



DEE VALLEY WATER

PLANNING FOR THE FUTURE

December 2007

FOREWORD

Dee Valley Water provides water to a population of over 250,000 in North East Wales and Cheshire. Our services are vital to the ongoing health and welfare of the community we serve as well as the economic wellbeing of the area.

Although only a small company in terms of turnover, we employ a very large asset base consisting of approximately 2,000 kilometres of water mains, 6 treatment works and over 30 water storage tanks and pumping stations – in total, their replacement cost is over £300 million.

Our charges are amongst the lowest in England and Wales whilst the levels of services to our customers as measured by the Overall Performance Assessment are amongst the highest.

Every 5 years we prepare an investment programme as part of the Periodic Review of Charges. This programme and the costs attached are submitted to the industry regulator, OFWAT, who decide on the charges that we are allowed to levy for the following 5 years.

For the next review in 2009 for the charges from 2010 to 2015, we will be setting our detailed plans into the context of our vision of our Company for the next 25 years. This document is our Strategic Direction Statement and is our view of how we see the future.

We recognise that, as the environment and our customers expectations change, we will also need to evolve to meet these changes. Our vision of the future will therefore change and this Strategic Direction Statement will need to be updated from time to time.

In preparing this document we have consulted extensively with our customers, local authorities, the Welsh Assembly Government, The Drinking Water Inspectorate, the Consumer Council for Water, the Environment Agency and the Countryside Council for Wales.

Bryn Bellis
Managing Director

OUR KEY OBJECTIVE

To maintain a consistent supply of wholesome water that gives customers good value for money.

How will we achieve this?

By developing risk based methodologies until they become engrained in everything we do.

We will take a holistic view of asset maintenance and operation which takes account of our impact on society and the wider environment. We will ensure that we remunerate the providers of capital at the appropriate rate so that we retain our independence and ability to make the investments required.

This will allow us to :-

- maintain our excellent record of customer service
- ensure that the water we supply meets the very highest standards
- further reduce our leakage
- supply the growing demand for water in our area
- retain a highly skilled and motivated workforce
- protect the environment
- keep charge increases as low as possible

KEY MESSAGES FROM CUSTOMER CONSULTATION

- **Water Quality** – customers were generally positive; domestic customers generally liked the taste, although there were concerns about taste in one particular part of the Company's area.
- **Continuity of Supply** – industrial customers saw this as of paramount importance with the expectation that alternative supply routes should be provided where feasible.
- **Water Resources** – customers generally did not believe there was a resource issue, with ample water being available from the Welsh hills.
- **Customer Service** – customers were generally positive about the current service they receive. Domestic customers would welcome some minor changes to service provision (customer service opening hours and meter reading for example), but there was no appetite for higher prices to cover this.

Having found that most customers were satisfied with the service they received, there was little appetite for increased investment to further improve performance. The one area that customers were prepared to consider improvement was leakage reduction and they would be prepared to pay a little more (1%) to achieve this.

The overall message was that customers expected Dee Valley Water to ensure that the overall level of service did not deteriorate by investing in assets as required. Good water quality complying with all of the relevant standards was taken for granted.

Some concern was expressed regarding environmental impact but again, customers expected Dee Valley Water to take appropriate account of this when planning their investment programme.

The research uncovered a latent appetite for more specific information and help from the Company.

Domestic - Information on Company performance and water conservation measures and information

Industrial - Annual environmental reporting.

Having said that, most customers did not read any of the literature which accompanies bills and did not (and had no appetite to) visit the Company's web site. We need to find better ways of communicating with customers.

WATER QUALITY

We will maintain the quality of water we deliver to customers at the very highest level.

In 2006 our overall drinking water quality compliance achieved was 99.99%. Our aim is to consistently achieve 100% compliance in the future.

This aim will be met by the careful maintenance and operation of assets supported by risk based methodologies and procedures. We will further develop both our water safety plan and our distribution maintenance strategies so that they govern our actions in the future.

By taking a holistic approach to asset investment we will further improve water quality as the opportunities arise. For example, we will reduce the incidence of discoloured water events in the distribution system by targeting our asset replacements more effectively.

Water quality standards can be expected to change over time. Also, there could be changes to the raw water we abstract due to the effects of climate change. We will continue to respond to these changes to ensure the water we supply meets our overall objective.

LEVELS OF SERVICE

It is our objective to at least maintain the high levels of service to customers that it is currently achieving. No step changes in levels of service are envisaged, but gradual improvements over time will be made in anticipation of increasing customer expectations.

Inadequate Pressure

By March 2007, the number of properties experiencing inadequate water pressure, as measured against the reporting standard, had been reduced to just 52 or 0.4% of the total number of connected properties.

Further reductions in this number will be difficult to achieve. 30 of the properties are situated so close to their supplying reservoir that the required pressure cannot be achieved by gravity.

We will continue to take advantage of cost effective opportunities to further reduce the numbers of properties. We will also investigate each of the 30 properties which cannot receive adequate pressure by gravity to assess whether improvements can be made.

New pressure problems will also have to be prevented from developing by ensuring that we continue to monitor those close to the standard and take account of both growth in demand and new development which place additional demands on the water network. Where we predict that pressure problems may increase in the future, we will ensure that we reinforce the network in the most cost-effective way.

Supply Interruptions

The causes of supply interruptions are mainly bursting water mains, although failure of other assets such as pumping stations can also contribute.

Our strategy is to at least maintain the current low level of interruptions experienced by customers by the timely replacement of both bursting water mains and other assets.

We will also improve our response times to water supply interruptions so that the length of time taken to repair any faults is minimised so reducing the impact on customers.

Water Restrictions

Our current level of service is based on surviving the drought of 1995 without demand restrictions such as hosepipe bans. In the period of records studied back to 1925, a hosepipe ban would only have been required once, in 1933, and then only briefly. We expect to be able to avoid water restrictions except in the most severe of droughts. There have not been any restrictions since 1989.

Billing Contact

We currently achieve a 100% performance for this level of service, which measures speed of response to customers billing queries. We aim to maintain this standard.

Written Complaints

The level of service indicator measures the speed of response to customer's written complaints. We currently achieve a 100% performance for this level of service. We will maintain this performance.

Bills for Measured Customers

The indicator is intended to gauge the regularity and accuracy of bills received by measured customers by measuring the percentage receiving at least one bill based on an actual reading during the year, and the percentage of meters not read by the Company in the previous two years. We currently achieve 100% and 0% respectively against the criteria, our aim is to maintain the standard.

The subject of meter reading generates complaints from customers due mainly to bills being issued on estimated readings or high consumption as a result of a leak on the supply pipe.

We predict that by the year 2035, over 70% of household customers will have their bills based on a measured supply. This figure assumes our current policy on metering which provides for all new properties to be metered and unmeasured customers to be able to change to measured charges free of charge.

Although currently considered not to be cost effective, our expectation is that over the next 10 years the installation of smart meters, which can be read remotely, will be introduced. Once this is the case, we will expect to bill customers only on an actual meter reading. We also expect that customers will be able to readily monitor their own consumption and control the amount of water they use.

Ease of Telephone Contact

This indicator measures how well companies handle telephone calls from their customers by measuring:

- The percentage of calls abandoned
- How often all lines are busy
- How satisfied customers are with the way their calls have been handled. (In the three years that this measure has been in place, we have been rated either best or joint best in each year).

Our customer research tells us that our customers appreciate the fact that we do not use a traditional call centre approach to answering their calls and that we are local and responsive to their needs.

We aim to maintain our position as the leading company for this measure.

Other Issues

Whilst our research found that customers were generally satisfied with our approach to customer service, several other areas identified for improvement were raised:

- Provision of more information in a concise format on matters such as water saving advice and how Dee Valley Water compares with other water companies.
- Extended opening hours for billing queries

We also have to accept that the use of the internet for communication is becoming more the norm. It is our intention, therefore, to explore the cost effectiveness of internet access for bill payment and account queries. We will also explore whether communication with customers such as e-billing, advance warning of works in their neighbourhood or warnings regarding high consumption can be cost effective.

SUFFICIENCY OF WATER

Living in or near the Welsh hills, the expectation of our customers is that there is a plentiful supply of water such that they will never have to experience the same water restrictions as have been seen recently in the South East of England.

We have recently completed a review of water resources and forecast demand over the next 25 years which indicates that we have just sufficient water to maintain supplies at the current level of service.

In carrying out this review we have consulted with both local and national government on the prospects for housing growth and with our existing customers with regard to their future expectations of water usage.

We have made certain assumptions about the level of households meter penetration and the about the level of leakage from our network.

We currently have one of the lowest levels of leakage of any water company in England and Wales. The amount of water lost due to leakage is about 16% of the total water we input to the network. About two thirds of this is leakage from our pipes, with the remainder from customers' supply pipes. In order to ensure sufficient resources into the future we plan to reduce our level of leakage even further.

THE ENVIRONMENT

We fully recognise our responsibilities for protecting the environment from the effects of our activities. To the extent that actions are within our control, we will endeavour to reduce, as far as practicable, our impact on the environment.

Customer research tells us that they have a heightened awareness of environmental issues. At a more personal level, metered customers motivation for reducing their water usage was money-saving and environmental concerns.

We can play our part in protecting the environment. In particular, we can minimise the amount of water taken from the environment by reducing leakage and promoting water efficiency to its customers. This has the dual benefit that, whilst more water is retained in our rivers and lakes for the benefit of the habitat, we also reduce our consumption of valuable energy resources.

We will continue to co-operate closely with the various government agencies in the implementation of both the Habitats Directive and the Water Framework Directive.

Climate Change

Our immediate concern is how to plan for the effects of climate change on our activities. The obvious risk is a reduction in the availability of raw water. However, there are other areas of our business which could be adversely affected. The effects of more extreme weather events will be featured in our plans such as:

- More intense rainfall could place some of our assets more at risk from flooding – we will work out how to protect them
- Hotter summers could lead to higher peak demands for water which could adversely affect some customers

As well as increasing our resilience to its effects, we also expect to play our part in reducing our contribution to climate change.

- We will factor the cost of carbon emissions into our investment planning so that it is taken into account fully in the decision-making process.
- We expect to be able to exploit hydro electric power in the future to reduce our power consumption.

OUR WORKFORCE

Our workforce is our most valuable asset in maintaining our key objective of delivery a wholesome supply of water to our customers.

With an ageing workforce, one of our most important strategies for the future will be to maintain and develop our people to fill any gaps we may have in our abilities to continue to operate successfully. With this in mind, we will place greater emphasis on the need to attract new employees, to train them to the high level of skills required and to ensure that knowledge transfer takes place at the appropriate time.

It is our intention to introduce a new apprenticeship scheme which will produce a pool of talent from which our future key employees will be chosen. These apprentices will be provided with both practical and theoretical skills which will better equip them to face the introduction of new technology.

INNOVATION

Research and development of new technologies and processes will be vital if we are to successfully achieve our objectives in the future.

We are unlikely to lead the way in this area, but we will continue to support the various research bodies and more importantly will continue to utilise proven new technological advances as they become available.

FINANCING

In order to deliver on our objectives, we will need to retain the ability to attract finance. This means that we will need to continue to make and grow profits so that potential investors can have assurance in our ability to pay dividends and to repay capital.

The Company's objectives in this area are:

- To grow dividends in real terms in line with the rest of the economy
- To maintain our existing credit rating
- To maintain a balance sheet that has an efficient balance of debt and equity

We appreciate that these objectives can only realised if we achieve continuing efficiency improvements and targeted cost effective investment.

CHARGES

Since the privatisation of the water industry in 1989, our charges for water services have reduced in real terms by 8%. This compares to the average for the industry in England and Wales of a real price increase of 43%.

Dee Valley Water's average household charge for water is currently the fourth lowest in England and Wales and, at just £118 per annum, is 21% lower than average.

This performance has been achieved by ensuring that we get value for money from our investment in terms of new and replacement assets and a continuous programme of efficiency improvements.

We expect to continue to maintain this ethos of increasing efficiency into the future which will ensure that charges to customers remain as low as they can be.

Although our charges are relatively low we accept that certain customers will still have difficulty paying. In such circumstances we will work with these customers to look at ways of reducing their bills and making payment methods easier.