-water.co.uk/drought-plan](http://www.south-staffs-water.co.uk/drought-plan)

and

[www.cambridge-water.co.uk/home/drought-plan](http://www.cambridge-water.co.uk/home/drought-plan)

Average demand has fallen significantly over the last seven years, with the increase in demand from population growth being cancelled out by reductions in leakage and the reduced demand from our business customers due to the current economic climate. Our latest predictions suggest that demand will increase by around 7% by 2040.

■ We will continue to invest in our network of pipes, treatment works and reservoirs to make sure they are reliable and available when needed. Customers tell us it is absolutely vital to maintain the serviceability of our assets to ensure there is no deterioration in service.

By 2040,  
demand to rise by:

**10%**

Cambridge region

**6%**

South Staffs region



### Water into supply:



### Our priorities

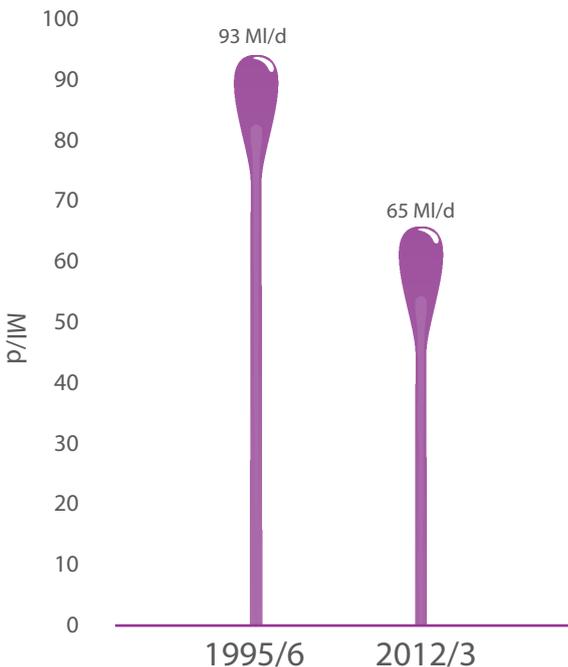
We will continue to invest in our network of pipes, treatment works and reservoirs to make sure they are reliable and available when needed. We believe it is absolutely vital to maintain the serviceability of our assets to ensure there is no deterioration in service to our customers. Given the changing climate, which has, for example, resulted in more flash flooding and more hard frosts followed by quick thaws in recent years, we will continue to monitor our network and above ground assets closely and maintain our investment in this area. It is vital that we ensure our assets are resilient, so that our customers can be confident that we can cope with extremes of weather such as floods and droughts and other events, such as burst mains, which may threaten supplies.



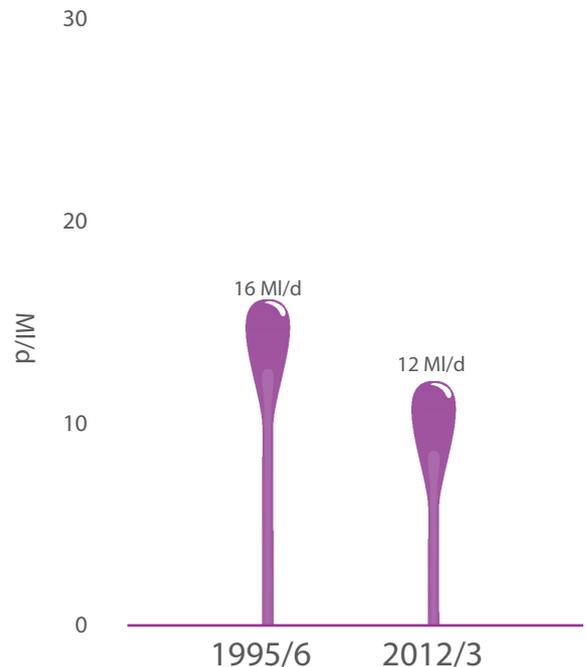
To keep customers' bills as low as possible, we will focus on those assets that cost less to operate first to maintain our operating efficiency. We will also continue our mains renewal programme, through which we replace or renew around 70Km of pipes a year, which is less than 1% of our total pipe network. In addition, we have a continuing need to refurbish or replace many above ground assets, such as equipment at pumping stations and service reservoirs, to ensure we can provide water reliably.

We have reduced leakage by about a third from its peak in 1995/96 and believe that it is now close to its economic level. This is the level at which it costs less to put more water into the network than it does to fix existing leaks. We will continue to reduce leakage where it is economic to do so and also improve the speed at which we find and fix leaks. We will take advantage of new technology which may become available to reduce the cost of fixing leaks.

Leakage: South Staffs Region



Leakage: Cambridge Region



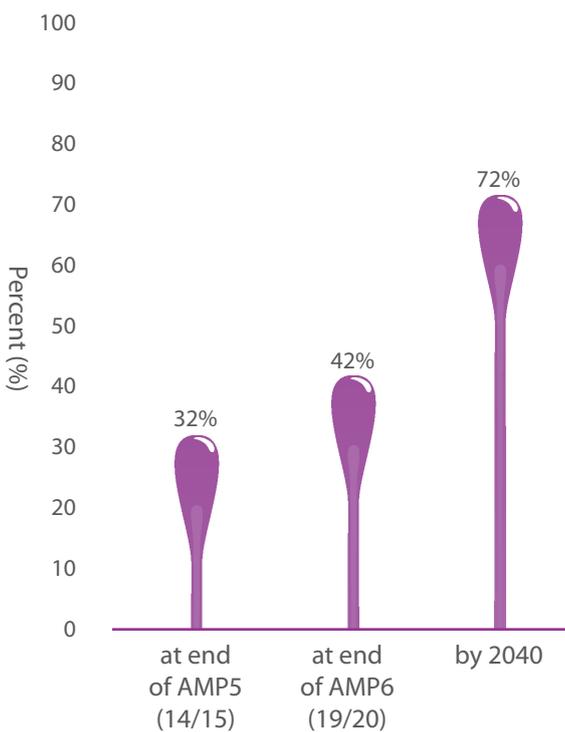


*In the interests of environmental issues, as well as fair use of water and saving this vital resource, metering is the fairest option.*

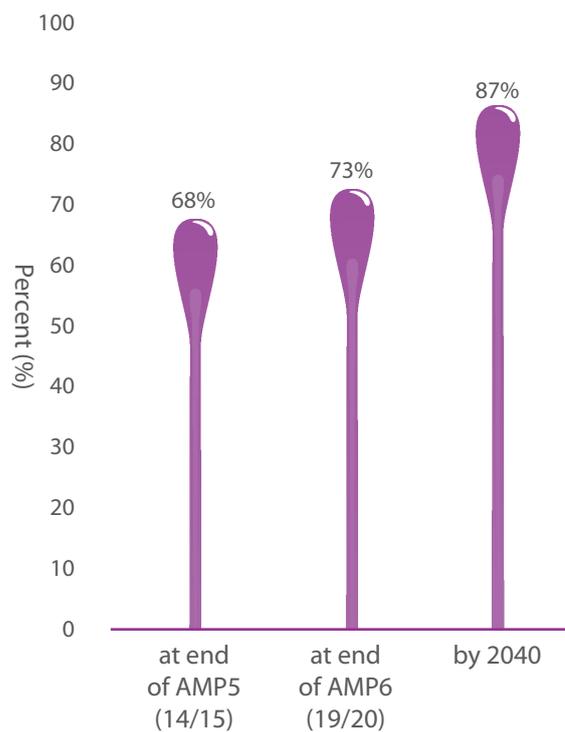
– customer view

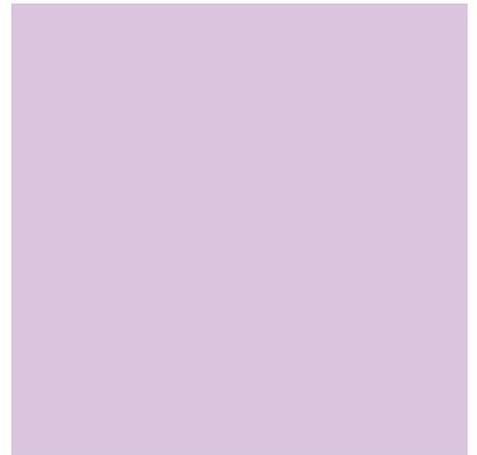
We will continue to install meters so that by 2040, around 72% of households in the South Staffs region and 87% in the Cambridge region have a meter which their charges are based upon. This includes metering on change of occupier in the South Staffs region and continuing to offer a free meter option to all customers across both companies.

Domestic Metering Levels:  
South Staffs Region



Domestic Metering Levels:  
Cambridge Region



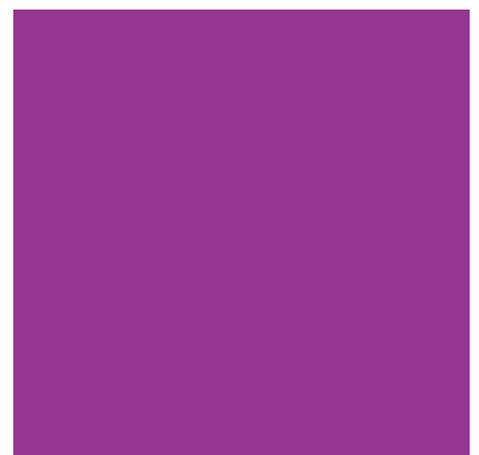


We will work with planning authorities and developers to make sure we can continue to meet the demand arising from new development and population growth. As we are forecasting that we will have sufficient overall resources to meet demand, this will generally require us to upsize the local water supply pipe network, to ensure that there is enough capacity in the local network to meet demand. This is another area where innovation will be required to keep customers' bills down, while meeting new demand.

Working with stakeholders such as the Environment Agency, we will continue to protect our water environment, for example by reviewing whether any of our water abstractions may be damaging to the environment, and, if this is the case, identify suitable alternatives, or put mitigation measures in place. We will also continue to protect the local environment, for example by meeting our biodiversity obligations. We will work with customers to provide information on the benefits of saving water and advice on how to use water efficiently. This is likely to include offering promotions with third parties on water-saving equipment and devices.

We currently have a number of bulk supply agreements with neighbouring water companies, to share water where it is sensible and cost effective to do so. We will continue to explore opportunities to share more water with our neighbouring water companies, to ensure we are meeting demand in the most cost-effective manner and support other water companies who are trying to do the same.

There are no plans to connect the two geographical areas we cover due to the cost of long distance mains laying, although we will share operational best practice between the two companies.





## Outcome 3: Delivering an excellent experience to customers and the community

■ Both South Staffs and Cambridge Water rank in the top third of companies for customer satisfaction according to Ofwat's latest survey.

***This is not the first time I've contacted your customer service but every time I have the service has been outstanding. It makes a change to speak to people who are willing to help you sort problems so quickly and efficiently.***

– customer view

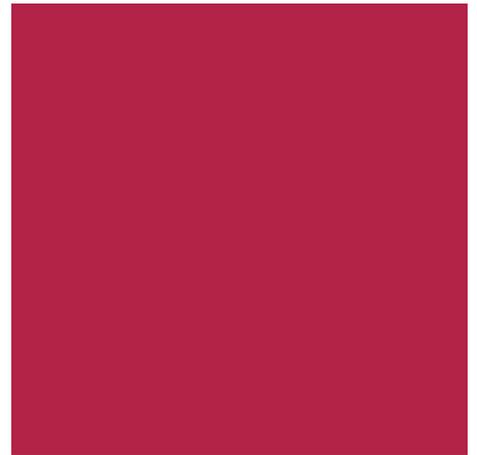
### Our current position and future challenges

Our customers are generally extremely satisfied with the service they receive from us; based on our on-going tracking research, over 90% of our household customers are either satisfied, or very satisfied with their services.

Our regulator, Ofwat, confirms these findings in their Consumer Experience Survey for 2012-13; this survey measures satisfaction amongst customers who have contacted their water companies in the last 12 months. South Staffs Water ranked equal first for customer satisfaction in this survey, while Cambridge Water also ranked in the top third of companies overall.

We recognise, however, that customer service is not just about those working in the call centre, or responding to customers' letters. For us, customer service is about getting it right first time – throughout the organisation. We value our customers and we've developed three key values which we expect all our employees to follow when dealing with customers in any situation – being responsive, reliable and respectful.

Our challenge in the future will be to ensure that we continue to meet changing customer expectations and that we use technology to keep customers informed about their services. When our retail operations for business customers are opened up for competition in 2017, we need to be in a position where we are seen as customers' preferred supplier and ready to take full advantage of new opportunities based on a reputation for excellent customer service and low bills.



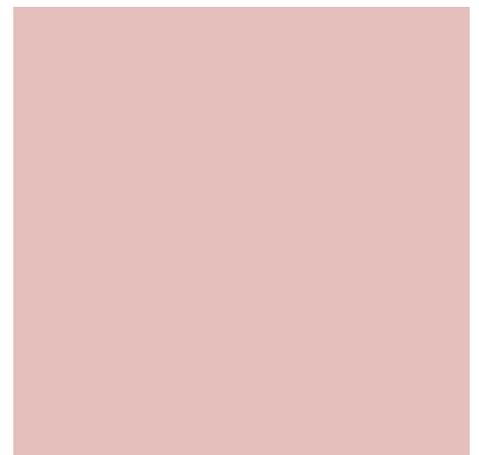
## Your Views

Customers prefer to be contacted in different ways. Some rely on traditional paper or telephone-based contact, while other customers would like us to use more modern technology such as email, text messaging and social media to communicate about bills and services.

Business customers would like us to offer a more tailored service, preferring a single point of contact, or account manager to contact about billing or operational issues.

Customers would like more information about key issues, such as lead pipes and water efficiency, especially important for metered customers.

For operational issues, customers tell us that while they understand that we occasionally need to disrupt their service, or local roads, they would like to be kept informed of the work, its timescales and the likely disruption to their service and community.





*Your website is very clear and easy to navigate. I'm sure you get a fair amount of negative feedback, every company does, but it's always nice to hear the positives. You really do have a great team, keep up the good work. I think lots of companies could learn from what you've achieved.*

– customer view

## Our long term plans

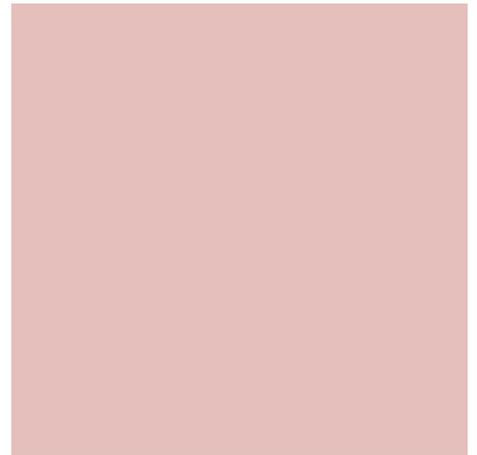
### – Customer contact

Our customers generally still use traditional forms of contact; most of our customer contact is by telephone. While we will continue to provide excellent customer service via these traditional means, we need to make the most of new technology in an efficient and effective manner. More and more customers want to contact us via email, text message and social media, so we will be developing new customer contact channels via these media. Customers also want to be able to manage their accounts online, including receiving and paying their water bills, so we will adopt more and more 'self-service' technology through our website.

Using digital media should help us to keep the costs of customer contact down, and therefore also help to keep bills lower than they would otherwise have been.

We will develop new and innovative ways of keeping customers informed on key issues, making sure that they have the information they need, when they need it. We will also continue, however, to engage with customers through traditional methods, such as with literature in bills and face-to-face through our roadshows and other events.

We will continue to engage with customers on all issues, to ensure we are providing information and services that meet their expectations. In the South Staffs region, for example, we have recently launched an online customer panel of 1,000 customers who provide us with information on a range of issues, which have so far included contact methods, how customers would prefer to receive information from us, metering and renewable energy.



### – Operational issues

Digital and social media will also allow us to keep customers better informed regarding operational issues. We will maximise the use of these media to inform customers about unexpected operational issues, such as bursts and planned works, such as mains refurbishment.

With technology advancing at such a pace, it is difficult to predict how we will service customers too far ahead, but we will continue to respond to technological advances and think ahead to best meet our customers' changing expectations.

We will also focus on managing our network more effectively, by developing a 'live and intelligent' network, over the long-term. This involves putting sensors on pipes, so that leaks or bursts can be detected more quickly and we can respond and resolve the issue before supplies, or the highways, are disrupted. We will begin trialling this technology in the next five years, but we won't achieve full network coverage for many years. This technology, however, has the potential to provide real benefits to customers through lowering the cost of managing leaks and bursts and to the environment, by lowering the amount of water lost to leaks.



### – Supporting our communities

Supporting our local communities, as well as fundraising for global charities like WaterAid, is important to us and we will continue to support staff and customers in these areas. We will develop our award winning education programme, where staff help children from across the South Staffs region study water-related issues focused on the national curriculum and continue to develop employee volunteering schemes through which staff support local environment groups and projects. In the Cambridge region, we will





continue to engage in local environmental projects with organisations such as the local wildlife trusts and make grants to local wildlife and community projects.

In both areas, we will also continue to manage our land and recreational sites and open them up to the public for leisure activities where appropriate.

#### – Competition

From 2017 there will be an opportunity for all business customers to change their retail supplier (the company that reads their meter and bills them). We are planning for, and looking forward to, this new opportunity and are well placed for this new marketplace given our low bills and excellent customer service.

We also have complementary companies in our wider Group that are already directly working with businesses outside of our supply area to meet their operational needs.

## Outcome 4: Operations which are environmentally sustainable



### Our current position and future challenges

As a company whose operations impact on the environment, we take our responsibilities towards the natural environment very seriously. Our aim is always to operate in a way which minimises any negative impact on the environment and improves it where possible, protecting it for future generations.

All water companies comply with the National Environment Programme (NEP), which is compiled by the Environment Agency, using guidance from Government and taking advice from other stakeholders such as Natural England and the Drinking Water Inspectorate. Each company has its own NEP, which is designed to ensure the UK complies with EU legislation and national environmental targets.

The NEP includes requirements for water companies to carry out improvement schemes, such as:

- investigating the risk from certain chemicals and assessing the best treatment options
- preventing chemicals from entering groundwater
- ensuring that abstractions do not impact adversely on habitats which are protected by law
- improving inland waters for fish
- reducing the risk of eutrophication (excessive plant growth and decay)

The Water Framework Directive, a major piece of EU legislation concerning the aquatic environment, will also have consequences for investment in the future, particularly around managing abstraction from rivers in our regions to ensure it is sustainable.

■ We take our environmental responsibilities very seriously and aim to operate in an environmentally sustainable way across our operations.

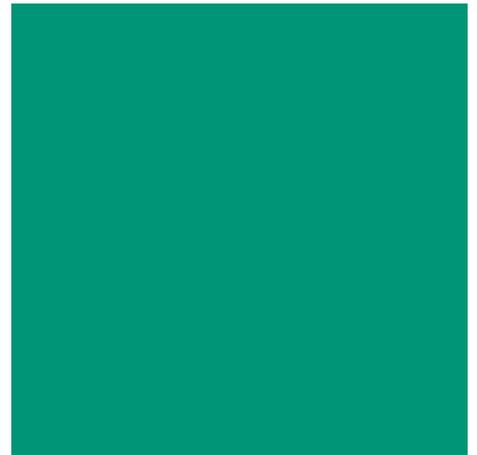


We need to have enough water sources available to us to allow us to manage our resource position holistically – using different sources to protect water levels in others when and if necessary, for example due to drought conditions. At present, we are in a reasonably healthy resource position, but climate change projections, coupled with population growth, mean that we need to be able to manage our water resource position more flexibly in the future. In the last 20 years, we have focused investment on our core assets, but in the years ahead there is a need to re-invest in the less frequently used assets so that they are reliably available to allow environmental protection to be a realistic option.

Water companies also have a duty to have regard to biodiversity and conservation when carrying out their duties and must manage any areas of special scientific interest (SSSIs) on land that they own, ensuring that flora and fauna are protected.

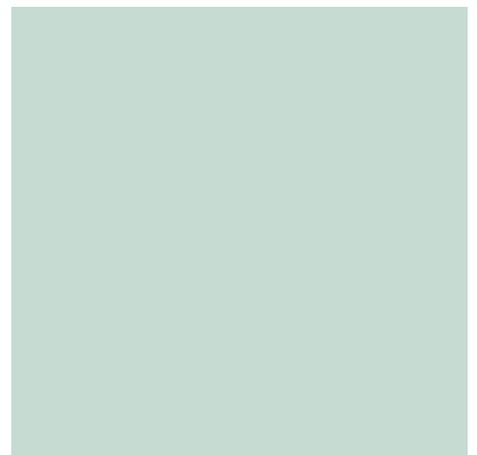
We have to use a lot of energy to pump water around our regions and therefore, reducing energy use by, for example, investing in pump efficiency to reduce our carbon footprint is vital to both protecting the natural environment and keeping bills affordable. We must also take advantage of technological advances to pursue renewable energy where appropriate, although as a water supply only company, our ability to generate electricity is limited to exploring wind and solar options.

We must also protect the aquatic environment by controlling leakage and thereby reducing the amount of water taken from rivers and groundwater sources to put into the supply network. Similarly, providing more information to our customers on water metering and how best to use water efficiently will also reduce the amount of water put into supply. We will continue to trade water with other companies to ensure the most cost-effective sources are used to provide water to our customers.



Climate change, the increase in the amount and number of pesticides used by farmers and businesses and the increases in energy usage all impact on the natural environment. We need to ensure our operations are sustainable, to protect the environment for future generations, while ensuring that we meet drinking water quality standards and keep bills as low as possible for customers.

Another key aspect of operating in a sustainable manner is to ensure we have the highest standards for Health and Safety. As a Company that impacts on the public in many ways, it is vital that we ensure our employees, contractors and communities are safe and that their well-being is protected, for example during construction works, or works on the public highway and at our public access sites. We will not compromise in this area.



### Your Views

Our customers believe that we have a responsibility towards the environment. However, in our research, fewer customers view looking after the natural environment as a priority, compared to ensuring high quality drinking water, reducing leakage and keeping bills affordable.

There are mixed views from customers regarding their willingness to pay for further improvements to the wider aquatic environment. In our recent customer research about our draft water resources management plan, some customers were not averse to paying for additional environmental improvements if the additional payments were small and the environmental projects would have value for local communities, however others were much less willing to pay for such activities.



■ We will continue to work with environmental stakeholders to develop innovative, cost-effective solutions to protect and manage our environment and reduce our carbon footprint.

## Our long term plans

### – Managing the aquatic environment

During the next five-year investment cycle, 2015-2020, our NEP includes proposals for investigating catchment management opportunities to manage metaldehyde, a chemical which is currently very difficult to treat with existing water treatment plant, in the Blithe and Severn catchments. We will also consider how we can build biodiversity objectives into this. We will investigate the potential for nitrate catchment management to bring benefits to groundwater quality and offset the need for further treatment plant replacement in the future.

In addition to managing catchments sensitively to avoid expensive capital investment, we must also ensure we continue to comply with legislation aimed at protecting rivers and the surrounding land. For water companies, this means complying with the National Environment Programme (NEP), set out by the Environment Agency, the Water Framework Directive (WFD) and the Countryside and Rights of Way (CRoW) Act.

We will continue to work with stakeholders such as Natural England and local Wildlife Trusts and manage our landholdings to ensure that we meet our biodiversity duty and provide amenities and public access where appropriate. Our aim is to embed biodiversity firmly into our business decisions and policies. We are aware that there may be a need for significant investment in fisheries as part of the NEP in the years 2020-25.



Our market research programme demonstrates that some customers feel the company should not go further than the investment required by the NEP, unless there was some specific incentive or business benefit from doing so. We will continue to ensure, however, that local as well as national environmental concerns are reflected in the Company's plan and engage with customers to discuss the issues and ensure our plans reflect their views.

In addition, there was no broad based support to pay more for environmental improvements beyond those specified by the Environment Agency. Some customers were not averse to this idea if the additional payments were small and the environmental projects would have value for local communities, however others were much less willing to pay for such activities.

We will ensure that any investment in this area goes through a rigorous cost-benefit analysis, which will also include taking account of customers' views and their willingness to pay for improvements.

### – Managing the changing climate

We will continue to manage our carbon footprint to try and minimise energy use. This will require investing in pump efficiency as a priority, as well as delivering catchment management schemes to avoid costly treatment processes.

We will explore the options for generating energy from our land and assets, although to date, our analysis suggests that investing in wind turbines is not economic. We will however, keep abreast of technological advances in this area and also consider using solar power where effective

*All of us should be looking at ways to improve take up of renewable energy as a long term investment.*

– customer view



■ We will maintain our focus on managing leakage and work with customers to provide information to help them use water efficiently.

*It does make people think about how much water they might be wasting.*

– customer view

### – Sustainable water supply

We know that our customers think excess leakage is wasteful, although our focus group research also shows that customers are more accepting of leakage once they understand the issues around network management and, in particular, the economic level of leakage. We will continue to pursue reductions in leakage levels using new technology as it becomes available where this is economic, that is, where the cost of reducing leakage is less than the cost of putting more water into supply.

We will also work with customers to provide information on water metering, water efficiency and water efficient devices.

We will also continue with our programme of trading water with other companies where this is cost-effective and we aim to invest in some of our less frequently used water sources, to ensure we are able to manage our networks flexibly and protect the environment by moving water around and using water from alternative sources, such as groundwater, to protect river flows in times of potential drought.

### – Being a responsible corporate citizen

We will continue to invest in training and equipment to ensure our operations have the highest possible standards of Health and Safety. We will share best practice and adopt new processes where necessary to ensure the safety of our colleagues and communities.

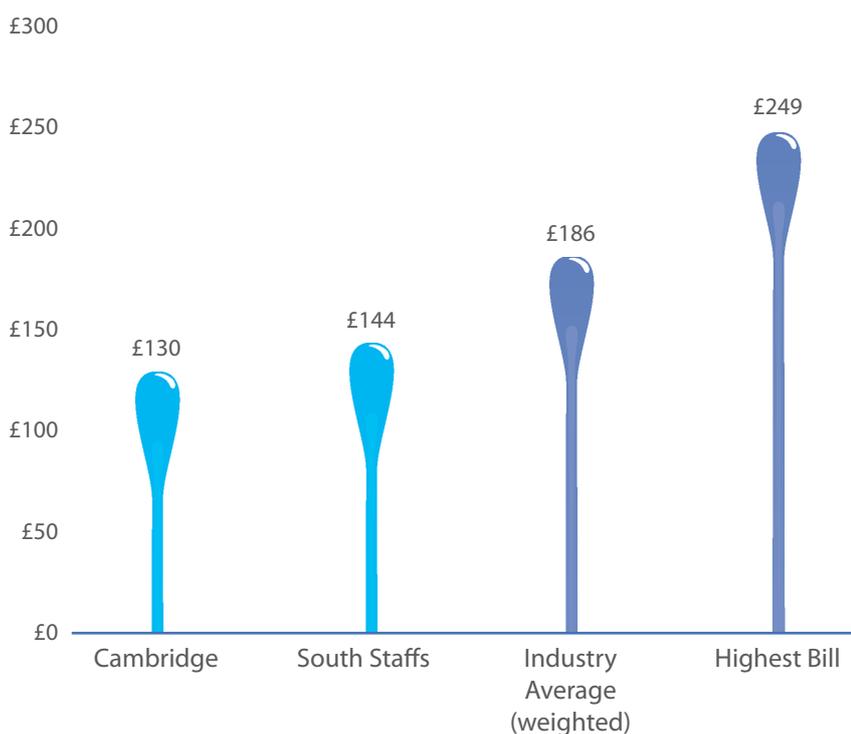
We will also continue to provide public access to our recreation sites and continue to offer education activities to schoolchildren around our regions, promoting environmental responsibility, safety and water efficiency.

## Outcome 5: Fair customer bills and fair investor returns



### Our current position and long term plans

Our customers enjoy the second lowest household water bills in the country, according to our regulator's comparison of average water bills.



Despite this, we recognise that, particularly in the South Staffs region, there are higher than average levels of customer deprivation and many customers struggle to afford to pay their water charges, along with other bills. Keeping bills affordable and providing flexible payment arrangements to help our customers must therefore remain a priority into the future and we will be looking at a wide range of options to help customers and to keep bills affordable.

■ Both South Staffs and Cambridge Water have bills far lower than the national average. Despite this, we know that affordability is still an issue for some customers.

*Everyone is struggling to make ends meet at present, so bills need to be contained as much as possible.*

– customer view



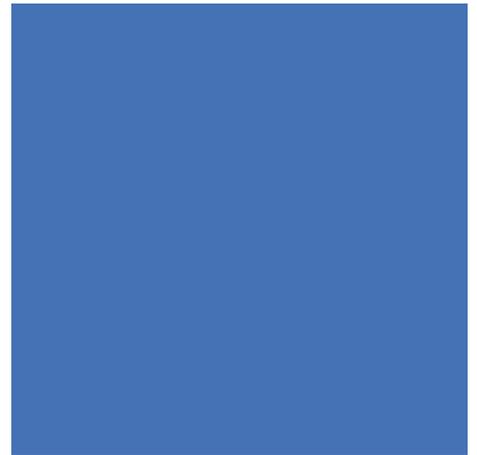
■ It is important that the water industry is seen as a stable, attractive industry, so that we can attract investors and fund our investment programme at the lowest possible cost to customers.

In 1993, South Staffs set up an independent charitable trust to help customers in real financial difficulty, we were the first to do this. To date, the trust has helped more than 3,000 customers with grants towards their water bills.

We have invested heavily in the past so that we have assets that can deliver reliable and safe water, are resilient to weather events, and that we can protect the environment over time. This significant investment needs to continue, so that we can be sure we can offer an excellent and reliable service to future generations. For us, this largely means investing to maintain our existing assets rather than building new ones.

We do, however, also need to provide fair returns to our investors. Our investors are vital, in order that we can invest in our services to benefit customers, the environment and society as a whole. Investors need to know that there will be stable returns on their investment, so that they have the confidence to continue to provide the finance we need to fund our investment programme, which cannot be funded by customers' bills alone. We therefore spread the impact of our investment programme on customers over time, as this is far better than asking customers to pay for investment as it occurs, since this would lead to very volatile prices.

There are two sources of funds for investment - debt and equity. Debt finance requires us to make interest payments, as well as repay the capital and is less risky with a consequently lower return. Equity finance is direct funding from investors, who get their returns via dividend payments. As these dividend payments are dependent on company performance, they are viewed as being more risky and therefore investors require higher returns.



We need to review our capital structure over time to ensure we are using the most efficient and innovative solutions to finance our investment programmes. Keeping risks low in the water sector and having a stable financial and regulatory environment is vital to our efforts to secure low cost finance. This, in turn, keeps customer bills low over time.

We expect the merger of South Staffs Water and Cambridge Water to provide benefits to customers through savings made in each company area as a result of our increased purchasing power, as well as the ability to share best practice and some economies of scale.



## Your Views

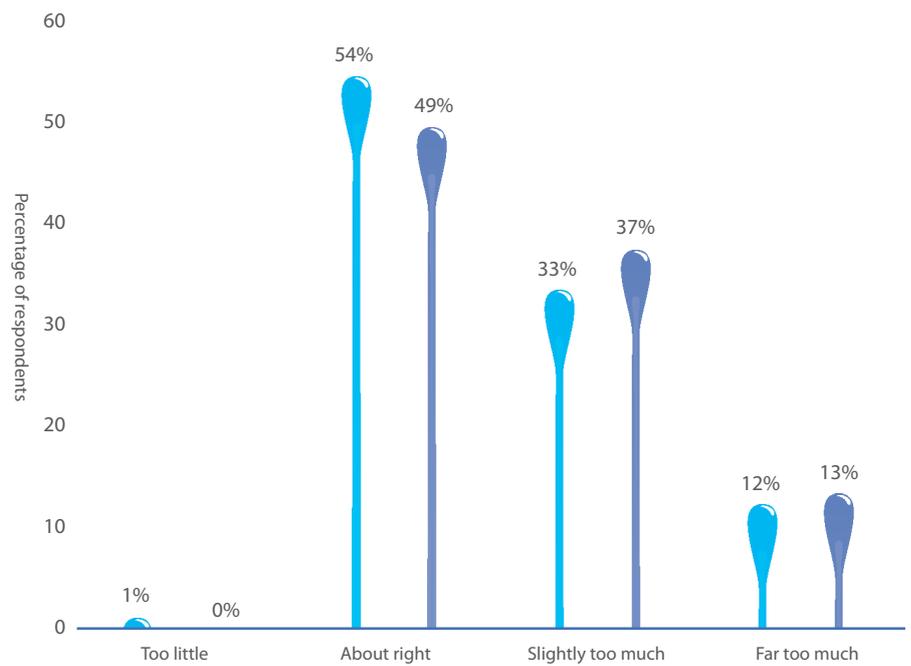
We have recently carried out willingness to pay research among customers and we also have an online panel of 1,000 customers who provide their views on key issues. The results of this research show:

- Customers told us that they don't want to see bills going up any more than they have to, even if bill increases lead to improvements in service levels. However, they also tell us that they would rather we invest in services now than risk service failure in the future.
- Business customers are inclined to pay for a more tailored service, with customers wanting a dedicated point of contact for all their sites and services.
- Where bill increases are necessary to fund improvements, both business and household customers would like to see these introduced gradually over time.
- Customers recognise that metering is a more equitable way of charging for water services.



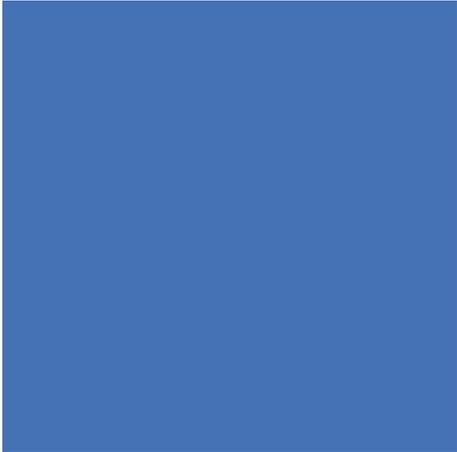
In our recent willingness to pay research, customers in the South Staffs region reported that they felt bills were at about the right level.

### Views on existing bill levels



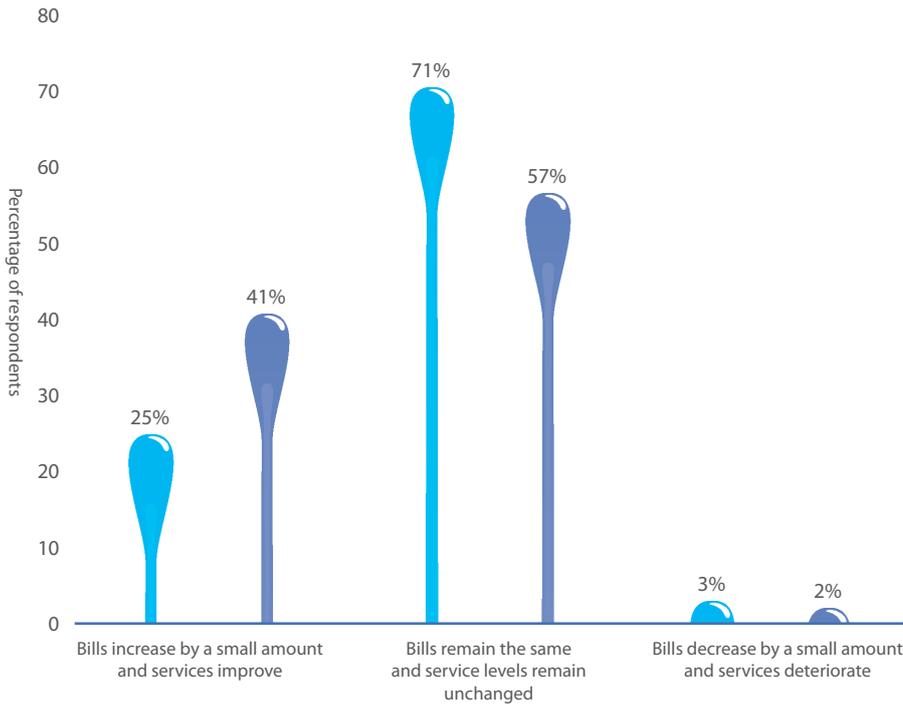
#### Key

- Household
- Business



They also clearly indicated that their preference was for bills and service levels to remain the same, few were willing to pay for service improvements and even fewer wanted to see service levels, and therefore bills, decrease.

### Attitude to bill and service level change



- Key
- Household
  - Business





■ We will aim to keep bills as low and affordable as possible and make it easy for customers to pay their bills through flexible payment options and tariffs.

## Our long term plans

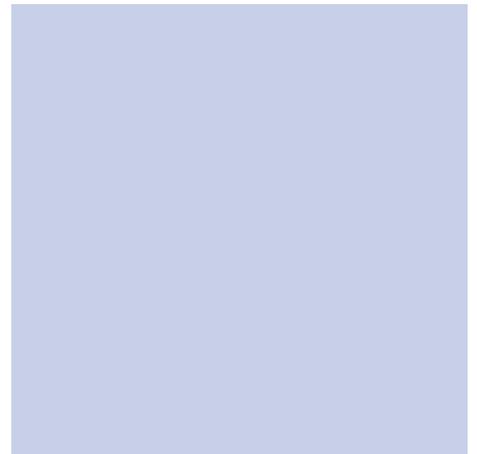
### – Keeping bills affordable

We are determined to keep customer bills as low and affordable as possible for the vast majority of our customers. Sometimes this will require tough decisions – we may not be able to invest as much in service improvements and environmental protection as some customers and stakeholders would like. Keeping our operations running efficiently and looking to find innovative, cost-efficient solutions to problems will be a key priority for us.

We will aim to make it as easy as possible for customers to pay their water bills, and continue to help customers who have trouble paying. The Group finances a Charitable Trust to help those in most need and this will continue. We will also continue to work with Government agencies to help customers receiving welfare payments have a link to their payment for water charges.

We will give serious consideration to adopting a social tariff to assist deprived customers, but we will need to ensure we have customer and stakeholder support for any new tariff. Introducing a fair social tariff will also require us to have the right information about our customers' financial circumstances, which may be difficult. We recognise, however, that a social tariff could help not only those receiving a discount, but also those customers who currently subsidise those who cannot pay through general rises in bills to cover bad debt. If our overall debt levels and the costs of collecting our debts were to fall substantially, all customers would benefit.

We will continue to offer a free meter option for those customers who could benefit from having a meter installed. We will also provide information about water efficiency so that metered customers can exert a greater control over their water usage and bills.



### –Fair investor returns

We will continue to invest significant sums of money to deliver the outcomes agreed with our stakeholders, which will require us to raise finance through both debt and equity routes.

We will work with the regulators to ensure that any proposed reforms to the structure of the industry, or the operating licences for the companies are in the interests of customers and do not raise risk and subsequently the costs of finance.

It is highly likely that over time the financial markets will change, particularly as we learned from the recent financial crisis in the world economy. Hence, over time we will evolve our financing model to meet any new challenges and work hard to identify efficient and innovative financing opportunities so that our customers benefit from this and are not exposed to undue risks.

We will continue to act in a financially responsible manner with regard to corporate governance and tax issues, ensuring we are a responsible economic citizen.

# Responding to this Consultation

As we've set out in this document, our proposed strategy for the next 25 years remains to keep bills low, while providing the best levels of service for our customers and communities. We believe this package offers all our customers value for money. To deliver this strategy, we will focus on the five identified key outcomes:

1. Excellent water quality – now and in the future
2. Secure and reliable supplies – now and in the future
3. Delivering an excellent customer experience to customers and the community
4. Operations which are environmentally sustainable
5. Fair customer bills and fair investor returns

We welcome your views on this strategy, the challenges we face, the outcomes we believe it is important to achieve and the plans we are developing to achieve them.

We'd like to understand what you like and dislike about our proposals and where you believe we should consider issues from a different perspective, or propose alternative plans. To help you with your response, below are some of the key issues you may like to offer your views on.

General questions:

- Have we identified the key challenges that we face over the next 25 years? If not, what else should we be considering?
- Do you agree with our proposed strategy of providing the highest possible service at the lowest possible cost? If not, what should we focus on?
- Do you agree that our five key outcomes will help us to deliver against that strategy? If not, what else should we be considering?





- Do you agree that we should invest at a steady rate now to protect our assets and service for future generations? If not, what would you like to see?

We also welcome your views on the detail of our five key outcomes. Listed below are some detailed questions which you may like to think about when formulating your response:

Excellent water quality – now and in the future	
<b>Public health – lead replacement</b>	Do you agree with our plans to target investment in this area on vulnerable groups such as schools and nurseries?
<b>Water quality</b>	Do you agree that it is important to maintain assets to ensure continuity of a high-quality service? Would you be prepared to see a deterioration in quality in return for a reduction in bills?
<b>Water hardness</b>	Do you agree that we should not invest in this area, despite a small number of complaints? Will providing more information to affected customers help?
<b>Catchment management</b>	Would you like to see us engage with farmers and environmental groups more to try and improve water quality and avoid treatment costs, or do you think this increases risk to unacceptable levels?
Secure and reliable supplies – now and in the future	
<b>Maintaining supplies</b>	Do you agree that we should continue with a programme of network refurbishment, even if this means small bill increases?
<b>Metering</b>	<ul style="list-style-type: none"> <li>• Do you think our proposed metering programme of achieving 70% of households metered in the South Staffs region and 88% in the Cambridge region by 2035 is sensible?</li> <li>• Do you agree with our proposals to continue metering on change of occupier in the South Staffs region?</li> </ul>
<b>Leakage</b>	Do you agree that we should keep leakage at its 'economic level'; that is, where it would cost more to reduce leakage further than to treat and supply more water?
<b>Customer information</b>	Do you want more information about metering and water efficiency? If so, how should we provide this?

An excellent customer experience that meets customers' and communities' expectations	
<b>Customer contact</b>	<ul style="list-style-type: none"> <li>• Do you agree that using new forms of media such as Twitter are a good way of keeping customers informed?</li> <li>• Would you like to see more ways of contacting us made available?</li> <li>• What are the main issues that you would like to be kept informed about in the future?</li> <li>• Would you like to manage more of your account online?</li> </ul>
<b>Operational issues</b>	Do you agree that we should invest in developing an intelligent network to allow us to detect leaks and bursts more quickly?
Operations that are environmentally sustainable	
<b>Managing the aquatic environment</b>	Do you believe we should go beyond our statutory duties and invest more in protecting the aquatic environment? If yes, how would you feel about seeing bill increases to fund this investment?
<b>Climate change</b>	Should we be exploring renewable energy options such as wind and solar power?
<b>Sustainable water supplies</b>	Is it sensible to trade water with other companies, rather than develop new resources? Should we invest in our less frequently used water sources to improve network flexibility in preparation for the predicted changes to our climate?
<b>Biodiversity</b>	Do you agree that we should consider biodiversity options to protect flora and fauna as part of all of our investment plans?
Fair customer bills and fair investor returns	
<b>Affordability</b>	<ul style="list-style-type: none"> <li>• Should we aim to keep bills as low as possible, even if this means not investing as much in service improvements?</li> <li>• Should we do more to help customers who have difficulty paying their bills, or is the help we currently offer adequate?</li> </ul>
<b>Tariffs</b>	Should we continue to explore the possibility of introducing subsidised tariffs for customers who have trouble affording their water bill?
<b>Metering</b>	Do you agree that metering is the fairest way of paying for water?

# Next Steps

We will consider all the responses we receive and publish an updated long term strategy paper on our website in the autumn. We will endeavour to set out how we have taken your views into account in our updated document and everyone who responds will be sent a copy of the finalised report.

In December 2013 the Company will publish its business plan for the period 2015-20. The proposals for the next five years will be consistent with our final long term strategy. The business plan will also be based on the proposed outcomes and our strategy of low bills and high service.

In 2014, our regulator, Ofwat, will consider companies' business plans, consult with stakeholders and then set price limits for the five years 2015-20.

Please email [mattlewis@south-staffs-water.co.uk](mailto:mattlewis@south-staffs-water.co.uk), or write to **Matt Lewis, Regulation Director, South Staffs Water, Green Lane, Walsall WS2 7PD** by **9 September 2013** with your comments.

We would like to share the response to this consultation with all customers, so please mark your response clearly if you do not want it placed on our website.



South Staffs Water

incorporating

