

# Welcome

# A year ago we started a process of consultation with our customers and stakeholders about our business plan for 2015-20.

Our aim is simple. We want to give our customers, and others with an interest in our business, an opportunity to shape our service and charges in the future.

This consultation is the next step in the process to develop our plan. It reflects the engagement we have undertaken in the last year, and in line with our customers' expectations, sets out our long-term objectives. Thank you to everyone who has taken part so far.

We would now like your views on how far we should progress towards these objectives in the period from 2015-20.

We have thought carefully about how we do this. We do not believe in consultation for consultation's sake.

We want to be open about where there are choices that our customers and stakeholders can shape, and honest about the fact that in some areas we can not offer a choice. We also want to be clear about the consequences of the choices we have. To do this, we have included an initial estimate of what the possible impact on bills might be.

Our aim for our plan is to make sensible investment now for the future - whilst we want to keep bills as low as possible, it would not be responsible for us to do this at the expense of damaging the environment, or storing up unacceptable service risks and bill increases for our customers in the future.

We need to find the right balance between:

- Making improvements where customers value them most – we have asked our customers where they would like us to improve.
- Keeping bills affordable we know our customers are concerned about bills in the current economic climate.
- Providing a fair return to our investors we need to finance our plan because not all of the costs are met by customer bills in the short term.

As a starting point, we have put forward a package of proposals for how we can do this. These proposals would mean that customers see improvements, we become more efficient, and average household combined water and waste water bills would increase by no more than inflation during 2015-20.

We believe this achieves a reasonable balance and provides a good basis to start our discussions with you, but what we really want to know is if, and how, you would like us to do something different.

Thank you for being involved in the future of your service.

Tony Wray

Tony Wray, Chief Executive



# About this document

# This is a consultation about the future of your water and waste water service.

Over the last year we have been talking to our customers and stakeholders about what they expect from us in the future. In response, we have set out ten long-term objectives.

As a next step, we would now like your views on how much progress we should make towards these objectives over the next five years (2015-20).

This is a critical question. It will affect service and charges. In this document, we explain how.

Our goal is to strike the right balance between different priorities. We want to invest for the future; deliver improvements where our customers value them the most; keep bills affordable; and provide a fair return for our investors.

Your views will help us find this balance in our business plan for 2015-20.

Thank you for getting involved.

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Your responses to our April 2012, 'Making the right choices' consultation, have helped us develop our proposals.

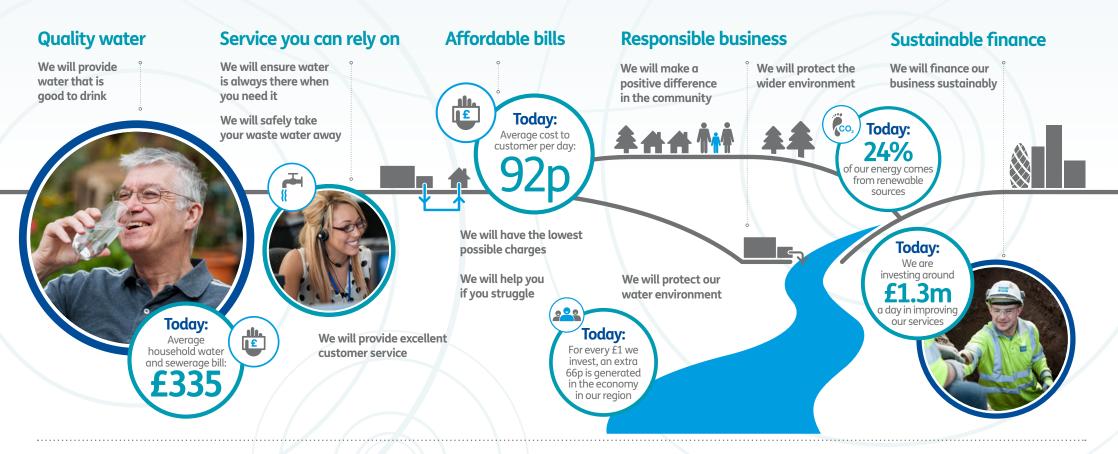


# About us and what we do

We provide clean, safe and reliable drinking water to around 8 million people throughout the Midlands and mid-Wales. We then take away and clean their waste water before returning it to our region's rivers.

We are one of the largest water companies in England and Wales. As part of the Severn Trent Plc group, we are listed on the London Stock Exchange in the FTSE 100.





# Planning for today, tomorrow and the longer term

We want our customers to enjoy a safe, reliable and affordable service now and long into the future. To do this, we need to build a business plan for 2015-20 that will meet the following challenges.



## Tough economic times

Disposable incomes in our region are falling. And the economic outlook is uncertain. Our stakeholders tell us they are worried about the impact of welfare reform.

With all this in mind, we must keep our bills as low as we can by continually improving what we do, driving change through innovation and becoming more efficient.

To keep investing for the long term, we need to ensure we can borrow money at affordable rates and provide our investors with a fair return.

## Changing weather conditions

In recent years, we have seen periods where we have had too little water or too much. We need to make our services resilient against droughts and floods, but we can not know exactly how the weather might change in the future.

We need to find the right balance between taking action now, and taking action in the future.

# Looking after our water environment

How we operate, from the amount of water we draw from our surroundings, to the way we treat waste water before it is returned to rivers, can impact on the water environment in our region.

The water environment is carefully regulated to protect it. Tightening statutory environmental standards will help to improve the quality of water in our region and support diverse habitats.

We need to make sure we play our part in the most affordable way for our customers.

## Growing population

We serve 4.2 million household and business customers in our region, a figure that has grown at around 20,000 per year over the last few years and is set to increase further.

The more homes we have in our region, the more capacity we will need in our water and sewerage infrastructure to serve them. We will also need to make sure we have enough water to supply our customers.

We need to find the most sustainable way to meet growing demands on our services.

# Meeting your expectations

Over the last year, we have consulted widely with our stakeholders and customers about investment priorities for the medium and longer term.

We have consulted over

You have told us that you expect:

- A supply of quality drinking water that is safe and pleasant to drink.
- A service you can rely on.
- Your bills should be no higher than they need to be. Affordability is a key concern.
- Severn Trent to be a responsible business that respects the environment and communities where we work.
- Severn Trent to finance our business sustainably, and not to take on excessive debt nor pay our investors unjustified returns.

Over the last year we have carried out research with more than 7,000 household and business customers about the future of our services. We have also listened to the views of over a hundred stakeholders either in person at our workshops, or in response to our last consultation 'Making the right choices'.

Our independent Water Forum has constructively challenged both our approach to consultation and how the outcome of that consultation has influenced this document. The Water Forum includes a number of our regulators and representatives from local authorities and household and business customer organisations.



## Our long-term objectives

Based on your expectations, we have set out ten long-term objectives.

Your expectation	Our objective
Quality water	We will provide water that is good to drink
Service you can rely on	We will ensure water is always there when you need it
	We will safely take your waste water away
	We will provide excellent customer service
Affordable bills	We will have the lowest possible charges
	We will help you if you struggle
Responsible	We will protect our water environment
business	We will protect the wider environment
	We will make a positive difference in the community
Sustainable finance	We will finance our business sustainably



# Finding the right balance during 2015-20

Our challenge now is to turn our objectives into a business plan for 2015-20. The choices we make will impact your service and your bill, so we would like your views.

Our aim for our 2015-20 plan is to invest sensibly for the future. We need to find the right balance between:

- Delivering improvements where our customers value them the most.
- · Keeping bills affordable.
- Providing a fair return for our investors.

In finding this balance, there are some parameters that we must take into account:

- The statutory obligations we must meet.
- The extent to which we can make efficiency savings.
- · How our business is financed.

On these issues, we expect to be rigorously challenged by our regulators to make sure we are acting in the interests of our customers, investors and the environment.

We want to be transparent and open about how we are approaching these issues.

### The choices

There are a number of important areas where there is scope for choice. This is where your views can have an influence on the services we offer and future bills.

# Our outline proposals for 2015-20

We have set out a package of proposals of what we could achieve during 2015-20. We believe this achieves a reasonable balance of outcomes and a good starting point for discussion.

Unchanged, our proposals would mean that by 2020, our customers could expect:

- Continued high quality drinking water, with improved appearance of water at the tap.
- A more reliable overall service, with more secure water supplies, reduced sewer flooding, and a faster response to leakage.
- Investment in our most critical infrastructure.
   This will make sure it keeps working well, making customer water supplies more reliable and resilient against future challenges.
- An excellent customer service, with less effort required to get issues resolved.
- Cleaner rivers and the healthier, more diverse ecology and wildlife that this brings.

- · A reduction in our carbon emissions.
- A positive impact on the communities we serve.
- For Severn Trent to work with stakeholders in areas of common interest such as flooding and catchment management. We believe we can deliver more for our customers if we do.
- A broader range of support to pay their bills if they struggle.
- · A more efficient Severn Trent.
- A sustainable approach to financing that helps to spread the costs of investment.
- To deliver these benefits, we would be making the equivalent of around an extra £25 worth of improvements (on the average household combined bill).
- We would be delivering greater investment than in 2010-15.
- Our assumed efficiencies and financing would help offset the impact on bills to the value of £25.

This would mean that bills would increase by no more than inflation between 2015 and 2020.

# Finding the right balance during 2015-20

We believe our outline proposals achieve a reasonable balance and are therefore a good basis for consultation, but we would like your views about whether it is the *right* balance for you.

# Around £25 of investment per customer in improvements in the following areas:



- We will provide water that is good to drink
- We will ensure water is always there when you need it
- We will safely take your waste water away

We would also make improvements towards other objectives, including providing excellent customer service, without impacting bills.

### Bills would increase by no more than inflation:

Average household combined bills					
450					
400		• • • • • •		 	······
350	• • • • • • • • • • • • • • • • • • • •				
300					
250					
	2013-14		2014-15	 2019-20	
<ul><li>Bills in today's prices</li><li>Bills after forecast inflation</li></ul>					

### Why is inflation important?

Inflation (rising prices) has a material impact on bills.

The costs of providing our services increase due to higher energy and materials prices, taxes and environmental charges.

We have reduced the effects of these cost increases on bills as far as possible by continuing to make efficiency savings.

Current and projected efficiency and financing savings would help to keep bills down:

Mr. S. Trent 311 Any Avenue Anytown Averageshire ST26 3PU	SEVERN TRENT WATER
Average household combined bill in 2015 (in today's prices):	£330
Plus assumed inflation:	+£65
linus current and projected fficiency and finance savings:	-£25
lus investment in improvements:	+£25
verage actual household ombined bill in 2020:	£395

All of the bill impacts and references to bill changes in this document are indicative only at this stage. They are based on planning and modelling assumptions that are subject to change.

We will protect our

We will protect the

wider environment

water environment

# Where are the choices?

In some areas there is significant scope to change the balance we are proposing. These choices principally relate to the pace and scope of investment.

We would like your views on what is the right balance. Would you like us to change where the focus of our improvements are within the bill impacts we have proposed? Would you like us to do more, or would you like us to do less? Keep in mind that the choices you make could impact bills, service levels, and risk. Typically, doing more would mean that we bring forward improvements and take more action now to reduce future risks. However, the bill impact could be higher in the next five years.

Doing less might mean that the risks of something going wrong are higher and we make limited investment now for the future. Service improvements would be postponed or achieved more slowly. The bill impact would be lower now, but at the cost of potentially higher charges in the future.

Where there is scope for choice, this is explained throughout the document. We have used a rounded scale to explain what the bill impact would be of making a different choice. The total bill impact of our outline proposals adds up to around £25.

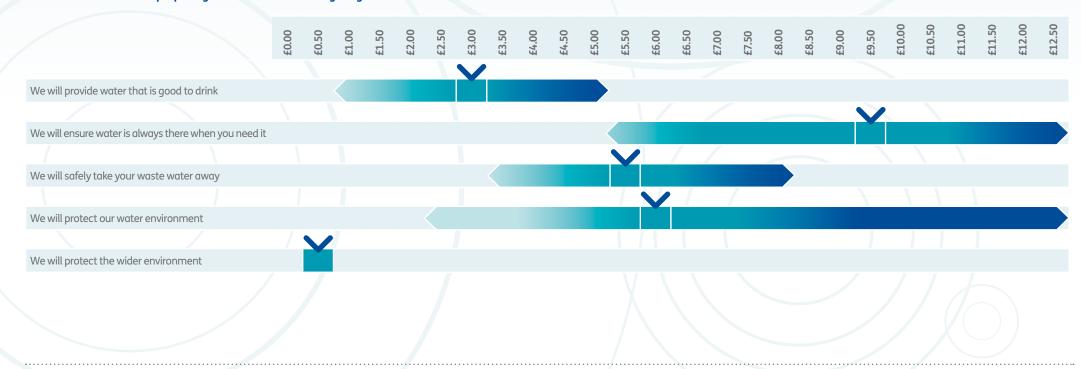
For some objectives we are proposing to make improvements but these would not have a material impact on bills.

# Example of the choices: We will provide water that is good to drink

Our proposals under this objective would (all else remaining the same) add £3 to bills. We could, however, do less, which would lower the bill impact, or do more, which would increase it. The scale shows the range of choice there is relative to our proposal.



### The main choices we are proposing fall within the following ranges:



# Have we found the right measures of success?

We believe it is important that together with our customers, stakeholders, and our regulators, we can measure how much progress we are making towards our objectives.

For each of our objectives, we have been considering what appropriate measures of success would be. But as they will be a public measure, we would also like your views on what would work for you.

Under many objectives in this consultation, you will see a proposed measure or some options to choose from. For some objectives we have not proposed an option, but instead would like your suggestions about what measure would be appropriate.

# What makes a good measure of success?

We believe for a measure of success to work, it should be:

- **1.** Relevant to the objective we want to achieve.
- **2.** Measurable, verifiable and possible to use for comparisons with our own, or others' performance.
- 3. Easy to understand.
- **4.** Something we can genuinely control our performance against.
- **5.** Fit for the future, not just today.
- 6. Informed by your views.



# The consultation questions in detail

There are 20 questions for you to respond to in total. Some may be of more interest to you than others; so you may not wish to respond to all of them. The first three questions are the most important to our future plans.

#### Overall

# Are the ten long-term objectives we are proposing the right ones?

If not, what would you change, and why?

# Have we found the right balance between objectives?

If not, how would you change it, and why?

## Have we identified appropriate measures of success?

If not, which would you change, and why?



### We will provide water that is good to drink

Have we found the right balance? If not, would you like us to do more or less towards this objective? Please explain why.

Are our proposed measures of success appropriate? If not, what changes would you like us to make? Please explain why.



# We will ensure water is always there when you need it

Have we found the right balance? If not, would you like us to do more or less towards this objective? Please explain why.

Are our proposed measures of success appropriate? If not, what changes would you like us to make? Please explain why.

### We will safely take your waste water away

Have we found the right balance? If not, would you like us to do more or less to tackle sewer flooding? Please explain why.

Are our proposed measures of success appropriate? If not, what changes would you like us to make? Please explain why.



### We will provide excellent customer service

Should we do more to encourage our customers to engage and transact with us online, and if so, how?

Are our proposed measures of success appropriate? If not, what changes would you like us to make? Please explain why.



### We will have the lowest possible charges

Are our proposed measures of success appropriate? If not, what changes would you make? Please explain why.

### We will help you if you struggle

How do you believe we should help customers who struggle to pay?

Are our proposed measures of success appropriate? If not, what changes would you like us to make? Please explain why.



### We will protect our water environment

Have we found the right balance? If not, would you like us to do more or less to protect the water environment? Please explain why.

Are our proposed measures of success appropriate? If not, what changes would you like us to make? Please explain why.

### We will protect the wider environment

Should we include a broader range of measures for this objective? If so, what measure(s) would be appropriate?

## We will make a positive difference in our communities

Should we do more to address nuisance issues?

How can we measure the difference we make to the community?



### We will finance our business sustainably

Is our proposed measure of success appropriate? If not, what changes would you like us to make? Please explain why.

# How to respond

You can respond to this consultation in two ways:



You can email us at future.consultation@severntrent.co.uk



You can write to us at
Future Consultation
Strategy and Regulation Team
Severn Trent Water Ltd
PO Box 5309
Coventry CV3 9FH



## We need your comments by 31 May 2013

In some instances we may wish to make the responses we receive publicly available. If we do so, we will remove all personal information and attribute the response only to the organisation from which it was received.

Please let us know if you would like your response to be kept confidential.



# How the remainder of this document is structured

In the following sections we explain in more detail our long-term objectives and our proposals for 2015-20. We also summarise our draft measures of success and the impact on bills.

- 1. Quality water Page 13
- 2. A service you can rely on Page 16
- 3. Affordable bills Page 22
- 4. Responsible business Page 26
- **5.** Sustainable finance Page 33

# How each section is structured

Under each objective you will see the following terms:

**"The challenges":** the long and short term challenges we need to respond to.

**"Your views":** a summary of what stakeholders and customers have already told us.

**"Our objective means":** an explanation of what our objective means and what we will do.

**"Our outline proposals for 2015-20":** our initial proposals for what we could achieve during the five year period for you to use as a reference.

**"Measures of success":** how we would measure the progress we make.

**"2020 indicative performance":** our initial view of the performance we could achieve based on our outline proposals.

**"Estimated bill impact":** where we are proposing more investment, this is how it could impact bills, and the range of choice there is.

**"The choices":** where there are choices still to be made, we explain what they are.

# **Quality water**

Providing a safe supply of drinking water is at the heart of what we do. Our customers depend on it. They rightly expect a quality product.

Our long-term objective is that:

We will provide water that is good to drink





# We will provide water that is good to drink

# We will provide you with water that is of the highest standard and is pleasant to drink.

Our drinking water is amongst the best in the country. We consistently reach standards that are the highest in Europe, and much stricter than those for bottled water. But there is more we can do.

To keep your water good to drink, we need to protect our water sources from pollution, have the right treatment processes in place, and carefully monitor and address risks. We also need to maintain our network of pipes and water mains so that our water reaches our customers in the same good condition as it leaves our treatment facilities.

## The challenges

- A more variable climate will challenge our water treatment processes. Flooding can draw pollution into our water sources and reduced river flows during droughts can mean that more treatment is required.
- Iron and other chemical deposits that have built up in our system over time can cause tap water to appear discoloured.
- Our water sources are at risk from pesticides such as metaldehyde, a slug control chemical sometimes used by farmers. These are difficult and very expensive to remove using conventional treatment.
- Effectively monitoring water quality levels at treatment works and in our network so that we can identify risks and act before customers experience problems.
- Around 25% of our connections and around one million of home-owned pipe connections are made of lead, a legacy of home construction before the 1970s. This is now recognised as having potential health impacts.



## We will provide water that is good to drink

# Our long-term objective means:

Our water will always be good to drink and our customers are very satisfied with the quality of the water they receive. To do this we will:

- Address the issues that concern customers most, including discoloured water.
- Proactively identify and tackle risks before customers experience problems.
- Work with land users to safeguard our raw water supplies.

### Your views

You rely on having a safe supply of drinking water. You are concerned about discoloured water particularly as you associate it with poor quality.

# Our outline proposals for 2015-2020

We will continue to ensure high standards of drinking water quality by proactively identifying risks and taking action to manage them. We will:

- Invest in our water treatment facilities to maintain our high levels of compliance with water quality standards.
- Reduce problems with the discolouration of some customers' water by proactively cleaning our water mains.
- Work with farmers and stakeholders to prevent pollutants such as metaldehyde and other pesticides from entering our raw water sources.
   These are harmless at low levels.
- Continue our current approach of replacing lead pipes in our system where the risk of customers being affected is greatest. At the same time we will help our customers to understand their lead pipe issues.



### Working in partnership to protect raw water supplies

Tittesworth reservoir, near Leek in Staffordshire, is used for drinking water. In the past it has suffered from pesticide and nutrient problems. Traditionally we would have installed treatment facilities which would cost several million of pounds to build and tens of thousands of pounds to run each year.

Instead we have been taking a different approach. We have been working with local farmers and other stakeholders to reduce the number of pesticides and nutrients entering into the water. Our customers have benefitted as we have avoided the need for expensive treatment. And farmers have benefited too from using less pesticides and silage and saving them money in the process.



## We will provide water that is good to drink



### Measures of success

Our proposed measures of success are:

**Number of customer complaints** about drinking water quality:

2020 indicative **Current performance** performance

About 1 in 220 About a 5% customers per year improvement

Compliance with drinking water quality standards:

2020 indicative **Current performance** performance

> **Upper quartile** performance (at least 99.96%)



99.97%

### Estimated impact on bills

£1.00		£5.00
	£3.00	

### The choices

Our outline proposals would add £3 to bills. The main choices relate to how we make sure we maintain the high levels of drinking water quality our customers currently enjoy, and how quickly we address occasional customer issues with discoloured water.

Maintaining standards relies on identifying risks and taking action to manage them. Our starting proposals would allow us to manage the risks we identify as part of our drinking water safety plans before they affect customers. We could address risks even more proactively, or by doing less, more reactively.

To date, we have largely managed problems with discoloured water in response to customer complaints. Our starting proposals for 2015-20 would allow us to take a more proactive approach by extending our trunk mains and service reservoir cleaning programme. This would reduce the number of customers affected by discoloured water, which should be reflected in lower levels of complaints.

### Investing more would allow us to:

Achieve a larger reduction About a 10% in complaints about improvement discoloured water.

Improvement in meeting water quality standards and lower risk of problems.

£5.00 Bill impact

### Doing less would mean:

No change in No discolouration complaints improvement

Small increase in risk of water quality problems

Bill impact £1.00

#### **Measures of success**

We would also like your views on whether our two measures of success are appropriate. We have focused on whether our customers believe their water is good to drink with improved appearance (indicated by complaint levels) and whether our water is safe to drink (indicated by our compliance with regulatory standards).

An alternative to the latter could be the number of significant water quality incidents that are reported to our regulator, the Drinking Water Inspectorate. This would highlight where there are specific areas of risk. It would not give customers a measure of the overall quality of their water and could fluctuate over time.



Have we found the right balance? If not, would you like us to do more or less towards this objective? Please explain why.

Are our proposed measures of success appropriate? If not, what changes would you like us to make? Please explain why.

# Service you can rely on

Our industry by its nature looks to the long term. The investment decisions we make now will affect services long into the future. The prospect of more floods and drought, population growth, and the need to maintain and repair our network of treatment facilities, pipes and reservoirs, means that we must continue to invest if we are to provide the reliable service our customers expect.

### Our long-term objectives are:

- We will ensure water is always there when you need it
- We will safely take your waste water away
- We will provide excellent customer service





# We will ensure water is always there when you need it

By making our infrastructure more resilient and ensuring we all make the best use of our water resources, we will provide a water supply our customers can rely on.

We currently have enough water to supply our customers. We want to keep it that way in the future.

We take a long-term approach to managing our water resources, typically over 25 years or longer. To make sure there is enough water for everyone, we plan for how much water our customers will need; how much water we can supply; and where that water will come from. Our customers can play a role too by using water more efficiently – they are already the most water efficient in the country.

To keep our water flowing, we need to make sure our network of treatment facilities, pipes and reservoirs is working properly and is resilient enough to withstand risks like extreme weather.

Many customers in our area benefit from having a second source of supply. This means that if there is an issue with their main source, we have the flexibility to move them to an alternative. But not all customers do.

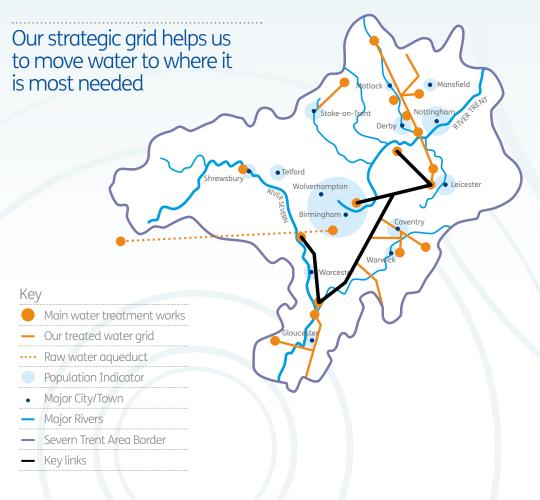
Some communities in our region also benefit from being connected to our strategic grid. Our grid joins up areas of our network and allows us to move water around from areas of plenty to areas that may be starting to run short. This allows us to make the best use of the resources we have wherever they happen to be in our region.



You value a reliable service. You would like us to keep reducing interruptions to supply. You do not like wastage, particularly leakage.



## We will ensure water is always there when you need it



### The challenges

- Reducing our water abstractions (where we draw water from rivers, reservoirs and underground) where they risk damaging the environment. This requires developing new or alternative sources of water.
- Responding to changing weather conditions both more droughts (which place pressure on our resources and reduce river flows) and more extreme floods (which risk overwhelming our treatment facilities).
- Ensuring there is sufficient capacity in our network and enough water to supply new property developments.
- Maintaining an ageing network so that it remains in the right condition to do its job and we can continue to reduce leakage.
- Helping communities who are dependent on a single source of supply. They are more vulnerable to prolonged supply interruptions caused by extreme weather or other hazards.
- Protecting and maintaining our critical infrastructure, including reservoirs, treatment facilities, aqueducts and trunk mains.
- Helping our customers to reduce their water use, which will contribute to reducing water abstraction and may help metered customers to keep their bill lower.

# Our long-term objective means:

We will work together to find a sustainable balance between supply and demand. We will make sure our supplies are resilient in the face of future challenges.

#### To do this we will:

- Continue to be the most water efficient company in the country by minimising the amount of water we put into supply per customer. This means continuing to reduce leakage. It also means continuing to help our customers to understand the value of water, understand the role they can play by tackling leakage on their pipes, and to become even more water efficient in their homes. To support this, more of our customers will be metered we expect nearly 70% of households to be metered by 2040.
- Make the best use of the resources we already have by upgrading water treatment facilities and underground water sources, and increasing our ability to move water around our region.

You can find more details of our proposals for balancing supply and demand in our draft Water Resources Management Plan, on which we are also consulting. It will be published this Spring on our website.



## We will ensure water is always there when you need it

# Our outline proposals for 2015-20

We will continue to ensure there is enough water. We will reduce the time our customers spend without supply. We will make sensible investment in our network now so that we can keep supplies safe in the future.

We will achieve a supply and demand balance by:

- Reducing our dependency on sources of water that are environmentally unsustainable to abstract.
- Making better use of the resources that we already have by laying new water mains. This will increase our ability to move water to where it is needed.
- Supporting our customers to make an informed decision about whether they would benefit from a meter. We will continue to provide free optional meters, and continue to promote water efficiency.
- Further leakage reductions, a faster response to fixing leaks in the street, and working with customers to help them be more aware of leaks that occur on their own pipes.

We will make our supplies more reliable and resilient by:

- Investing in our network and increasing the amount of monitoring we do so that we can better pre-empt things going wrong.
- Investing in our aqueducts, trunk mains and distribution networks to make sure that fewer of our customers are dependent on a single source of supply.
- Expanding our strategic grid to provide us with greater flexibility in the future to move water around our region in times of shortage and more opportunities to share water with other water companies.

### Measures of success

Our proposed measures of success are:

Resource efficiency (how much water we take out of the environment):

Current performance	2020 indicative performance
Around 240 litres per customer per day	About a 3% improvement
Leakage levels:	

Current performance 2020 indicative performance

464 Mld About a 3% improvement

Number of minutes customers go without supply each year:

Current performance

2020 indicative performance

Around 36 minutes per property

About a 30% improvement

Percentage of customers with resilient supplies (those that benefit from a second source of supply):

Current performance	2025 indicative performance
72% of customers	About a 4% to 10% improvement

The long-term nature of this investment means the improvement will be delivered by 2025.



## Estimated impact on bills

£5.50		£12.50
	f9 50	

## The choices

Our outline proposals would add £9.50 to bills.

Investing more would allow us to:

Ensure that more of our customers would benefit from resilient supplies by 2025.  Make further reductions in the number of minutes customers experience an interruption to their supply each year.	A greater than 15% improvement About a 40% improvement
Make further significant improvements in the time it takes us to respond to visible leaks in the street.	Most visible leaks fixed within 24 hours
Increase our programme to encourage our customers to be more water efficient.	Double the current programme
Bill impact	£12.50

### Doing less would mean:

to be more water efficient.

	A less than 1% improvement
No reduction in the number of minutes customers experience an interruption to their supply each year.	No improvement
No change in the time it takes us to respond to visible leaks in the street	No improvement
Maintain our current programme to encourage our customers	No change



**Bill impact** 

Have we found the right balance? If not, would you like us to do more or less towards this objective? Please explain why.

£5.50

Are our proposed measures of success appropriate? If not, what changes would you like us to make? Please explain why.



# We will safely take your waste water away

By investing in our network, working with our stakeholders and promoting responsible sewer use, we will make sure that our customers can be confident that their waste water will be safely taken away.

Our sewers provide a vital service. They collect waste water from homes and surface water from outside properties and take it away for treatment.

Our sewers work well most of the time. However they can flood when they become blocked or when the pipe is too small to cope with heavy rain or new housing developments. Many blockages are caused by the wrong things such as cooking fats and oils or sanitary products being disposed of down drains and toilets.

The consequences of sewer flooding range from a waterlogged lawn to major damage to someone's home or a polluted watercourse.

Over the last decade we have made substantial progress at reducing the problem of sewer flooding. We now want to tackle the remaining problems and prepare our network for future challenges.



You would like us to do more to reduce sewer flooding both inside and outside customers' homes.

### Working in partnership with Telford and Wrekin Council

Properties in Ketley Town, Telford have long suffered from flooding. The causes of the flooding are complex and cannot just be attributed to a single source such as the sewers, watercourses or excess surface water. For Severn Trent Water to try and solve this problem alone by building bigger sewers would be very expensive and may not stop all the flooding.

Instead we have been working in partnership with Telford and Wrekin Council to find a more sustainable solution to the flooding problem. Our proposed solution includes the construction of sustainable drainage (SuDS) on land provided by the Council where water can be stored and allowed to drain away naturally. This will address all the flooding issues, increase local biodiversity and provide a cost-effective solution for both organisations.

## The challenges

- More frequent and heavier rainfall could lead to sewers being overwhelmed more often.
- Disposal of the wrong items down drains and toilets causing blockages that can be avoided.
- Increased paving over of gardens, driveways, and new developments causing more surface water run-off and placing more pressure on sewers.
- Ageing of our 91,000 kilometres sewer network increasing the risk of sewers collapsing and blocking, or equipment failing. Around a fifth of our sewers are over 100 years old.

 In 2011 we took responsibility for private sewers which connect to our sewer network.
 This has removed a burden from our customers, but added to our costs. Some of these sewers need to be improved to bring them up to the right standard and avoid flooding or pollution problems.

## **Today:**

We manage a
91,000km
sewer network



## We will safely take your waste water away

# Our long-term objective means:

No customer will be affected by serious sewer flooding inside or outside their properties, and that minor flooding will be significantly reduced.

#### To achieve this we will:

- Invest in our sewer network so that it is capable of meeting additional demand from population growth and can withstand the challenges of changing weather conditions.
- Maintain our sewer network so that it works as it should.
- Prioritise our investment to where it is most needed by our customers.
- Work in partnership with flood management authorities to find the most sustainable solutions to reduce the risk of flooding.
   By working with our partners, we believe we can achieve more for our customers.
- Work with our customers to help them understand how they can keep their drains and our sewers clear of blockages.

# Our outline proposals for 2015-20

We want to make further progress towards eliminating the flooding of properties by sewers. We will achieve this by:

- Increasing the reliability of our sewer network by maintaining and replacing our poorest performing sewers, including those we adopted in 2011.
- Prioritising investment to support communities most at risk (based on the likelihood and severity of flooding).
- Increasing partnership working and collaboration with Lead Local Flood Authorities and the Environment Agency.
- Promoting greater use of sustainable drainage solutions to make our sewers more resilient.
- Helping our customers to understand the detrimental consequences of using sewers inappropriately and paving over gardens.

### Measures of success

Our proposed measures of success are:

Number of internal sewer flooding incidents:

Current performance 2020 indicative performance

1,000 incidents About a 15% improvement

### Number of external sewer flooding incidents:

Current performance 2020 indicative performance 2,650 incidents About a 9% improvement

This indicative performance excludes incidents on assets that have recently transferred to us.



### Estimated impact on bills

£3.50		£8.00
	£5.50	

### The choices

There are choices about how quickly we address sewer flooding issues. Our outline proposal would add £5.50 to bills.:

### Investing more would allow us to:

Achieve a larger reduction in internal sewer flooding incidents

Achieve a larger reduction in external sewer flooding incidents

About a 20% improvement improvement improvement improvement

Replace more of the sewer network to prevent sewer flooding in the future

Do more to work in partnership with other organisations to help resolve flooding more effectively

Bill impact £8.00

### Doing less would mean:

A smaller improvement in internal sewer flooding

A smaller improvement in external sewer flooding

About a 5% improvement in external sewer flooding

Replace less of the sewer network which may result in more sewer flooding in the future

Not being able to resolve extensive sewer flooding issues in some towns

Bill impact £3.50



Have we found the right balance? If not, would you like us to do more or less to tackle sewer flooding? Please explain why.

Are our proposed measures of success appropriate? If not, what changes would you like us to make? Please explain why.



# We will provide excellent customer service

Our customers make decisions every day about which organisations to purchase products and services from. At this point in time, our customers do not have a choice of water supplier. It is important that we recognise this. We must continue to strive to provide them with excellent customer service.

## **Your views**

You have told us you want clear and proactive information so that you know how to get the best out of your services. If you have cause to contact us, you want us to resolve your issues quickly and make it straightforward and easy to do.

## The challenges

- Rising customer expectations will mean that customers in 2020 will want instant and easily accessible information.
- A depressed economic outlook will place even more pressure on companies to deliver value for money.
- The increasing use of the internet and mobile phones, means that customers will expect to resolve their issues at a time and place of their choosing.

# Our long-term objective means:

We will be one of the top utility industry providers of customer service. So whether or not our customers have a choice of supplier, they will feel that they would choose us.

We will continue to take every opportunity to nurture a positive relationship with our customers. To do this we will ensure:

- Our customers find us easy to deal with.
- Their questions, queries and problems are quickly resolved.
- · They are kept informed of what we are doing.
- We present simple, straightforward, consistent information using all available communication channels.

# Our outline proposals for 2015-20

We will continue to improve our customer service. We will:

• Train and invest in our people to provide a caring and straightforward experience.

- Invest in our technology to enable us to resolve issues early.
- Improve our communications so that customers better understand the services available to them.

### Measures of success

Our proposed measures of success are:

Customer satisfaction with their service (score out of five, based on a survey of a sample of our customers):

	2020 indicative performance
3.83	3.9

Customers' experience of dealing with us (based on our regulator's Service Incentive Mechanism – a combined score of quantitative and qualitative performance out of 100):

Current performance	2020 indicative performance
69.9	Upper quartile performance (About 83.5)

### The choices

Our customers continue to prioritise convenience, speed and ease, driven in part by the increasing use of the internet and the growth of social media. With the growth of smartphones, this is likely to have accelerated by 2015. Around 15% of our customers are registered to transact with us online. Should we do more to encourage or incentivise our remaining customers to join them?

#### **Measures of success**

One of our proposals is to measure satisfaction based on a survey of a sample of our customer base. Should we instead focus on the satisfaction of customers who have had direct contact with us?



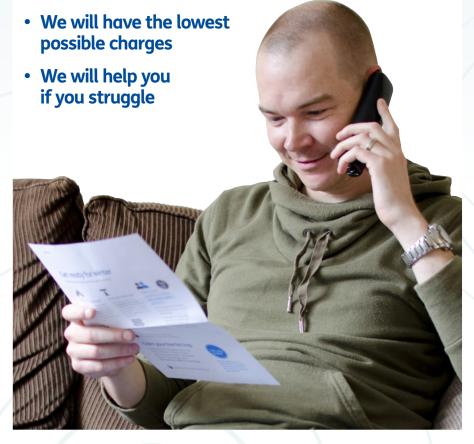
Should we do more to encourage our customers to engage and transact with us in this way, and if so, how?

Are our proposed measures of success appropriate? If not, what changes would you like us to make? Please explain why.

## Affordable bills

Disposable incomes in our region are falling and the economic outlook is uncertain. Our stakeholders tell us that they are concerned about the impact of welfare reform on customers' ability to pay. This means keeping our bills affordable is more important than at any time in our recent history.

Our long-term objectives are:



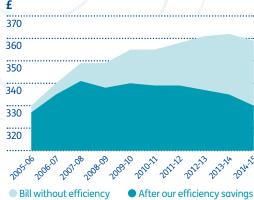


# We will have the lowest possible charges

### By becoming a more efficient and innovative Severn Trent, we will keep your charges as low as possible.

Our customers already benefit from the lowest average combined water and sewerage bills in England and Wales. In our current business planning period (2010-15), our efficiency improvements will save £14 from the average household bill. That is in addition to the £15 we have saved since 2005/06.

# Efficiency has helped to keep average bills £29 lower

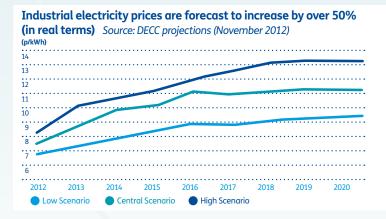


Average bills - 2013/14 prices

## The challenges

- Not all of our running costs are in our direct control. Rising energy prices, increasing traffic management permitting fees, and higher regulatory fees will increase our running costs over the next five years.
- Increased investment will be needed to meet statutory standards, for example, relating to the environment. We need to find the most affordable way of achieving improvements that are mandated by legislation.

# We will have the lowest possible charges



## Our long-term objective means

We will have the lowest possible charges and will continue to drive efficiency in everything we do. We want our customers to be sure they receive a value-for-money service.

To do this we will:

- · Use the right technology to run our business better.
- Reduce our costs through innovation and continuous improvement.
- Work with customer advisory and support organisations to keep bad debt down.
- · Work with government and regulators to ensure our industry delivers for customers and the environment.

### Your views

You broadly believe we offer value for money, but a lack of understanding of what you pay for, and the absence of comparators mean it is difficult for you to gauge.

### Our outline proposals for 2015-20

We will keep driving efficiencies by:

- · Generating even more of our own energy. This helps us to protect customers' bills against rises in energy prices.
- Using smarter technology to better target where and how we maintain our infrastructure.
- Working in partnership with other organisations using innovative approaches like catchment management.
- Removing waste in our processes through the application of lean techniques.
- Encouraging our customers to help us through more responsible sewer use and water efficiency.

The savings we will make in:

- reducing our day-to-day running costs;
- delivering our investment programme to maintain and improve our infrastructure; and
- financing our investment at lower cost

will achieve an estimated total saving over the five years to 2020 of £330m. Without these savings, bills would be £25 per year higher, on average.

### Measures of success

Our proposed measures of success are:

Delivery against our efficiency savings:

**Current performance** 

2020 indicative performance

On course to beat our operatina efficiency target by 2015

Achieve our future efficiency target by 2020

Customer view of value for money (score out of five, based on a survey taken from a sample of our customers):

**Current performance** 

3.29

2020 indicative performance

3.4

### The choices

Our proposed measures of success focus on whether we deliver the efficiencies we have promised and whether our customers believe they receive value for money. Is this the right approach?



Have we chosen appropriate measures of success? If not, how would you change them?



# We will help you if you struggle

# We will support our customers who have genuine difficulty in paying their bills.

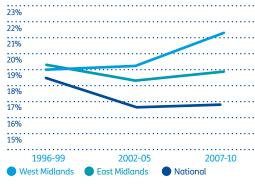
Despite having the lowest average combined bills in the country, one in ten of the households we serve spend more than 5% of their disposable income on water. Around 6% of our customers are substantially behind on their water payments and average poverty rates are significantly higher in our region than the national average.

We aim to distinguish between those who have genuine difficulty in paying, and those who could pay, but do not. We actively pursue those who will not pay and we offer a range of options to those who have real difficulty.

## The challenges

- Affordability issues will become more acute in the current economic climate.
- Welfare reform is expected to increase the number of people who struggle to pay and change the nature of their issues.
- Proactively identifying those most in need, or likely to fall into need, is difficult. Often our first indicator that a customer is struggling is when they do not pay their bill.

## Poverty levels in our region are higher than the national average



This graph illustrates the average poverty rate (% households below 60% of median national income) Source: Institute of Fiscal Studies, Poverty and inequality in the UK: 2011

### **Your views**

You support the principle that those who struggle to pay should be helped. You would like us to continue work with third parties (including Citizens Advice Bureaux (CAB)) to promote the support we offer and target those most in need.

# Our long-term objective means:

We will ensure all customers who can pay do – helping to keep bills low for everyone – whilst supporting those who struggle.

We will:

- Ensure customers are not paying more than they need to.
- · Have simple tariffs.
- Provide a water meter if it helps.
- Provide help and advice to reduce water usage.
- Make money available through a social fund to help those genuinely in need.



We already support our customers who struggle to pay in a range of ways. This includes:

### **Water Direct**

Customers on eligible benefits can arrange for small deductions to be taken from them towards their water bill arrears.

### **Water Sure**

A capped charge for metered customers who receive benefits and who experience difficulties paying because of high water usage or low income.

### **Severn Trent Trust Fund**

An independent charity funded by Severn Trent to support those in exceptional hardship.

### **Big Difference Fund**

A charitable donation made to Coventry Citizens Advice Bureau to identify and provide quidance to water customers in arrears.

# We will help you if you struggle



# Our outline proposals for 2015-20

We will continue to pursue those who choose not to pay and offer a range of support to those who struggle to pay the most.

Proposals we are considering include:

- More proactive customer engagement to make sure they are on the right tariff or payment option and support them to save water.
- More working with third parties to promote the range of support we have available.
- Expanding our current social fund approach and creating tariff support options. These would be assessed by a third party (such as the CAB) who are better placed to identify those most in need.
- Expanding eligibility for our WaterSure tariff.

### Measures of success

Our proposed measures of success are:

Number of customers helped by a review of their tariff (and water usage) and/or supported by our social fund:

Current performance 2020 indicative performance

Around 7,000 Around 50,000

Percentage of customers who do not pay:

Current performance 2020 indicative performance 2.2% 2.2%

### The choices

We would like your views on how we can best support our customers who struggle to pay. In reaching our outline proposals, we have considered:

- How much help should be provided?
  Assistance for some groups will lead to others paying more, unless providing assistance reduces the number of people not paying their bills. The increase in help provided that we have outlined would lead to an increase in bills for other customers of around £3 per year. Is this acceptable?
- Which customers should be helped? Should it be whole groups, such as pensioners, or single mothers, or more closely targeted based on need?
- Should help be provided through a social tariff, which would be a standard discounted charge available to all customers who meet certain criteria? (For example, we do this currently through our WaterSure tariff, which is available to customers who have high water use because of a medical condition)
- Should help be provided through a social fund, which would provide money to those identified as being in need, on a case-by-case basis?



How do you believe we should help customers who struggle to pay?

Are our proposed measures of success appropriate? If not, how should we change them?

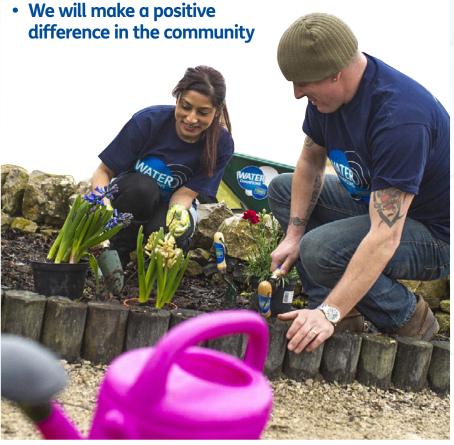
# Responsible business

Our customers trust that we are a responsible business that respects the environment and communities where we work.

### Our long-term objectives are:

• We will protect our water environment

• We will protect the wider environment





# We will protect our water environment

### We want our activities to protect and enhance the rivers, lakes and streams across our region.

The waters in our region are in a better condition than at any time since the Industrial Revolution. But there is still more to do to improve them. We can do this by maintaining our treatment facilities, making changes to how much water we abstract to supply customers, and also investing in improvements to meet new environmental standards.

New standards have been set for rivers in the UK. This is to ensure that they support a greater diversity of wildlife and plants, provide a better environment for recreational activities such as walking and fishing, and supply cleaner water. The target date to achieve these standards, set out in the Water Framework Directive (WFD), is 2027. It is important we do our fair share to meet the objectives.

## Your views

You have told us you would like us to do our fair share of making improvements and to tackle pollution.

## The challenges

- More than a quarter of the waters in our region do not meet the objectives set by the WFD as a direct consequence of our activities.
- Removing some substances like phosphorous from sewage can be difficult and expensive using conventional treatment approaches.
   We need to find the most affordable and innovative solutions.
- Meeting required standards is not always within our direct control. It requires others too who impact on river catchments to play their part.
- There are choices to be made about the extent of improvements and how quickly we make progress. The environmental benefits gained have to be weighed against the additional costs which customers will face.



# Our long-term objective means:

There will be cleaner, healthier rivers in our region for our customers to enjoy. We will maximise the environmental benefits we can deliver in a way that is affordable for our customers.

#### To do this we will:

- Deliver some of the best performance against waste water standards in the industry.
- Eliminate the most harmful pollution incidents.
- Ensure that our water abstraction is sustainable and not harmful to the environment.
- Work with others to deliver environmental improvements in the most sustainable way.
- Invest and innovate to ensure our cost of treating waste water is one of the lowest in the industry.

# Our outline proposals for 2015-20

We want to deliver visible improvements in rivers and the habitats surrounding them, but in a way that prudently phases the costs over the next decade. This means:

- Improving our waste water treatment at sites where we know for certain we will have the biggest positive impact on the river.
- Working in partnership with others operating in river catchments to prevent damaging substances entering our treatment works in the first place.
- Being more proactive in our approach to maintenance to help us reduce the amount of pollution. This would include installing smarter technology at our treatment works.
- Educating our customers about how their properties being incorrectly connected to sewers can contribute to pollution.



# Trialling new approaches to improve the River Mease

One of the key challenges we face in delivering the new standards set within the WFD is the removal of phosphates from sewage. Many of our treatment works already remove phosphates to meet existing standards, but in some areas the general river conditions (for example, low river flows) make the challenge even greater. We need to find more innovative treatment methods to meet these challenges.

Once such area is the River Mease, a designated Special Area of Conservation. We are beginning a trial at our treatment facilities at Packington to explore alternative methods of phosphate removal. This includes the use of different reed beds, membranes and absorption material. If proven effective, these innovative approaches could provide an alternative to expensive, carbon intensive treatment processes and can be used to deliver requirements within our 2015-20 business plan.

# We will protect our water environment



### Measures of success

Our proposed measures of success are:

Improvements in river water quality (number of waters improved against WFD criteria):

Current performance 2020 indicative performance

ss than 10 **180-220** 

Reduction in the number of pollution incidents:

Current performance 2020 indicative performance

Around 400 incidents

About a 40% improvement

Sewage treatment works compliance with treatment standards:

Around 99%

Around 99%

Upper quartile performance (Around 99.6%)



## Estimated impact on bills

£2.50 £6.00

### The choices

There are choices to make about how quickly we make progress. We could do more or less to tackle pollution incidents in the next five years and can consider the pace with which we work towards the standards set by WFD. Although we know the contribution to river water quality that is made from discharges from our waste water treatment works, our progress required against the overall standards across the UK is uncertain. This could mean we are required to do significantly more post-2020, equally we may not.

### Doing more in 2015-20 would mean:

Achieve more classification improvements in river quality	About 280 improvements
in pollution incidents	Around a 45% reduction in incidents
Improvement in meeting sewage treatment	

standards

Bill impact £12.50

#### Doing less in 2015-20 would mean:

	About 140 improvements
pollution incidents	Around a 35% reduction in incidents

No improvement in meeting sewage treatment standards

Bill impact £2.50

### Measures of success

We would also like your views on whether we have chosen the right measures of success. In addition to those proposed, we could include a measure of whether we safely take water from the environment- reflected in how well we comply with our abstraction licences (regulated by the Environment Agency). We could also merge this with our proposed measure of how well we comply with sewage treatment standards at our works, and create an overall compliance measure. We would like your views.



Have we found the right balance? If not, would you like us to do more or less towards this objective? Please explain why.

Are our proposed measures of success appropriate?
If not, what changes would you like us to make? Please explain why.



# We will protect the wider environment

### **Today:**

24%

The amount of energy we generate from renewable sources



Through renewable energy generation, greater energy efficiency, more effective waste management, and being responsible stewards of our landholdings, we will play our part in protecting the wider environment.

How we operate – from the energy we use to how we manage our waste – affects the wider environment in which we work. As the stewards of over 20,000 hectares of land and some 37 sites which have special flora, fauna or geological characteristics – sites of special scientific interest or SSSIs – we have an important role to play in protecting the biodiversity of our region.

We create greenhouse gas emissions from the energy we use to treat sewage, pump water, and run our day-to-day operations. We often refer to this as our carbon footprint. Our contractors also generate emissions through construction and maintenance, and so do our customers when they use and heat water.

One of our biggest by-products is sludge created from sewage treatment. We can put this waste to good use by generating electricity from it and recycle it for use on land as fertiliser.

Where we produce waste from our operations, we can seek to minimise it by re-using it, recycling it or even not creating it in the first place.

## **Your views**

You have told us you would like us to be even more ambitious with our carbon reductions and waste management, but this should not be at significant cost to customers.

### The challenges

- There are concerns about our climate changing.
   We can play a part by reducing our carbon footprint.
- Improvements in our services in 2015-20 could drive up our energy use as will serving a growing population. That means we will have even more carbon to offset.
- Rising energy prices and Government taxes on carbon mean there will be higher financial costs to us if we do not take action.

# Generating renewable energy to help run our business

We are the industry leader at renewable energy generation. Around a quarter of all the energy we need to run our business is generated from renewable or green energy.

One of our principal sources of renewable energy is sewage sludge. Thirty-four sites across our region are equipped with anaerobic digesters that use sludge to create biogas. We then use that gas in combined heat and power engines to produce heat and electricity. At our Minworth sewage treatment works outside Birmingham we generated around 54 GWh of renewable electricity last year, enough to power 13,500 homes.



# Our long-term objective means:

When our customers use our services, they can be confident that we are doing what we can to reduce our impact on the environment.

### To do this we will:

- Be the industry leader in low carbon operations.
- Remain the industry leader on renewable energy generation.
- Use innovative solutions to ensure our business is environmentally sustainable.
- Protect wildlife habitats and biodiversity on our land.

## **Today:**

We are the stewards of over

20,000 hectares of land

# Our outline proposals for 2015-20

We want to reduce our absolute carbon footprint during 2015-20. This is even more ambitious than our current aim of mitigating any increase. We also want to ensure we play our part in protecting SSSIs and biodiversity.

#### This means:

- · Increasing our energy efficiency.
- Generating more renewable energy.
- · Reducing our direct sources of carbon.
- Working in partnership with expert third parties and improving our own practices to ensure the effective stewardship of wildlife habitats on our land.
- Reducing our overall waste and prioritising recycling or waste reuse wherever possible.
- Expanding the use of our sludge as fertilizer.
- Supporting our customers to be even more water efficient. If customers can reduce their hot water use, they will not only reduce their carbon emissions, but could also save on their energy bills too.
- Encouraging our supply chain to reduce their own environmental impacts. For example by working with our contractors to reduce the emissions arising from construction.

### Measures of success

Our proposed measure of success is:

Size of our carbon footprint:

**Current performance** 

2020 indicative performance

522 ktCO<sub>2</sub>e

About a 3% improvement



Estimated impact on bills



### The choices

We would like your views on whether it is appropriate for us to include a broader range of measures of success under this objective. These could address areas such as sludge recycling to land or biodiversity. For example, within our business we already measure our impact on biodiversity by monitoring the status of SSSIs on our land.

We would welcome your suggestions about this type of measure or other alternatives.



Should we include a broader range of measures of success for this objective? If so, what measure would be appropriate?



# We will make a positive difference in the community



Water is essential to life and to the communities in which we live and work. As we deliver the services that are core to our business, we will also look to bring broader economic and social benefits to our region.

Whether it is keeping customers properly informed when we carry out works in the road, offering a great day out at one of our recreational sites, or investing in the future of the young people in our region, we want to make a positive difference.

We also have an important role to play in educating customers about the value of water. By saving water and safely disposing of substances such as fats, oils and greases, our customers can help keep our services reliable. We believe this is more sustainable than investing to fix problems that could be avoided in the first place and will help us to keep bills lower.

# Our long-term objective means:

We will have a positive difference to our region and the communities in which we work.

#### To do this we will:

- Encourage and support young people to join the industry through apprenticeships and skills development.
- Be a considerate contractor and a good neighbour, engaging with the communities where we work to keep people informed and to minimise disruption to their daily lives and businesses.
- Educate our customers and future customers about the responsible use of water and waste in order to change behaviour.
- Provide a great visitor experience for the four million people who visit our recreation sites every year.
- Prioritise our investment to tackle nuisance issues based on where we can deliver the biggest benefits for those customers affected.

## The challenges

- How customers use our infrastructure can significantly affect how well it works. For example, over 20,000 blockages in our sewers every year are caused by customers flushing the wrong things down the toilet or pouring fats, oils and greases down the sink or into drains.
- Odour and nuisance at works can be unpleasant for a relatively small number of households, but there is little public support for additional investment.

## **Your views**

You believe educating and helping customers to do their bit is very important. You are concerned about traffic disruption. When you visit one of our recreational sites you expect great facilities.

# Being a good neighbour in Leamington Spa

We have invested over £8 million to upgrade over 2.2km of pipes in Leamington Spa, Warwickshire, increasing the capacity of the sewer system and reducing the risk of surface flooding in the town. The sewer relief system will also be upgraded to reduce pollution of the River Leam.

Throughout we have worked closely with local stakeholders and community groups to minimise disruption. So, for example, when a local meditation centre asked if we could delay some work by an hour so that they could run a relaxation session, we were happy to oblige.



## We will make a positive difference in the community



In 2013 we are launching our 'Water Champions' initiative aimed at educating children, and their families, to think, feel and act differently about water.

# Supporting regional employment and skills development

We directly employ more than 5,000 people and use over 900 regional suppliers.

In 2012, we were named as one of the UK's top 100 apprenticeship employers, a position we aim to maintain.

### **Today:**

We are one of the UK's

**TOP100** 

apprenticeship employers

# Our outline proposals for 2015-20

We will continue to find opportunities to make a positive difference in a way that complements what we do best as a water company.

#### This means we will:

- Encourage our customers to make better use of our services and infrastructure by providing better, more targeted communications and campaigns.
- Keep improving our current approach of working with communities who may be affected by significant and potentially disruptive capital and road works.
- Improve facilities at our recreation centres so that they support our customer campaigns and ensure our customers have a great experience when they visit.

- Expand our newly launched 'Water Champions' volunteering scheme which helps employees make a difference to schools in our region.
- Sustain our position as one of the UK's top 100 apprenticeship employers.
- Continue to look for innovative and affordable ways of tackling odour and other nuisance issues at sites where the impact is greatest to our customers.

### The choices

Nuisance from our sites, such as odour from sewage treatment works, can be upsetting for neighbouring communities, but it is not an issue that affects the majority of our customers. Our research suggests there is not widespread support for tackling an issue that, whilst concerning for some, only affects a minority.

As a result, over the next five years we do not propose major new investment to address nuisance issues, but we would take action reactively to tackle priority issues as and when they arise.

We could increase our investment to identify potential issues earlier, so that customers are not affected by nuisance issues in the first place. This would have a marginally larger impact on bills.

#### Measures of success

As this objective is about community, we would also welcome your views on what an appropriate measure of success would be. Possible measures could relate to the number of apprenticeships we fill, or the extent to which customers are shown to change their behaviour around water.



Should we do more to address nuisance issues?

How can we measure the difference we make to the community?

## Sustainable finance

We need to make sensible investment in our infrastructure now in order to protect our future services. We raise money from investors so that we can spread the costs of these improvements across the generations of our customers who will benefit from them. In turn, our customers trust that we will not take on unsustainable levels of debt, nor pay our investors unjustified or excessive returns.





# We will finance our business sustainably

### We will ensure we can continue to invest in our services long into the future by financing our business sustainably.

We fund our business using a combination of revenue from customers' bills, and financina from debt and equity (shareholders). This helps us sensibly phase the costs of investment and manage risks.

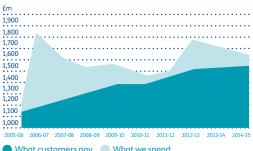
Much of the infrastructure we invest in now will last decades and centuries even. Using finance from external investors allows us to spread the costs across all the generations of customers who will benefit from them. It helps to keep customers' bills lower than if we paid for all investment straight away.

Our shareholders and debt providers expect to earn a return for investing in us. For our shareholders this is paid in the form of a dividend. And much like a mortgage, we repay our debt providers both the balance of the loan and a return in the form of interest.

Currently around one third of customers' bills go towards paying the costs of financing. We know that our customers do not expect our investors to earn excessive or unjustified returns. Neither do we, but it is important our investors receive

a return that is proportionate to the risk they take on. And if we did not do so in a sustainable way, then future financing from these sources might not be available to us - which would put pressure on future customers' bills.

### We invest more than we receive from customers in revenue



What customers pay
What we spend



You are concerned about how financing impacts your bills.



## We will finance our business sustainably

### Why are shareholders important?

Severn Trent is one of the few UK water and waste water companies listed on the FTSE 100 stock market. This means that any member of the public has the opportunity to own a stake in what we do. Our shareholders range from large investment funds to our customers and even our own employees.

We believe our ownership model delivers benefits for our company and our customers:

**Greater flexibility.** By diversifying where we get financing from, and not being dependent on one source, we believe we have more scope to innovate and look to the longer term. **Help to manage risks.** As well as sharing the benefits of outperformance, shareholders also take on the risk of underperformance. If we perform badly or in the event of unforeseen shocks, shareholders help to protect customers from these costs.

Additional discipline. Shareholders will not tolerate inefficiency or underperformance. This benefits customers.

Additional transparency. As a company listed on the stock exchange we must meet stringent reporting and disclosure requirements. These are publicly available.

## The challenges

- Further investment will be required for the foreseeable future in order to deliver service improvements and make our infrastructure fit for the future. This will need to be financed if we are to avoid sudden increases in customers' hills
- Since privatisation the water industry has taken on significant debt to help finance improvements that will need to be paid back. There is limited scope to take on further debt to finance future investment.
- Financial markets are changing and money is less plentiful than at the start of the current economic downturn.
- Uncertainty during periods of industry change and restructuring, such as the introduction of competition, can change investors' perceptions

of risk. Investors need to be confident that they will receive a return if they are to lend at reasonable rates.

 Investors form their perception of whether companies are in good financial health partly based on credit ratinas. To maintain their confidence we will need to maintain a strong investment grade credit rating.

## Our long-term objective means:

We will always finance our business sustainably. We will ensure that our customers today and tomorrow pay no more than they need to. We will do this by maintaining the balance between fair and reasonable returns for investors. continued investment for customers in our infrastructure, and sharing the benefits with customers.

### Our outline proposals for 2015-20

We will continue with a sustainable, balanced approach. In particular, we will:

- Be transparent with our customers about how we are financed and the shareholder performance we are delivering. We believe retaining shareholders is the right thing to do for our business and our customers. We will explain why.
- Work with Ofwat, our economic regulator, to continue to improve the incentive framework.
- Reward successes if they are deserved. If we do better than expected due to innovation and hard work, then the benefits should be shared between our shareholders (for taking on risk) and our customers. This will be reflected in either lower bills in the longer term or increased investment in improvements in the short term. Equally if we fail to deliver the performance we promise, we will seek to reduce customer bills appropriately.
- We will create mechanisms to share gains with customers where they are the result of factors beyond our control.

### Measures of success

Our proposed measure of success is:

**Investment grade credit rating** 

**Current performance** 

2020 indicative performance

Stable

**Stable** 

### The choices

Investors typically use a suite of measures and financial ratios to gauge the financial health of companies. We propose to use one of these, our investment grade credit rating, as a measure of success. Credit grade ratings are an indicator of our creditworthiness. They have the advantage of being independently assessed measures (assessments are made by credit ratings agencies) which are publicly available. Many companies and organisations seeking significant investment, including the UK Government, are credit rated. We would like your views about whether this is an appropriate measure of success.



Is our proposed measure of success appropriate? If not, what changes would you like us to make? Please explain why.

# Thank you

Thank you for reading this document and getting involved in the future of your water and waste water service.



# Find out more

There is more information about this consultation and next steps at:

www.severntrent.com/yourchoices

The Water Forum, a multi-stakeholder panel, has constructively challenged the development of our proposals. You can find out what they said at:

www.severntrent.com/waterforum

We are also holding special events to consult our customers. You can find out how at: www.stwater.co.uk/letstalkwater

# How to respond



You can email us at future.consultation@severntrent.co.uk



You can write to us at
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Strategy and Regulation Team
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We need your comments by 31 May 2013

