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Thames Water

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Tackling the essentials

2005 – 2010 Business Plan Summary

The big picture

Thames Water provides sewage services to 13 million people and drinking water to eight million people. Our supply area covers 5000 square miles across London and the Thames Valley: from Kent in the east to Gloucestershire in the west. We look after 20,000 miles of water mains and 40,000 miles of sewers – enough pipes to run around the world more than twice.

Since 1989 Thames Water has invested

£6 billion

That's around £1 million per day, or £500 for every man, woman and child in our region.

Dear Customer,

The water industry regulator Ofwat is currently reviewing the prices Thames Water can charge in the five years 2005 – 2010.

Our proposals for this Price Review reflect the consultations we have had with our customers on their priorities for service and reliability. They are designed to enable us to make essential investment in our infrastructure and will provide for the quality and environmental improvements decided by the Government.

In previous Price Reviews, the priority has been to meet new environmental quality standards for drinking water and sewage treatment. As a result, modernising the basic pipe networks hidden underneath our streets has received a much smaller proportion of the available funding.

We must concentrate on essential improvements to this ageing network to meet rising demand for water, reduce leakage and to ensure that we can continue to provide customers with the water they need. We also want to greatly reduce the risk of customers' properties being flooded by sewage at times of heavy rainfall – something that has no place in 21st Century Britain.

Our proposals represent an investment totalling £4 billion over five years. Inevitably they have a price tag for customers. At less than the cost of half a pint of beer a week this investment will not only provide improvements for today's customers, but also for future generations and the environment in which they live and work. This document is a summary of the information we have supplied to Ofwat.

Ofwat will announce its decision in December 2004, with new prices due to come into effect on 1 April 2005.

John Sexton
Managing Director
Thames Water Utilities

Reflecting your views

We have listened carefully to your views on where investment is most needed and what you feel about our proposed increases in water bills. You have said that we should focus on ensuring that we continue to provide a reliable service, whatever the weather. Understandably, tackling sewer flooding is a key concern for those customers whose properties are at risk of overflow discharges during storms.

Feedback from our customers supports our key priorities for 2005 – 2010 to:

- Address the critical issues of leakage, supply demand balance and inconvenience from odour and sewer flooding.
- Provide capacity for future demand so that continuity of service is maintained in future years, supported by appropriate maintenance of existing assets.
- Carry out environmental improvements decided by Government.

Below
Herman Scopes, Chairman of WaterVoice at a recent meeting to discuss customer service improvements.

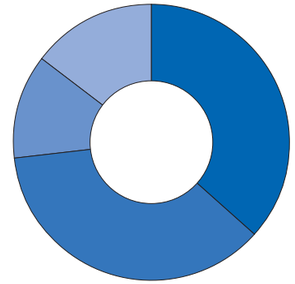
Investing for the future

A five year plan
Since privatisation in 1989 we have invested £6 billion in water and wastewater services. We have worked hard to make major efficiencies and cut the costs of running the business, but these savings do not cover the cost of essential maintenance and improvement.

Our customers have been responsible for funding some of the cost of extra investment, but improvements have also depended on major investment from shareholders and the banks.

Over the next five years we have highlighted four key areas amounting to a total of over £4 billion. Our investment programme depends on the continued support of shareholders and investors.

Planned investment 2005 – 2010



- Meeting growth in customer demand = £1500m
- Replacing water mains, sewers, treatment works and other assets = £1500m
- Alleviating the number of homes at risk from sewer flooding = £500m
- Dealing with odour and other new quality obligations = £600m

Total planned investment = £4100m

Customer assistance
Although the population in the Thames Water area is one of the most affluent in the country, it also includes seven of the nation's poorest boroughs. We are working with the Government and others to ensure that the interests of these customers are also considered.

Total estimate of investment programme

£4 billion

Our largest ever investment programme – almost double our investment compared to 2000 – 2005.

Canoeist on the River Thames in Reading, Berkshire. A growing population and new housing has put increased pressure on the natural resources available in our region.

Water resources

The population of the Thames Water region is growing fast. Combined with the growing impact of climate change this will inevitably put increasing pressure on water resources in our region.

By 2016 London is predicted to have

800,000

new residents, the equivalent of the current population Leeds.

Other factors in rising demand

An increasing volume of single occupancy households in London and the south east mean that individual demand for water is still rising. Today the average daily amount used per customer is 163 litres, compared to 153 litres in 1990 and 140 litres in the early 1980's – an increase of approximately 15% in just 20 years.

Planning ahead for the longer term

Cutting leakage levels by installing new mains in London is the first essential step in securing long-term supplies for all our customers. But reducing leakage is not enough. We need to do more to meet increasing demands for water.

We need to plan new ways of storing and treating water. We are working on plans for a desalination plant on the Thames Estuary in east London. This would convert salty water into enough drinking water to supply almost one million customers in north and east London. It would greatly increase our ability to cope with periods of hot, dry weather.

Our plan for 2005 – 2010 also provides for further studies for a major new storage reservoir in Oxfordshire.

This would capture surplus winter rainfall ready for release back into the Thames in summer, boosting supplies both locally and in London. It could take up to twenty years to carry out all the necessary planning and environmental studies to evaluate and design this new reservoir, then take it through the planning process, construct it and fill it. If it is to be a viable longer-term option, we need to start planning ahead now.

We are facing major challenges to protect our water resources. One of the ways that we can address this issue is by promoting the benefits of water efficiency to the increasing numbers of people living and working in our area. This is a key part of the way that we manage water demand. We will also continue to encourage wider take up of meters.

In the Thames Water region around

55%

of all available rainfall is used for public supply. Our region is one of the driest, most densely-populated in the country. Per head of the population, London receives less rainfall than Madrid and Istanbul.

The mains challenge

Our biggest short-term challenge is to maintain and renew ageing Victorian water mains and sewers, particularly in London, one of the busiest, oldest cities on earth. London's ageing water mains are under constant attack.

Over a third of water mains in London are over

150 years old

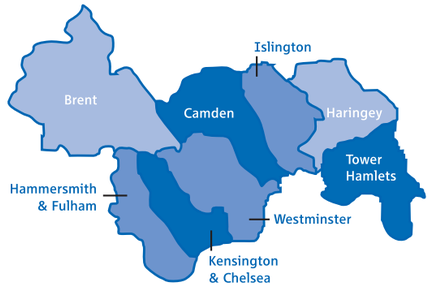
Half are more than 100 years old.
This is one of the key reasons for the capital's unacceptably high leakage rates.

Below
Old iron pipes recently unearthed in Holborn during mains renewal work.

Renewing the water network

Above ground, the pounding of the traffic continues 24 hours a day. Below ground, the capital's corrosive soils and frequent ground movement of the London Clay cause further deterioration of the network.

Our 2005 – 2010 business plan proposes replacing over 1000 miles of water mains in inner London leakage hotspots.



Inner London target boroughs for 2005 – 2010

This is the first stage of a rolling programme that will take up to twenty years to complete. This work, though inevitably disruptive, is essential to ensure that taps across the capital do not run dry.

Thames Water has devoted record levels of resources to tackling leakage using the traditional 'find and fix' approach. Between 1996 and 1999 leakage was reduced by around a third. Extreme weather conditions such as the heavy rainfall of autumn 2000/2001 and the prolonged summer dry spell in 2003 caused severe ground movement and further damage to the ageing pipes. As a result, leakage levels rose.
We have had to respond by increasing our leakage repair programme alongside the introduction of a mains replacement programme to tackle the worst affected areas.

Minimising disruption in the capital

We are very conscious of the need to make sure we cause as little disturbance as possible in London's streets. The planned mains replacement work will be carried out in close co-operation with highways authorities and other utilities.
Thames Water has worked successfully with the gas supply company Transco to share trenches and minimise disruption.

Thames Water employee Peter Hankins checks levels of water flow through the sewers in Swindon, Wiltshire.

Facing the facts

Taking away society's sewage, treating it and then disposing of it is not glamorous, but is an essential public service. It also requires ongoing investment to make sure that the system continues to operate effectively.

Sewers are getting smarter
We're currently evaluating the use of advanced monitoring technology in the sewers to help us alleviate flooding and help us make more use of the sewerage system in dealing with excess flows.

Below
Elliot Morley, Environment Minister on a sewer visit in London.

Sewers and sewage treatment

Tackling sewer flooding
Between 2005 – 2010 we intend to invest £520 million cutting the number of households at risk from sewer flooding. It's a distressing experience and although relatively few homes are now affected, we're determined to keep reducing the problem. This will involve major engineering work to extend the capacity of the sewer network.

We also want to plan ahead to cope with major new housing developments in our area in Basingstoke, Swindon and Aylesbury, for example. The likelihood of more flash floods linked to climate change makes this work essential.

Reducing sewage works odours
Another important issue that we need to tackle urgently is minimising the odours from sewage treatment works. Understandably this is a key concern for customers who have properties near our sites. We are determined to tackle the most affected site, Mogden, West London. Our pioneering approach will be used to identify solutions at other sites.

Although most people prefer not to dwell on the subject, it's important that we consider the impact of population growth on the wastewater system. We need to provide increased capacity for the proposed level of growth which requires significant investment. We've spent considerable time planning to ensure that our sewerage service will continue to support our growing customer base, now and into the future.

Thames Water plans to invest over

£520 million

to protect properties at risk from sewer flooding in our region.

Mogden Sewage Treatment Works
Our plan includes priority for new investment to minimise the potential for odour inconvenience to surrounding households.
(aerial view pictured below)

Our environment

Thames Water supports continuing improvements in the quality of the water environment. We believe these must be balanced with the pressing need to concentrate investment on the basic infrastructure, particularly in London. We must also protect the achievements of the last decade by allowing proper funding for the maintenance of existing assets.

Below
Birdwatcher at Farmoor Reservoir, Oxfordshire. Conservation of natural habitats at many of our large reservoirs has led to the return of several species of migrating birds.

A question of balance

We are constantly improving the quality and reliability of our water and wastewater service. Our level of compliance with the standards set by the quality regulators, the Drinking Water Inspectorate and the Environment Agency, is amongst the highest in the UK. The Thames has been transformed into one of the world's cleanest metropolitan rivers, and is a national asset enjoyed by Londoners and tourists alike.

Our quality and environmental programme is in line with UK Government requirements.

Future plans on drinking water quality include proposals to ensure that additional treatment is provided, where necessary, to deal with the effects of poorer raw water quality and the impacts of pesticides used in agriculture.

Environmental improvements include upgrades at 57 sites to meet tighter sewage treatment standards. We have also provided for increased sewage treatment capacity and standards including a number of Sites of Special Scientific Interest.

The availability of reliable water resources is a major concern, as new legislation has an impact on the volumes of water we are allowed to abstract from specific water sources.

It is vital that we maintain the excellent performance on drinking water quality and standards for sewage treatment that have been achieved since l989. With a growing asset base we must ensure appropriate maintenance to protect these key assets for the future.

The River Thames is now home to

121 species of fish

Biologically dead only decades ago, Thames Water investment at sewage works since 1989 has helped transform the Thames into one of the cleanest metropolitan rivers in the world.

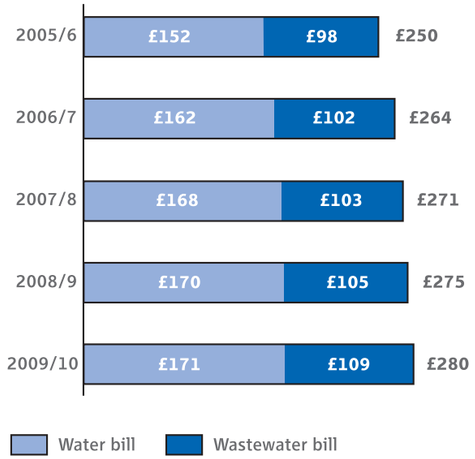
Counting the cost of improvements

To finance essential improvements in the next five years our average water and wastewater bill needs to rise above inflation by around 25% in 2005/6* and 12% between 2006 and 2010. For properties receiving both water and wastewater from us, this will mean an average weekly increase of around 95 pence per week in 2005/6 and around 15 pence per week each year from 2006 – 2010. This amount, less than the cost of half a pint of beer, will help us to protect our water resources, maintain and renew our existing infrastructure, alleviate sewer flooding and meet tighter quality standards.

The investment planned for our water system is designed to help us to continue to deliver a safe and secure water system for the growing number of Thames Water customers.

*based on average unmeasured household bill for 2004 – 2005

Average annual bills 2005 – 2010



The average combined bill needs to rise by around

95p per week

in April 2005 to finance essential improvements. For each year from 2006 – 2010 bills need to rise by an average of 15 pence per week.

Key organisations involved in the Price Review

Ofwat is responsible for making sure that water companies give good quality efficient services at a fair price. Ofwat takes the lead role in conducting the review of prices.
www.ofwat.gov.uk

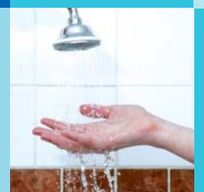
The Environment Agency is a leading public body protecting and improving the environment in England and Wales.
www.environment-agency.gov.uk

Defra is responsible to water policy in England and Wales and for setting water quality and environmental standards.
www.defra.gov.uk

English Nature promotes the conservation of England's wildlife. Together with the Environment Agency it advises Defra ministers on priorities for environmental improvements.
www.english-nature.org.uk

The Drinking Water Inspectorate is responsible for enforcing drinking water quality standards in England and Wales.
www.dwi.gov.uk

WaterVoice represents the interests of customers in respect of price, service and value for money. It investigates complaints from customers about their water company.
www.watervoice.org.uk



Do you have any feedback on the key issues highlighted in this Business Plan Summary? Your views and priorities are an important part of the process, so we would like to hear from you. Please visit our website for more information.

www.thameswateruk.co.uk