

# Interim results for the six months to 30 September 2010

## Overview

We have made an excellent start to the new five-year regulatory period.

This month Ofwat confirmed that in 2009-10 we were, once again, the top performing company for service to customers and the environment. We were also singled out by Ofwat as a top performer for protecting the environment and we beat our leakage target despite the harshest winter in 30 years. This excellent performance has been continued into the current year with us topping the league table for Ofwat's new customer service measure over the first two quarters of 2010-11. And 99% of customers who contacted us in the first six months of the year rated our services as good or very good; our highest-ever satisfaction score.

Added to our strong focus on delivery to our customers and the environment is our equally strong focus on efficiency and financial performance. Despite the continuing challenging economic conditions, we have outperformed our operating and capital cost allowances by more than any other water and sewerage company and delivered the highest returns over the past five years.

This out-performance was returned to customers from April this year; without it bills over the next five years would have needed to be £21 or 5% higher each year to deliver the same outputs. This is on top of us sharing out-performance with customers by spending an additional £23m to reduce the risk of service failure and support customers in financial difficulty.

We have also made a good start on our new investment programme. Over the past two decades we have invested over £3.4bn in the local economy, making us one of the largest infrastructure investors in the region. We continue to make significant investments in our assets and will be spending, on average, more per year over the next five years than we have ever spent in the past.

We also continue our activity to ensure that our services are ever more socially and environmentally sustainable. We are now in the last year of our three-year tariff study, looking at the contribution that charging can make to both water conservation and affordability, the two key themes of Defra's proposed Water White Paper next year. And we continue to increase our renewable generation, having achieved self sufficiency in energy at our largest works, serving an equivalent population of 750,000 people.

## Financial performance

Our results for the half year show that historic cost profit before taxation increased by £1.0m from £75.7m to £76.7m, and within this:

- turnover increased by £0.4m from £222.5m to £222.9m. Prices increased by 0.9% as agreed by the industry regulator OFWAT for the first year of the new regulatory period. There was some additional turnover from new customers, but this and the

price increase were 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 £1.7m from £63.0m to £64.7m. There were increases due to the cost of new obligations, increased business rates, a higher charge for bad debts and pension costs under FRS 17, all of which increased costs by £4.8m. These increases were partly offset by £3.1m of operational efficiencies in excess of inflation
- depreciation increased by £1.8m as new assets were depreciated for the first time, the loss on disposal of fixed assets fell by £1.2m and infrastructure maintenance charges increased by £1.1m
- net interest payable reduced by £4.0m. Underlying interest costs reduced by £3.4m from £31.4m to £28.0m as interest rates fell and deflation occurred, reducing the cost of floating rate instruments and index linked bonds. The weighted average cost of debt fell from 4.1% to 3.6%. There was also a reduction of £0.6m in respect of the FRS 17 pension cost.

Taxation fell by £2.3m and as a result profit after tax increased by £3.3m from £57.1m to £60.4m. There was a £0.3m reduction in corporation tax and £2.0m reduction in deferred taxation which moved from a charge of £2.2m last year to £0.2m this year.

Capital investment for the six months totalled £47m, a fall of £16m over the same period last year which was the last year of the previous regulatory period. This was due to the timing of the start up of capital schemes in the new regulatory period.

Net debt reduced by £12m from £1,530m to £1,518m in the six months to September 2010, with the net cash inflow from operations greater than the cash outflow on the capital investment programme and interest, tax and dividend payments.

Dividends decreased by £0.4m from £55.0m to £54.6m.

## Operational performance and investment

We have made a good start on operational performance and our investment programme for the five years ending March 2015 and are on target to meet all AMP5 milestones and regulatory outputs.

Operational performance			
	2009-2010	First half 2009-2010	First half 2010-2011
OPA performance % age of maximum	97%	SIM from 2010-11	
SIM quantitative score	137	69	66
SIM qualitative score	-	-	90%
Water supply			

Properties at risk of low pressure	0.04%	0.03%	0.06%
Properties subject to unplanned supply interruption of more than 12 hours	0.01%	0.00%	0.00%
Properties experiencing supply restrictions	0.00%	0.00%	0.00%
Customer contacts on taste/odour/appearance	3703	2036	1524
Drinking water compliance	99.9%	99.9%	99.9%

### Sewerage

Properties at risk of internal sewage flooding once or more in 10 years	124	166	108
Properties flooded: inadequate capacity	7	5	8
Properties flooded: other reasons	104	51	50

### Customer service

Customers satisfied/ very satisfied with service	98%	98%	99%
Customer complaints (operational)	7727	3904	3213
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	96%	SIM from 2010-11	

### Environmental standards

Compliance with abstraction licences	100%	100%	100%
Total leakage	74	72	72
Number of pollution incidents	94	46	55
Beaches meeting mandatory standards	100%	100%	100%
Satisfactory discharges to river or sea	99.9%	99.7%	99.9%
Population served by works compliant with discharge consent	100.0%	100.0%	100.0%
Sewage sludge disposed within standard	100%	100%	100%

Properties at risk of low water pressure show an apparent increase but this does not reflect a real reduction in service standards or asset deterioration. The increase results from recent computerised modelling of the supply network which has identified more properties at risk than previously understood. We have therefore committed to some improvement schemes this

year which should bring the number of properties at risk down to around 200 out of a total property base of around 580,000, similar to the position at the end of March 2010.

Customer complaints were lower than for the corresponding period last year reflecting in part improvements in the way we administer free meter option applications, direct debit arrangements and abnormally high consumption readings.

Whilst the number of pollution incidents was higher than for the corresponding period last year, the overall trend is still downward. Additionally it should be noted that in the period there were no category 1 or 2 pollutions.

## **Customer service and guarantees**

### **Service levels**

We are consistently the best performing water and sewerage company in England and Wales achieving top marks in Ofwat's Overall Performance Assessment (OPA). We continue to deliver the best customer service in the industry.

From April 2010 Ofwat has replaced the OPA with the Service Incentive Mechanism (SIM), a new approach to measuring and incentivising customer service. Part of the measure is a customer satisfaction survey and we are the leading water and sewerage company after the first two waves of research.

### **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 tackling issues of affordability. Our schemes for customers in financial difficulty are particularly successful. Restart and Restart Plus are both designed to put customers who are having difficulty paying back on track.

Our tariff, Assist, is continuing to prove popular. The tariff reduces 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.

These schemes are designed to enable those with the greatest difficulty in paying to make at least a modest contribution towards the costs of water and sewerage services. They have reduced the cost burden on all other customers.

We continue our close partnership working and funding of local Citizens Advice Bureaux and debt advice agencies in an effort to improve the debt advice given to customers who are struggling to pay. This is delivering real benefits for customers, debt advice workers and Wessex Water alike.

## **Tariff studies**

We are in the third year of our tariff trial involving 5,000 customers. The trial is investigating the impact of three different tariffs; a rising block tariff, a seasonal tariff and a peak-seasonal tariff. The trial will allow us to understand the impact of both metering and tariffs to manage demand and affordability. We are using Smart meters and in-home monitoring devices to give customers more information on how and when they are using water, giving them more control over their bills.

## **Work and asset management**

We are in the process of implementing a new real-time, integrated work and asset management system (WAM). WAM will enable us to meet our customers' rising expectations of the services we provide, improve efficiency, reduce business risk through better asset stewardship, improve the way we identify and prioritise investment and maintenance and improve the quality of business information. Implementation is due for completion over the next 12 months.

## **Education and community involvement**

We continue our education programme offering a range of services to support schools, teachers and students from primary to university level. We are also working with organisations in our region to reach vulnerable customers and offering community talks on wider water and sewerage issues.

Our community partnership programme, the Wessex Water Partnership, incorporates all our community involvement. In addition it covers proactive help and advice on water conservation, our affordability schemes and our community support programmes.

## **Meeting new demands**

Maintaining the supply of water remains a primary objective and last summer marked the 34th 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 around 11,500 kms of mains. Leakage has reduced from our historic target of 74MI/d (million litres per day) to a current 72MI/d and we are on course to reach our new leakage target of 71 MI/d by the end of this financial year.

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 have a water efficiency "target" from Ofwat of 0.55 MI/d. We are on course to meet this target for 2010-11 primarily by increasing our work in schools and providing a water efficiency pack to customers on request.

Despite the downturn in the economy, the demand for new mains and sewers to service new development has been surprisingly buoyant.

Over the past six months we have commenced construction of major extensions to our sewage treatment works at Wootton Bassett and Tarrant Crawford (Blandford) to meet increased sewage flows from new development.

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## **Improving drinking water and the environment**

### **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 based on catchment management rather than building conventional end-of-pipe treatment works which are expensive to build, operate and maintain and have a high environmental impact. As a result, our catchment management programme has expanded to a further 11 catchments this year. The full collaboration of all stakeholders is required to remove the causes of pollution and institute better farming practices. This approach has been supported by Ofwat and the Drinking Water Inspectorate.

### **Sutton Bingham water treatment works**

Major process extensions are proposed to improve the performance of this works which serves the Yeovil area. Improvements are required to deal with pesticides and taste and odour problems. Extensive maintenance work is also proposed for the existing works which was developed in the 1980s. Design is well advanced for the scheme and it is anticipated that the planning application will be submitted next summer.

### **Mains relining for iron compliance and reduction in discoloured water**

We have commenced a programme of mains rehabilitation aimed at reducing discoloured water complaints and improving our performance with regard to iron compliance. The work is targeted at nine particular high risk zones. Work in the zone which supplies Bridgwater, also known as 'Operation Clean and Clear', is advancing well. The enabling works and design are complete and rehabilitation of mains within the town has commenced. Significant liaison with the highway authorities has been required as well as an active public relations campaign.

### **Addressing the impact of water abstraction on river flows**

We have been working for some time to assess the potential impact of some of our abstractions from groundwater for public water supply.

Work on the Malmesbury Avon, River Piddle and Chitterne Brook 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. Abstraction licence changes are expected to be made this year to confirm the revised abstraction profiles.

In addition, to improve river flows, abstraction licences will be reduced by a further 23.5 Ml/d in the Wylfe and Bourne catchments. This change will be made once our integrated water supply grid is complete.

Our proposals for this integrated water grid were confirmed by Ofwat in their 2009 determination of prices. This project, which will be Wessex Water's largest and longest ever project, will allow us to move water around the region to maximise the utilisation of existing sources and allow the 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 occasional deterioration in raw water quality occurs. The project team is now fully mobilised and the concept design for the project has started.

## **Sewerage and sewage treatment improvements**

### **Sewer flooding**

Fortunately, sewer flooding is rare but when it does happen it is one of the worst service failures our customers and the environment can experience. Substantial investment over recent years meant that out of over 1.1 million properties, only 108 were at risk of internal flooding more than once in ten years due to inadequate capacity - our lowest number ever. Through further investment we aim to keep the number at risk at around the same level despite our expectation that some 200 new problems will arise over the next five years due to the changing climate and increase in impermeable areas. We also propose to implement 138 schemes for properties at a lower probability of flooding which flood internally more than once in twenty years as well as addressing 170 properties which flood externally.

Our ongoing programme appraises, prioritises and then delivers cost-beneficial schemes. Over the past six months we completed schemes to reduce the risk of internal flooding at ten properties and external flooding at six properties.

The responsibility for flooding is often complex and we are working with local authorities in their production of Surface Water Management Plans to investigate these shared ownership problems. We are currently contributing towards these Plans in Bournemouth, Bristol, Minehead, Taunton and Weston-super-Mare.

### **Intermittent discharges**

To improve the quality of the environment, we have begun a five year programme to improve 65 unsatisfactory intermittent sewage discharges to watercourses, 63 of which are in Bristol. These currently discharge dilute sewage to rivers during heavy rainfall.

Currently we are undertaking appraisals for ten of these schemes. We started designing some of the Bristol improvement schemes last year, and one has now been constructed a year ahead of the scheduled delivery date.

## **First-time sewerage**

We continue providing communities with first time sewerage schemes to address public health or private environmental issues where a public scheme is viable. We are currently appraising the viability of two new applications.

In the first six months of this year, we have constructed a scheme in Edington (Bridgwater) which will allow 49 properties to connect to the public system for the first time. Construction is underway at Loxton (Weston-super-Mare) and Monkton Combe (Bath) and design is at an advanced stage for schemes at Greinton (near Street) and Cold Harbour (Wareham).

## **Urban Waste Water Treatment Directive**

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. Designation of two river systems in the Somerset Levels as Sensitive Areas means that we are required to install phosphorus removal processes at six of our sewage treatment works (STWs) there. In addition phosphorus removal is also required at Paulton STW, where the connected population has increased above 10,000. During the first six months of this year we have completed appraisals to confirm the treatment processes to be used for phosphorus removal.

## **Revised Bathing Water Directive**

The revised EU Bathing Water Directive requires that by 2015 bathing waters must meet tighter microbiological standards. This is requiring improved secondary biological treatment at Weston-super-Mare STW, together with storm storage capacity to reduce the frequency of storm sewage discharges from Black Rock Pumping Station. The improvements are required by March 2013. We are planning to construct a new activated sludge plant and improved UV disinfection. Outline design has been completed and a planning application for the extensions has been submitted.

## **Investigations**

There is significant uncertainty surrounding the improvements required by European Union legislation. The Water Framework Directive, revised Bathing Water Directive and the Shellfish Directive may all be drivers for increased investment but there is a need to fully understand the influence that Wessex Water's discharges may have, if any, on influencing compliance compared with other inputs to the environment. We are therefore undertaking a programme of investigations to develop a sound scientific basis for future decisions on required improvements. During the first six months of this year we have commenced investigations into:

- Bathing Waters at Blue Anchor, Burnham and Weston-super-Mare.
- Eutrophication (nutrient enrichment) in Poole Harbour and Radipole Lake, Weymouth.
- Poole Harbour Shellfish.
- Phosphorus levels in the River Frome and Bere Stream in Dorset.
- Chemicals in the effluent discharged from six sewage treatment works.

We have also constructed trials to investigate the efficacy of reed beds as an effective and more sustainable method of removing phosphorus from sewage effluent.

These investigations will provide information to help implementation of these Directives and clarify the scope of future environmental investment.

## **Sludge treatment**

We have obtained licences under the Environmental Permitting Regulations for our sludge treatment centre at Keynsham, and our combined Heat and Power plants at Taunton, Salisbury and Berry Hill (Bournemouth).

## **Biodiversity and Conservation**

Wessex Water, like all water companies, has a duty to protect, conserve and enhance the wildlife on the land which we own. In recognition of this, we have initiated two five year projects looking at birds, bats and invertebrates at 15 sites of high biodiversity potential within our region. These are sites which are of a high biodiversity standard but are not covered by existing designations, have good public access and are within easy access of the towns of Taunton, Yeovil, Weymouth and Bath. These projects commenced in May and have already yielded some interesting results and are confirming our suspicions that these sites attract a number of rare bird, bat and invertebrate species.

Our efforts working in partnership to deliver wider biodiversity gain across the region more widely have been recognised by the Green Organisation. We were awarded a silver Green Apple Award this summer, commending our Partners Programme which works with environmental organisations across the region to deliver aquatic biodiversity gain. This programme has been running for 11 years now and entered its fourth phase in April. We are supporting 7 different projects across the region for the next five years. The projects fall into three categories: projects which are aligned with our core business activities; active partnership working and undertaking detailed scientific research to enhance our understanding of biodiversity