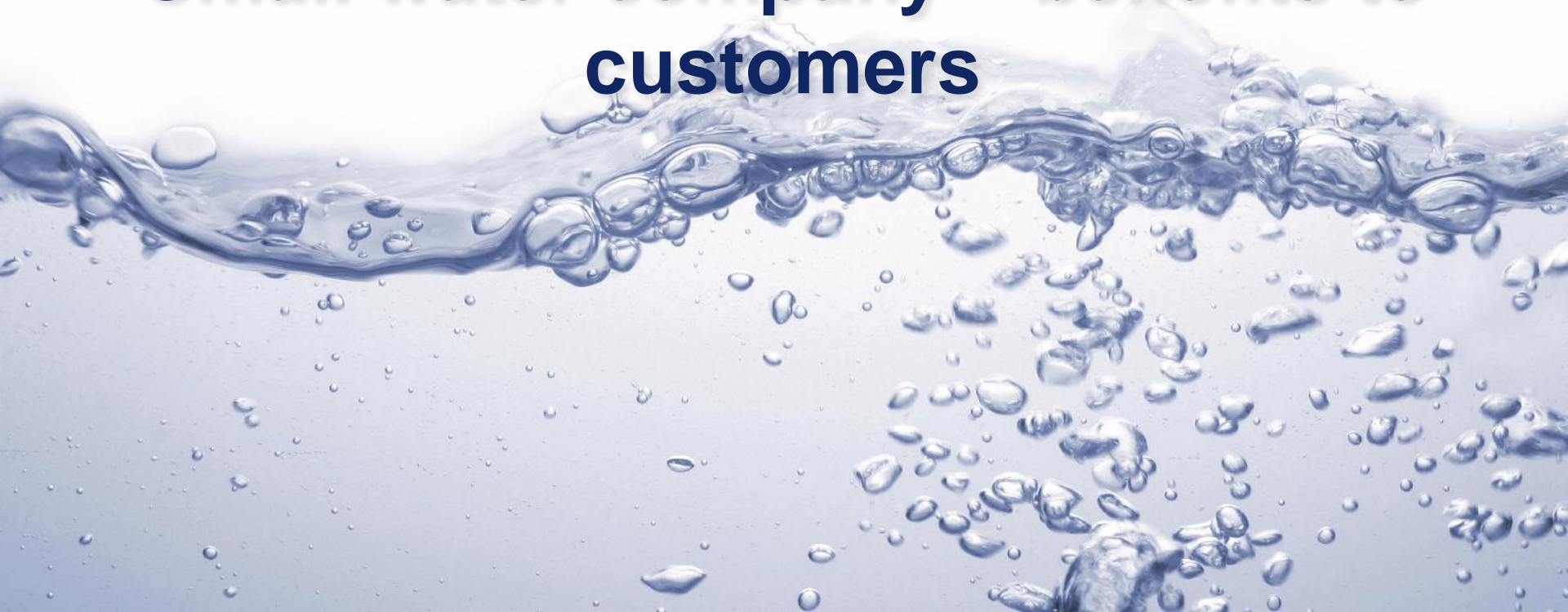




South Staffs Water

CCG 28th April

**Small water company – benefits to
customers**



Background

- Small company financing issues add £1.70 to customer bills
- Ofwat asking if customers benefit from small companies. Customer support is needed.
- This presentation focuses on these benefits, not the embedded cost of debt arguments.

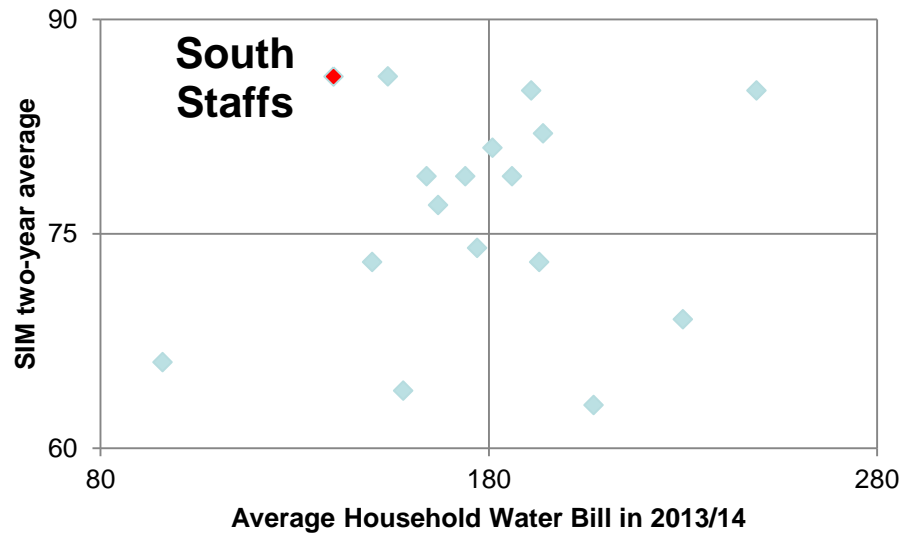


Small Company Premium

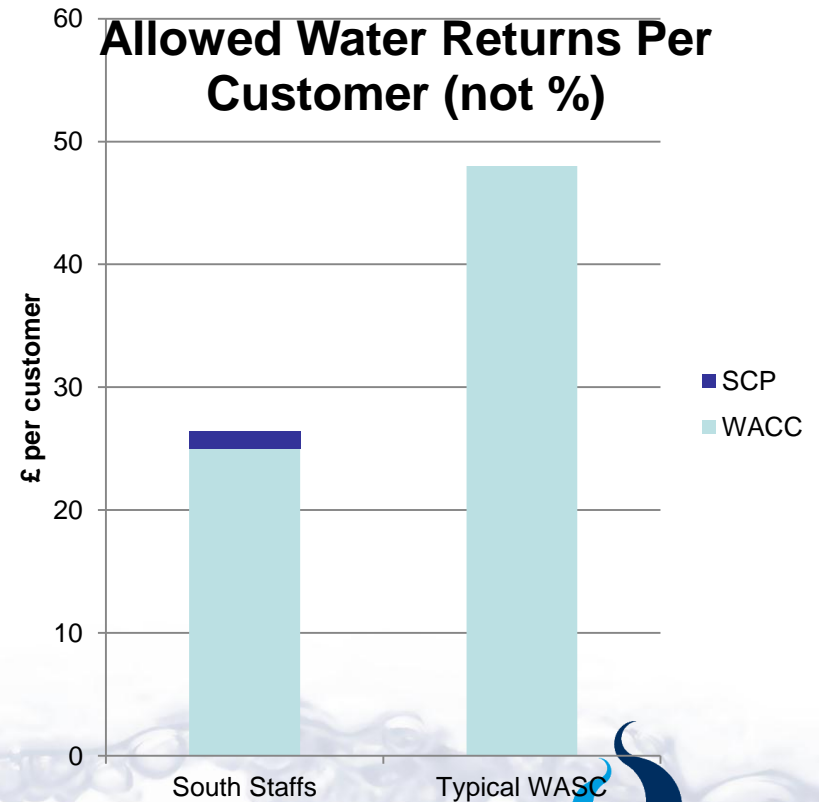
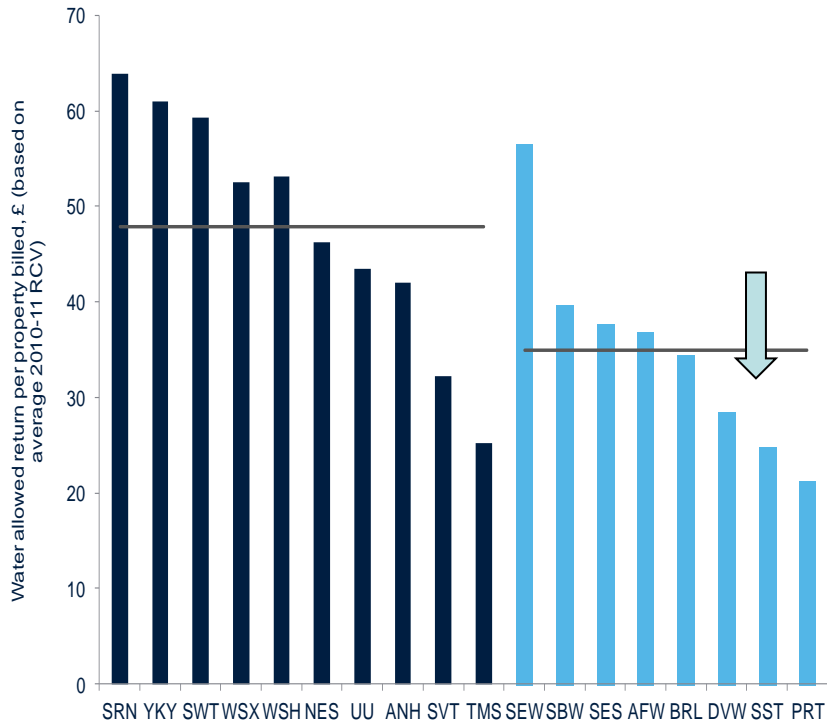
- Equivalent to income of £1.6m a year. Bill impact is £1.70 (1.4%).
- Oxera report for 6 smallest wocs
- Our own evidence
- Benefits case is based on:
 - **Low bills** (n.b. Ofwat clear this is insufficient evidence only to support SCP)
 - Low returns
 - Efficiency (inc. others)
 - High service beyond SIM, delivered locally
- Legal duty to finance functions – extra costs of small companies. Regulatory precedent



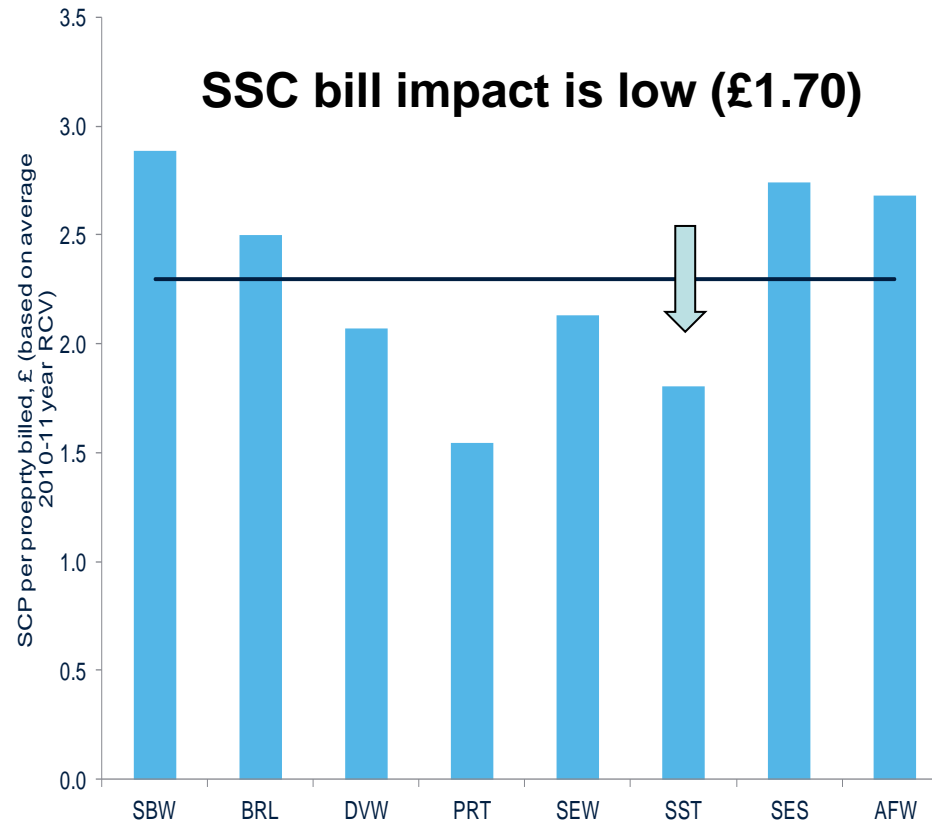
Best Value for Money Provider - Evidenced by SIM and Bills Analysis



Our low spend leads to a low RCV. In turn this provides low relative returns. Figures here include SCP allowed in current bills at PR09



Our SCP is small.



Do customers benefit?

- 1st on SIM and high customer satisfaction.
- SST bill is £32 lower than SVT
- CAM bill is £67 lower than ANG
- 3rd most efficiency (out of 18) from CEPA reports and evidence of diseconomies of scale
- 2nd lowest on future totex costs in AMP6
- Our small size can yield financial gains:
 - Power contracts – 5 year deal
 - Avoid management layers



Do customers benefit? (cont'd)

- Hosepipe bans avoided in Cambridge, when others in this region imposed restrictions
- Joint billing is done by WOC not the WASC due to efficiency
- Local community employment opportunities – employees, suppliers
- Local community activity and engagement
- Premium allows income to finance discretionary activities that our customers and stakeholders value



Costs Benefit Analysis

- Costs are £1.70 per customer
- Benefits can be derived from our customer's WTP values.
- Taking a basket of 5 measures: leakage; water quality; hosepipe bans; SIM; supply interruptions (selected based on customer importance, not all in our favour)
- £12.65 benefit for service > WASC
- £4.00 benefit for service > industry average
- Hence CBA positive by factor of 7 or 3



Customer Support evidence

- Ofwat will review CCG comments.
- Specific customer research is also needed.
- Current customer bills finance the SCP. We consider benefits outweigh the cost of this.
- Our revised plan will continue to include the SCP.
- Likely to be added to Acceptability Research questions.

