

Severn Trent Water

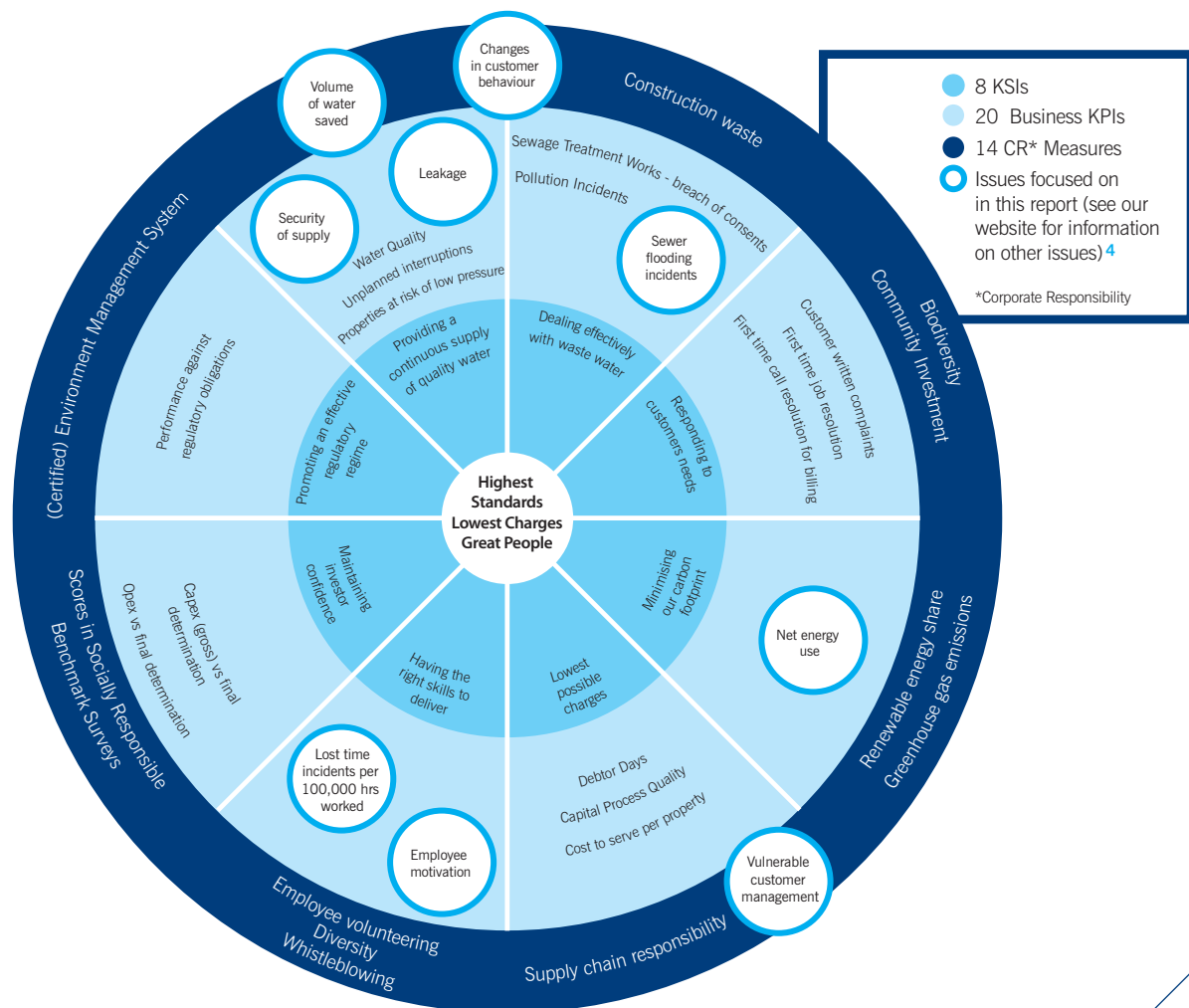
In Severn Trent Water, we align our corporate responsibility activities to our vision to be the best water and waste water company in the UK characterised by our aim to have the highest standards, the lowest possible charges and great people.

We have established eight Key Strategic Intentions (KSIs) which form the basis of our 25 year strategic plan. The KSIs are underpinned by our vision and supported by 20 Key Performance Indicators (KPIs) which we use to improve operational performance within the business. These measures are publicly reported and form a fundamental part of the way we recognise and reward our employees. Many of the KPIs directly drive our focus on corporate responsibility, for example health and safety, employee motivation, water quality, pollution incidents, net energy

use and leakage. We have developed specific corporate responsibility metrics which are used to manage and report on our performance. These are reported to the Severn Trent Executive Committee and the Corporate Responsibility Committee.

Our corporate responsibility wheel is illustrated in the diagram below. This shows how our corporate responsibility activities fit into strategic and performance priorities, and so form part of our everyday approach.

Our corporate responsibility wheel



Due to the breadth of issues included in corporate responsibility, we recognise that we need to focus our work. The issues we have chosen to address and prioritise are based on those areas where corporate responsibility makes the greatest contribution to achieve our strategic goals and which are of importance to our stakeholders. Therefore, we undertook a stakeholder survey in February 2009 to help us understand the corporate responsibility issues which are of most interest externally and the way in which we should communicate.

This report summarises progress towards the following parts of our strategic plan:

- Minimising our carbon footprint
- Producing a continuous supply of quality water
- Dealing effectively with waste water (specifically sewer flooding)
- Having the right skills to deliver (specifically health and safety, employee engagement and diversity)
- Having the lowest possible charges (specifically addressing the needs of vulnerable customers)

Whilst we have focused on these specific areas, we report our progress with respect to other corporate responsibility issues on our website⁴.

For example:

- Community investment
- Charitable donations and partnerships
- Education
- Waste management
- Biodiversity
- Supply chain management
- Results in benchmarking and investor relations surveys



www.severntrent.com/corporateresponsibility

Minimising our carbon footprint

Key Performance Data

Indicator	2007/08 Performance	2008/09 Performance
Net Energy Use – kWh/MJ ¹	608	622

As a result of climate change, the need to minimise greenhouse gas emissions (particularly carbon dioxide) has become a major issue for society. The water industry is responsible for about five million tonnes of greenhouse gas emissions every year (which is approximately 1% of national emissions) and we recognise we have a part to play in reducing UK emissions. Efficient energy management is one of our key activities to minimise our carbon footprint as 78% of our CO₂e emissions come from energy use.

Measuring our Performance

Our net energy use KPI measures how much energy (net of renewable energy generated by us) we consume per Megalitre of water supplied or waste water treated. Our net energy use remained broadly in line with last year. Although we have succeeded in continuing to decrease our energy use, our generation of renewable energy was held back, notably at Minworth Sewage Treatment Works. Our investment in improving effluent quality at this site has reduced the amount of biogas we have been able to produce there this year.

Our renewable energy programme will include:

Biogas

In 2008/09 we installed several additional Combined Heat and Power (CHP) units, increasing our production capacity by 2.2 megawatts to around 35 megawatts. We also improved the digestion process at our Derby Sewage Treatment Works to make it more efficient.

Energy crops

Construction has begun on an energy crop digestion plant at our Stoke Bardolph farm near Nottingham. The CHP plant will run on gas produced by digesting maize grown on the farm. The fields are ideal for energy crops as they are not suitable for food production. The plant should produce around 15 gigawatt hours per year of renewable electricity. This is equivalent to the electricity demand of 4,000 homes for a year.

Wind

We have looked at our entire landholding to identify the sites with the best potential for installing wind turbines. We have identified 12 potential sites and have installed feasibility masts at six of these this year. Subject to planning approvals, we should be able to produce around 58 gigawatt hours per year from our wind turbines. This is equivalent to the electricity demand of 17,000 homes for a year.

Increasing our energy efficiency

This year we set up energy project boards to drive improvements in energy efficiency. These boards focus on facilitating the delivery of existing programmes and also on identifying new improvement opportunities. Looking ahead to next year and beyond, we are working on an accelerated testing, refurbishment and replacement programme for energy efficiency across our water and waste water businesses. These plans recognise the challenge that rising electricity prices set us in delivering the lowest possible charges over the next Asset Management Plan (AMP).

Increasing our generation of renewable energy

We are firmly committed to maintaining our industry-leading position in the generation of renewable energy. It not only helps us minimise our carbon footprint but also reduces our reliance on purchased energy. We currently generate 17% of our electricity from renewable sources (163 GWh), our target is to increase this to 30% by 2013. We aim to achieve this by the deployment of energy efficiency initiatives to reduce overall consumption and by delivering a capital programme to provide additional renewable energy generation capability.

¹ Actual performance based on internal data

Our plans also include further investment in hydro power, which along with energy crops and wind power will fall outside the regulated business.

Our carbon footprint

We have used the industry agreed method to calculate our carbon emissions for the current Asset Management Period, AMP4 (2005 – 10) and into AMP5 (2010 – 15). Our 2008/09 emissions (using Defra Guidelines) from drinking water treatment and pumping per Megalitre of drinking water treated were 374.31kg CO₂e and for sewage treatment and pumping and sludge treatment, recycling and disposal per Megalitre of sewage treated were 730.88 kg CO₂e.

Despite the continued upward pressures of providing water to more people and meeting higher water quality standards, both of which require more energy, we estimate that our net carbon emissions will be roughly the same at the end of AMP4 as it was at the start. Going forward into AMP5, we face continued upward pressures which, without our energy strategy, would result in an increase in net carbon emissions. As a result of our continued focus on energy efficiency and increased generation of renewables, we forecast our net carbon emissions will remain stable over AMP5.

Our approach to climate change mitigation is available on the website⁵.

 www.severntrent.com/ccadaptation

Providing a continuous supply of quality water

Our research shows that ensuring a safe, reliable water supply is the top priority for our customers. Our challenge is to ensure that we will maintain this supply through a resilient network in the face of the increasing pressures of climate change and population growth.

Key Performance Data

Indicator	2007/08 Performance	2008/09 Performance
Water Quality (test failure rate) ppm ¹	240.1	200.4
Security of Supply % ²	95	98
Leakage MI/d ³	491	492
Volume of Water Saved MI/d	1.13	0.98

Focus on leakage

For the second year running and in line with our written commitment to Ofwat, we have met our leakage target to reduce leaks to 500 Megalitres of water per day. This success is a result of better network maintenance, better response times to finding and fixing leaks and a better understanding of where water is used. Despite the coldest winter for eight years, we delivered this performance without any additional resource through the effective implementation of our winter contingency plans.

Each year we invest in maintaining, repairing and modernising our extensive network. This year we have renewed 249km of mains to help reduce leakage from old infrastructure.

Focus on water efficiency

Our AMP4 water efficiency target is to deliver savings equivalent to 2.30 Megalitres per day. At the end of 2008/09 we had already exceeded this, delivering savings equivalent of 3.72 Megalitres per day.

In 2007/08, we undertook a successful pilot programme with Leicester City Council to improve water efficiency in 44 schools. Through simple measures and relatively low costs, we were able to deliver improvements helping the schools reduce their use of water and in turn their bills. We are now rolling out the scheme to around 600 schools throughout our region.

We are also carrying out focused educational work to encourage water efficiency in these and other schools across our region. We believe raising awareness levels and changing behaviour towards water efficiency is just as important as installing equipment.

Further information about our water efficiency performance over the last AMP, our targets and significant challenges for AMP5 are available on our website⁶.


Focus on security of supply

Our Water Resources Management Plan sets out our proposed strategy for maintaining the balance between supply and demand in our region over the next 25 years.

This strategy includes:

- reducing leakage
- accelerating domestic customer metering
- improving the connectivity of our network
- increasing water efficiency by working with customers

We estimate we could face a shortfall in our capacity to meet demand of around 240 Megalitres per day (MI/d) by 2035. Our strategy to address this includes investing in a number of projects to maintain supplies of treated water. For example, our scheme at Frankley Water Treatment Works in Birmingham will allow us to pump additional water from the River Severn into the works for treatment. We will also be operating a new groundwater source at Nescliffe in Shropshire, which will feed the Oswestry area.

 **The partnership approach worked well. The main benefit is that we are no longer wasting the quantity of water that we were before. Energy management and water management has always been about removing the wastage that happens in our buildings – not restricting people from using energy or water.**

Prakash Patel
Team Leader
Energy
Management
Leicester City
Council

 www.severntrent.com/waterefficiency

¹ Measure now expressed as test failure rate (parts per million). 2008 performance restated accordingly
² Measure as at 31 March 2009
³ As reported in June Return to Ofwat. Figures are provisional

Dealing effectively with waste water

Key Performance Data

Indicator	2007/08 Performance	2008/09 Performance
Sewer Flooding Incidents – other causes per 1,000 properties ¹	0.21	0.17
Sewage Treatment Works – breach of consent % ²	0.0	0.0

Our customers should have confidence that we will take away their waste and treat it to required environmental standards before returning it to our region's rivers. There are many key challenges to achieving this that we could report on, however our stakeholder survey has shown that sewer flooding is a key issue of external interest.

Flooding of customers' homes and businesses is extremely distressing and affects customers' quality of life dramatically. In our SDS we stated that 'Our aim will be to eliminate flooding of properties from sewers, except as a result of exceptionally high rainfall which exceeds design standards for our system'. To achieve this long term vision, we are investing in improvements to our network and also in programmes to change behaviour when it comes to responsible waste disposal.

This year, we completed our £18 million investment to build a modern sewer network for Kenilworth. In Albrighton, Shropshire, we have invested a significant amount to improve the infrastructure and, in turn, prevent sewer flooding.

Every year we respond to thousands of blocked sewer incidents, which result from fats, oils and grease being put down drains and also other items such as cotton buds, sanitary products, nappies and baby wipes.

This year we ran a very successful pilot to install fat traps in commercial premises in Worcester. We collected the fat and fed it into our digesters to generate methane and, in turn, renewable electricity.



In another project, we are working with the national charity Community Service Volunteers (CSV) on an innovative 'Grease Lightning' scheme. Fats, oils and grease are being collected and recycled from households and small businesses in an area of Birmingham where there is a high rate of sewer flooding.



The scheme is promoted through leaflets in English and Urdu. When households and businesses sign up, they are given a fat trap and bottle for oil which CSV collect from their doorsteps. The oil is processed into biodiesel and the fats are incinerated to generate electricity and divert them from landfill. The money received from selling the waste product, is reinvested by CSV.

Alongside the collection and recycling, we are carrying out educational activities with local schools, communities and local supermarkets to generate awareness of the scheme and reinforce the benefits of responsible waste disposal.

“
Julian Stanton
 Grease
 Lightning
 Project Manager
 Community
 Service
 Volunteers

” A lot of people aren't aware of the problem their waste causes because once it's down the sink you never see it again unless it comes back to haunt you with a blocked drain. When we tell people about the scheme, they're very enthusiastic. We're expecting to collect quite a drop of oil.

Having the right skills to deliver

If we are to deliver the service improvements we are aiming for and improve efficiency, we need to have the right people and resources.

This means attracting and retaining employees and suppliers with the right skills. Our goal is a skilled, motivated and diverse workforce, with the highest priority on health and safety.

Key Performance Data

Indicator	2007/08 Performance	2008/09 Performance
Lost Time Incidents per 100,000 hours worked ³	0.61	0.43
Lost Days per 1,000 employees	7,726.77	7,896.10
Lost Days per 1,000 employees - contractors	106.28	107.38
Employee Motivation % ⁴	77	83

¹ As reported in June Return to Ofwat. Figures are provisional

² Measure for calendar year to 31 December 2008

³ Actual performance across all employees and agency staff

⁴ Performance based on quarterly survey of 10% of permanent employees

Focus on health and safety

We continually focus on improving safety, quality and standards across the organisation to improve our performance. Our approach is to improve behavioural safety as well as the safety of our assets. In 2008/09, for example, we introduced common simple safety rules for our employees and contractors. We also held company-wide 'stand downs' on health and safety topics such as safe driving, and focused on the mandatory use of better personal protective clothing.

Comprehensive site safety review

We completed a comprehensive health and safety process review of the engineering and operational assets at all of our water and waste water sites in 2007/08. In total, we surveyed 6,646 sites. During 2008/09, we carried out a wide range of improvements prioritising work based on the level of risk.

Our engineering standards organisation continues to look at asset safety. We have been working on more unified standards for the engineering, safety and design of our future assets. A substantial proportion of the new design templates for AMP5 contracts are now in place.

Safety for suppliers

During the year, we held five supply chain forums for health and safety and quality management. We ran three for contractor health and safety, one for suppliers and one for excavation contractors on the risks of high voltage cable strikes. Over 100 supplier companies have attended one of these forums across the year.

In 2008/09 we entered the Royal Society for the Prevention of Accidents (RoSPA) safety awards with 19 entries and were successful in receiving 18 awards, including an overall company Gold Award for safety improvements.

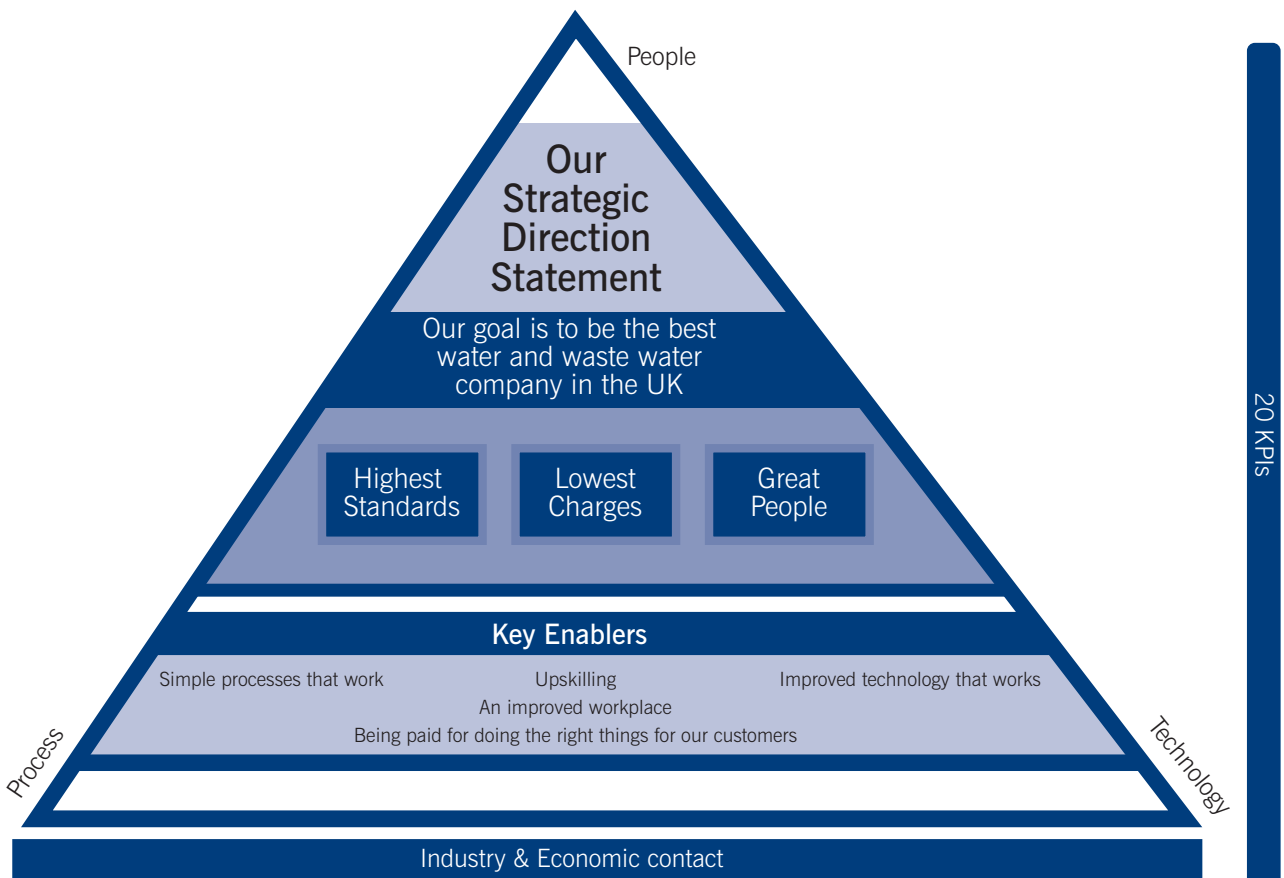
A diverse workforce

We are committed to improving the diversity of our workforce. In 2008, we set up a Diversity Working Group and have developed an action plan in line with our stated belief that a diverse and inclusive culture is a key factor in a successful business.

This includes putting in place targeted recruitment practices to increase the attractiveness of our organisation to potential recruits and reflect the diversity of the different neighbourhoods in which we live and work. At the end of the 2008/9 period our employee profile was 29.7% female and 7.4% ethnic minorities as a percentage of total employees.

Increasing employee motivation

In 2008/09 we exceeded our KPI employee motivation target achieving 83%, improving on last year's score of 77%. We measure this KPI through an annual employee survey and three mini surveys to gain a clear ongoing measure of staff morale and motivation. This excellent performance has been achieved in a year of continued emphasis on the key enablers that drive our commitment to highest standards, lowest possible charges and great people. These enablers are illustrated in the diagram below and form an integral part of our long term change programme. This programme builds on the strong foundations already in place to support delivery of our 25 year strategic plan. Over the last year we have developed and implemented a detailed employee engagement programme. This is designed to ensure that our employees have a clear picture of the way the business is transforming, the role they play, the difference they can make, and the benefits it will deliver.



An improved workplace

We are investing in the quality of our workplace to reflect the quality of the way we work, creating great environments for great people.

Our strategy is to support the business with a portfolio of workspace for the right cost, the right quality, of the right amount, in the right location and held for the right period of time. This includes the development of the new Severn Trent Centre in Coventry, which we are planning to move to in 2010.

The Centre will be a modern work place where around 1,700 of our employees can work together more effectively, efficiently and comfortably. The building has been designed to achieve high environmental standards and is on target to achieve an energy performance commitment 'A' rating. The building has also achieved a Building Research Establishment Environmental Assessment Method (BREEAM) 'excellent' rating for design.



Shannon Carr-Shand
Sustainability Adviser
Forum for the Future

As part of an ongoing partnership, Forum for the Future has worked with Severn Trent Water to understand and develop the sustainability performance of their new flagship office building in Coventry. Building on this approach, the Forum is pleased to be supporting the embedding of sustainability criteria into the management of all of Severn Trent's property portfolio.

Having the lowest possible charges

Our strategic aim is to keep our charges as low as possible for customers. This means we have a responsibility to actively pursue a minority of customers who are able but unwilling to pay their bills. We also recognise that the number of people in water poverty – where water bills represent more than 3% of household income - has been rising. We therefore offer flexibility and support for those who genuinely struggle to pay. As a result of the downturn in the economy, we are finding more people are in need of such help.

Key Performance Data

Indicator	2007/08 Performance	2008/09 Performance
Customers on WaterSure Tariff	2,385	3,399
Debtor Days ¹⁺²	37.4	33.1

Focus on vulnerable customers

The following elements are part of our strategy to help prevent customers accumulate debt.

Severn Trent Trust Fund

The amount of money in the Severn Trent Trust Fund has increased this year by £1m to £5.5m. We have been working with this Trust Fund to help customers on benefits who pay for their water through deductions from their income support (through Water Direct), but have significant arrears. If the Fund can help these customers pay off their arrears this will in turn reduce the amount deducted from their income support.

WaterSure

WaterSure is for metered households with low incomes and a relatively high demand for water. This year we have concentrated on increasing awareness of our WaterSure tariff, which caps charges for vulnerable customers. We now have a dedicated team going out and promoting the scheme, primarily by actively engaging with organisations such as Citizens' Advice who are close to vulnerable customers.

Water Direct

We have been engaging with the Department of Works and Pensions to increase the number of customers on the Water Direct payment scheme. Research among eligible customers who aren't on the scheme shows that they would welcome the reduction in hassle and stress it offers. The number of Water Direct payments received from the Department of Works and Pensions on 31 March 2009 was 31,965 and 26,154 on 31 March 2008.

Building strong links with caring organisations

In February 2009 we held a debt workshop for organisations in the frontline of advising customers on how to manage their finances and deal with debt problems. It was well attended, with representatives from Citizens' Advice, Age Concern, housing associations and other caring organisations as well as the Consumer Council for Water and Ofwat.

The workshop was designed to learn from the other attendees about how we can most effectively help our vulnerable customers. The workshop provided a platform for working together more efficiently to help vulnerable customers long term.

We are committed to holding more workshops in 2009/10, targeting the areas where we have the most people who are struggling to pay.



Anne Limbert
Quality and Performance Manager
Birmingham Citizens Advice Bureau

The workshop was really useful. It was heartening to know that Severn Trent Water are looking at things that they need to do and listening to the advice sector and what clients really do want and need. Everybody's working together. It's not just paying lip service to partnerships.

¹ Measure as at 31 March 2009

² Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2009 and expressed in absolute terms