

Interim results for the six months to 30 September 2009

Overview

Wessex Water is pleased to report another strong set of results for the six months ending 30 September 2009. We remain focused on delivering ever higher standards to our customers, further improving our efficiency, continuing progress towards our sustainability vision and providing good returns to our investor.

We continue to be recognised as one of the leading companies in the industry. Recent reports from the industry regulator show:

- over the last five years we delivered the highest levels of service of any water and sewerage company
- we continue to be at the forefront of operating and capital efficiency
- our returns to investors continue to be the best in the industry.

As we near the end of this price control cycle we can report that we have:

- delivered all required outputs in AMP4 while still saving against the regulator's capital investment allowance
- continued to deliver industry leading levels of service and customer satisfaction
- increased our self generation of renewable energy to 14%.

We are not immune from the turbulence in the economy. Underlying demand for water has reduced, as has the number of new properties connecting to our system. Customers are finding it increasingly difficult to pay their bills, which will result in higher debt write off costs.

In April we published our five-year business plan. In response the regulator has just published a price determination for the five years starting in April next year. We are studying that determination and have two months to decide whether to accept or appeal to the Competition Commission.

Financial performance

Our results for the first half year show that historic cost profit before taxation increased by £9.8m from £65.9m to £75.7m, and within this:

- turnover increased by £9.2m or 4.3% from £213.3m to £222.5m. Prices increased by 6.4% and there was some additional turnover from new customers. However, this increase was offset by a reduction in sales caused by the economic recession, and the impact of customers switching to metered supply
- operational costs (excluding depreciation and capital maintenance) increased by £2.5m to £63.2m. This was due to additional pension costs, the cost of new obligations and cost increases in respect of customer debt collection and bad debts written off

- depreciation increased by £4.0m as new assets were depreciated for the first time and infrastructure maintenance charges increased by £0.6m
- net interest payable reduced by £7.7m. Underlying interest costs reduced by £8.7m as interest rates fell and deflation occurred, reducing the cost of floating rate instruments and index linked bonds. Although the total debt increased between the two periods, a fixed rate bond was refinanced by cheaper debt. The weighted average cost of debt fell from 5.6% to 4.1%. There was also an increase of £1.0m in respect of the FRS 17 pension cost.

Taxation increased by £10.9m and as a result profit after tax fell by £1.1m from £58.2m to £57.1m. There was a £5.8m increase in corporation tax. This arose from additional taxable profits and lower capital allowances from a combination of reduced capital expenditure and a lower rate of industrial buildings allowances. Deferred taxation moved from a credit of £2.9m last year to a charge of £2.2m this year.

Capital investment for the six months totalled £63m, a fall of £55m over the same period last year, but is in line with our business plan.

Net debt reduced by £18m from £1,520m to £1,502m in the six months to September 2009, with the net cash inflow from operations greater than the cash outflow on the capital investment programme, interest and tax payments and dividends. At the same time the Regulatory Asset Base increased from £2,171m to £2,200m, reducing gearing from 70% to 68%.

Dividends increased by 1.3% to £55.0m.

Operational performance

Operational performance on most key measures was better than or equal to the corresponding period last year. However, contacts from customers on taste, odour and appearance were up on the previous period mainly because of an improvement in treated water quality from the newly commissioned Maundown water treatment works as well as discoloured water incidents associated with old unlined iron mains. Proposals are in hand to overcome the problems caused by unlined iron mains.

Operational performance			
	2008-2009	First half 2008-2009	First half 2009-2010
OPA performance % age of maximum	98%	97%	98%
Water supply			
Properties at risk of low pressure	0.03%	0.03%	0.03%
Properties subject to unplanned supply interruption of more than 12 hours	0.00%	0.00%	0.00%

Properties experiencing supply restrictions	0.00%	0.00%	0.00%
Customer contacts on taste/odour/appearance	2075	1518	2036
Drinking water compliance	99.9%	99.9%	99.9%

Sewerage

Properties at risk of internal sewage flooding once or more in 10 years	177	329	166
Properties flooded: inadequate capacity	36	27	5
Properties flooded: other reasons	76	48	51

Customer service

Customers satisfied/ very satisfied with service	96%	96%	98%
Customer complaints (operational)	1406	871	487
Customer complaints (non operational)	6615	3534	3417
Billing contacts answered within 5 days	100%	100%	100%
Written complaints dealt within 10 days	100%	100%	100%
Bill based on meter reading	100%	100%	100%
Telephone call handling satisfaction	95%	95%	96%

Environmental standards

Compliance with abstraction licences	100%	100%	100%
Total leakage	72	71	72
Number of pollution incidents	75	51	38
Beaches meeting mandatory standards	100%	100%	100%
Satisfactory discharges to river or sea	99.7%	99.5%	99.70%
Population served by works compliant with discharge consent	100.0%	99.9%	100.0%
Sewage sludge disposed within standard	100%	100%	100%

Progress against public monitoring plan

Our monitoring plan for the period 2005 to 2010 describes what needs to be achieved within the price limits set for customers' bills by industry regulator Ofwat.

Our progress against the plan continues to be encouraging, the key elements of which are set out below.

Customer service and guarantees

Service levels

Wessex Water continues to deliver the best customer service in the industry. We came top of Ofwat's telephone satisfaction survey as well as being the leader in their assessment of overall performance.

Customer guarantees

Through the Wessex Water Promise we continue to provide customer guarantees and compensation well in excess of the statutory guaranteed standards scheme. We continue to have the best overall package of guarantees in the industry.

Affordability

We have continued our work on helping affordability. Our schemes for customers in financial difficulty continue to be a success. Restart and Restart Plus are both designed to put customers who are having difficulty paying back on track. Evidence suggests that 14 out of 15 people on the schemes no longer fall into arrears.

Our tariff, Assist, is continuing to prove popular. The tariff is designed to reduce the charges to customers who are in severe financial difficulty and, despite their best efforts, are genuinely unable to pay the full amount of their water bills. As hoped, customers who are on the tariff are now paying more than they did before.

We are continuing our close collaboration and funding of local Citizens Advice Bureaux (CABs) and debt advice agencies in an effort to improve the debt advice given to customers who are struggling to pay their bills. Such close partnership working is delivering real benefits for customers.

All these initiatives are aimed at enabling those with the greatest difficulty in paying to make at least a modest contribution towards the costs of water and sewerage services. If successful, the cost burden on all other customers will be reduced.

Tariff studies

We are in the second year of our tariff study with 5,000 customers. This is studying the impact of three tariffs; a rising block tariff, a seasonal tariff and a peak-seasonal tariff. The study will enable us to understand the impact of both metering and tariffs to manage demand and affordability. Smart meters are being used in conjunction with the trial, giving customers more information on how and when they use water, and thereby giving them more control over their bills.

Education and community involvement

We continue our education programme, both with organisations that come into contact with vulnerable customers and also on wider water and sewerage issues, for example, through our schools' programme.

Our community partnership programme, the Wessex Water Partnership, incorporates all our community involvement. In addition it covers proactive help and advice on water conservation, a re-launch of our community support programmes and reinvestment of efficiency savings and customer service improvements.

Meeting new demands

Maintaining the supply of water remains a primary objective and last summer marked the 33rd year without supply restrictions.

We continue to invest and optimise our water resources and treatment works to ensure we can meet increasing demands from our existing customers and new development. We have maintained our focus on reducing leakage from our extensive network of 11,400 kms of mains. Leakage is currently 72Ml/d, better than our target level of 74Ml/d and representing some 20% of water put into supply.

We also continue to promote water efficiency by offering customers a comprehensive free service for repairing and replacing private supply pipes. We offer free meter options and a variety of other initiatives to help customers reduce their demands, including a home audit by one of our staff.

We are currently reviewing ways to meet Ofwat's water efficiency target reduction for 2010-11 of 0.55Ml/d, particularly as they have indicated in draft price limits that this new obligation will not be funded.

Improving drinking water and the environment

Addressing the impact of water abstraction on river flows

Concerns have been raised that some of our abstractions from groundwater for public water supply may be having an adverse impact on river flows. Accordingly, we have been working for some time to assess the impact and potential solutions.

Work on the Malmesbury Avon and River Piddle has concluded that acceptable river flows can be restored by increasing the volume of water discharged to the river from boreholes and reducing the average volume abstracted for public supply, while maintaining the volume that can be abstracted for public supply during peak demand periods. This strategy will safeguard the environment and avoid the need for substantial investment.

We are close to reaching a similar position for the Chitterne Brook and River Till. Detailed trials were undertaken during the past summer to assess the effect of our Chitterne source on these streams. The results of this work will be reported by December 2009.

We have completed investigations at 15 other sites to determine the impact of our abstractions on the environment. The Environment Agency (EA) has reviewed the results and concluded that abstractions from four of our sources are having an adverse effect. The EA has given us their view of what licence changes we should plan for to mitigate the impact of these abstractions. We have taken this into account in preparing our water resources and business plans.

Subject to inclusion in the final determination, our proposed integrated water grid, which will allow us to move water around the region from where resources are currently 'locked', will allow these reductions in abstraction to be made from 2018 onwards without the need for further resource development. The grid will also improve security of supply and avoid the need for installing treatment at sites where transient deterioration in raw water quality occurs.

Coping with worsening raw water quality

The raw water quality at a number of our sources continues to deteriorate, particularly due to elevated levels of pesticides and nitrates caused by contamination of groundwater by farming practices. Wherever possible we continue to be innovative by developing lowest whole life cost sustainable solutions rather than building conventional end-of-pipe treatment works which are expensive to build, operate and maintain and have a high environmental impact.

Nitrates

To deal with rising nitrates in some of our groundwater sources caused by the use of fertilisers in agriculture, our catchment management specialists work alongside the local farming community to identify potential pollutant pathways and find alternative land management practices that will protect and improve groundwater quality.

Pesticides

Two schemes were included in the AMP4 programme for pesticides. The source of the pesticides is contamination of groundwater by farming practices. As for nitrates, rather than install treatment plants, we have worked with farmers to reduce the risk of contamination.

A three-year agreement to assess the effects of a total ban on spraying pesticides on land around one of our sources was completed in 2008-09. The results were very encouraging and the farmer has indicated his intention to change to organic farming which should benefit the quality of the raw water for the long term. In the past six months there has been a small number of incidents of elevated pesticide levels at this site following a previous pollution. We are working closely with the farming community and the EA to minimise future risks.

Maundown water treatment works

At our largest treatment works, serving around 200,000 customers in central Somerset, we have installed advanced treatment to deal with increasing problems of algae in the raw water which can cause taste and odour problems. The capacity of the works has been increased in line with growth in the region. The project has been completed on time and to budget. The existing works which was built in the 1960s and early 1970s has been demolished and landscaped. The works was officially opened in September 2009.

Mains relining for iron compliance and reduction in discoloured water

Avoiding discoloured water problems continues to be a high customer priority. During the year we have relined and replaced distribution mains with the aim of improving water

quality. We have started a major mains rehabilitation project in the west of Bridgwater as part of an undertaking with the Drinking Water Inspectorate.

Sewerage and sewage treatment improvements

Sewer flooding

We continue to make good progress on our programme to reduce the risk of internal and external flooding caused by overloaded sewers. By 2010, we plan to have relieved 827 properties from the risk of internal flooding and around 750 open spaces from external flooding.

We have discussed with Ofwat the fact that a scheme to construct two pumped overflows in the Piddle Valley to deal with excessive infiltration of groundwater into the sewers when the water table is very high is at risk of not being delivered due to third party issues. The EA has delayed a decision to grant a consent for this scheme pending further consultation so we are unable to achieve the original monitoring plan target. Ofwat recognises this risk and plans to adjust the monitoring plan by the 19 properties in the scheme.

Over the past six months we have completed schemes to protect six properties from internal flooding and three properties from external flooding.

Intermittent discharges

During the five years ending 2010, we planned to improve 25 unsatisfactory storm discharges that currently discharge dilute sewage to rivers following heavy rainfall. By 31 March 2009 we had completed 22 of the schemes. Since then we have completed schemes at Freshford and Hurdcott. We plan to complete the remaining scheme in Bristol this year.

First-time sewerage

We continue with our work to provide communities with a proper sewerage system to overcome public health or environmental issues. Nineteen schemes were completed in the period April 2005 to March 2009 and during the first six months of this year we have completed schemes at Longham and Throop. Schemes are also under construction at Bridgegate, Conygar and Colehill.

Urban Waste Water Treatment Directive, UWWTD

This European directive sets standards and dates for the treatment of inland and coastal waters to improve the quality of treated sewage discharges to the environment. Our programme for 2005 to 2010 is now complete.

EU Habitats Directive and Sites of Special Scientific Interest

These standards protect sites and water bodies of special nature conservation status. By March 2009 we had completed eight of the 22 phosphorus removal schemes included in our programme. Since then we have completed schemes at Bradford Peverell, Hurdcott, Pewsey and Ringwood. Construction of the remaining environmental improvement schemes at

Barford St Martin, Dorchester, Downton, Fovant, Great Wishford, Marden, Salisbury, Tisbury and Upavon is underway for completion by March 2010. At Cranborne sewage works we continue trials using a waste product from aluminium smelting to assess the scope for a more sustainable approach to reducing phosphorus in the effluent.

Investigations

We have completed all 16 investigations in our AMP4 programme. These investigations have provided information to help implementation of the Water Framework Directive and clarify the scope of future environmental investment.

Bristol sewage sludge treatment

We have built an enhanced sludge treatment facility at Bristol (Avonmouth) sewage treatment works which serves an equivalent population of around 750,000. The new plant enhances the performance of the existing sludge digesters, increasing methane gas production and reducing the sludge volume. These improvements have increased power generation at this site, doubling the production of renewable energy to around four megawatts and reducing our carbon footprint by 10,000 tonnes of CO₂ per annum.

EU Water Framework Directive

We continue to engage fully with the EA and other stakeholders to assess the potential impact of this important European legislation on water customers and bills. We have developed proposals to meet the tighter environmental standards proposed by the EA for the period 2010 to 2015.