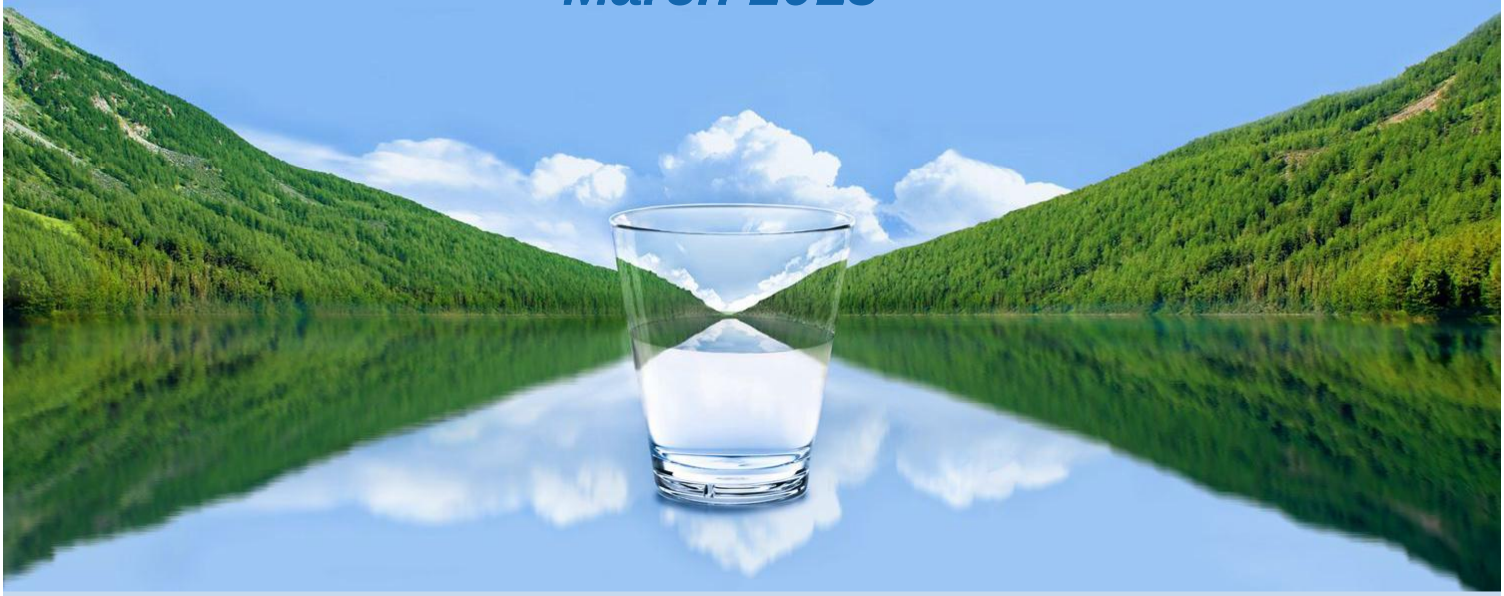
Combining Water Services – the experience of Scottish Water

March 2013



Introduction to Scottish Water

- 5 million people (2.4 million households)
- 124,000 non households
- 1.3billion litres of clean, safe and high quality drinking water
- 1/3 of the UK land mass, including islands
- 284 water treatment works
- 1,830 waste water treatment works
- 4th largest water and sewerage company in the UK

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Main Duties on Scottish Water

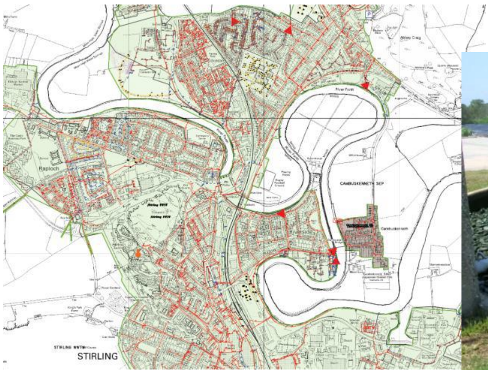
Constituted under the Water Industry (Scotland) Act 2002

Duty under the Water (Scotland) Act 1980 to provide a wholesome supply of water sufficient for domestic purposes

Obligation to connect customers, at reasonable cost

1980 Act provides all the associated powers for Scottish Water to deliver the primary duty

Main Duties on Scottish Water (cont.)

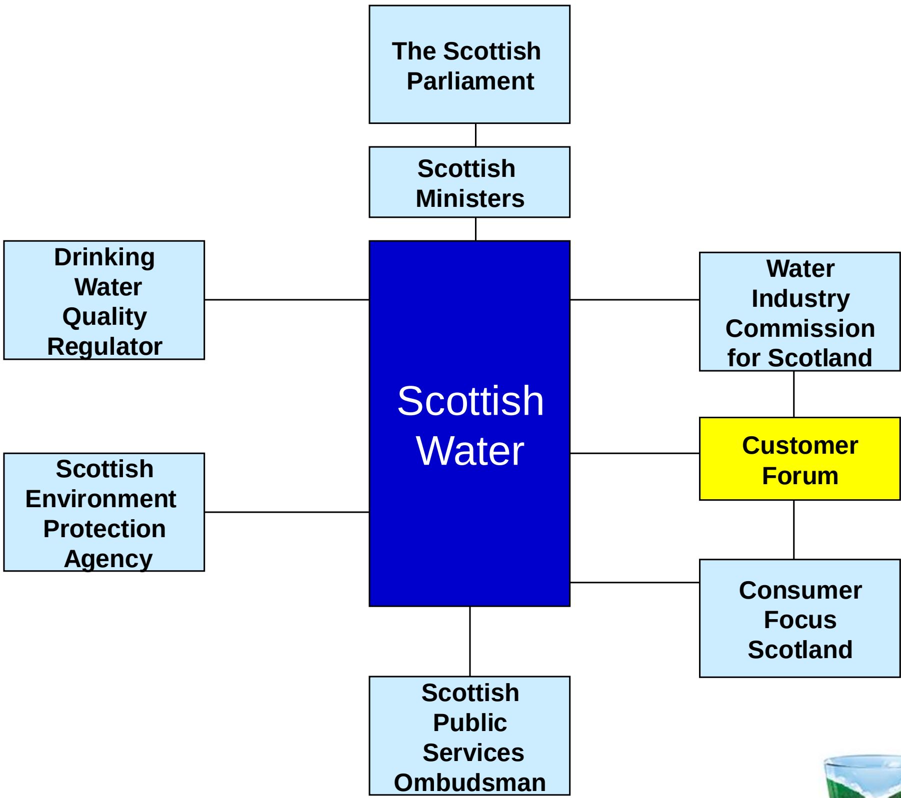


Duty to drain, treat and effectually deal with domestic sewage, surface water and trade effluent under the Sewerage (Scotland) 1968

Obligation to provide customer connections, at reasonable cost

1968 Act provides all associated powers to fulfil duties

Scottish Water: Industry Structure



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Historical Context 1975 - 2002

1975-1996

Water & Sewerage service provided by 9 Regional and 3 Island Councils under the Water (Scotland) Act and the Sewerage (Scotland) Act 1968.

1996

Consolidation in the public sector. Three Water Authorities created:

- North of Scotland Water
- East of Scotland Water
- West of Scotland Water

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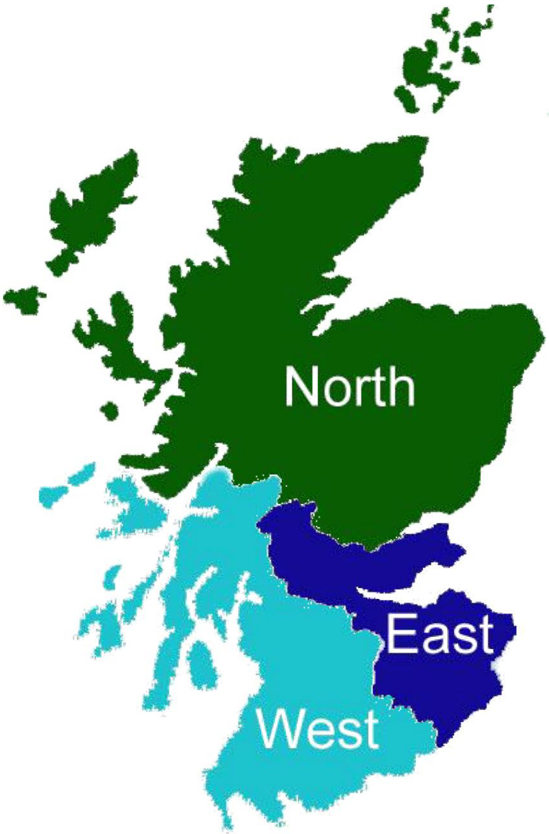
Scottish Water : History 1996-2002



- Three regional water authorities
- Very different populations and geographical areas
- Massive differences in charges
- Water authorities not financially viable in long term
- Huge challenge to meet EU Directives
- Heavy reliance on PFI for wastewater investment
- English privatisation challenge

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The early years: 2002-06

- Merged 3 former organisations
- Transformed operational efficiency
- Organisational transformation:
  - Working in partnership with the unions
  - Harmonisation of terms and conditions
  - Reduction in employee numbers
- Invested around £475m a year
- Investment focussed on the legislative priorities (EU directives)
- Harmonised customer charges

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The recent years: 2006 - 11

- Improved regulatory customer service as measured by OPA by more than 100% from 165 points in 2005/06 to around 350 at the end of 2011/12.
- Investment peak of around £600m a year
- Investment driven by legislation and some customer service improvements
- Introduced retail competition for non-household customers

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Our delivery plan for 2010-15

- By 2013/14, regulatory customer service as measured by OPA will be on a par with England and Wales
- Price and service promise introduced
- Invest around £500m a year
- Investment is aligned more with customer priorities
- Continue to improve operating performance
- Customers charges will be in the lower quartile of companies in England and Wales

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Changes inside Scottish Water

Early Days	At 2013
High OPEX costs	Lower OPEX costs in the water industry
High staff numbers	Lower staff numbers and higher levels of staff engagement
Multiple business processes	Change management & innovation built-in
Complex asset base in need of investment Mixed Procurement	Rationalised asset base with standardised approach to asset investment & renewal. Regional Strategies Adopted Procurement Transformed

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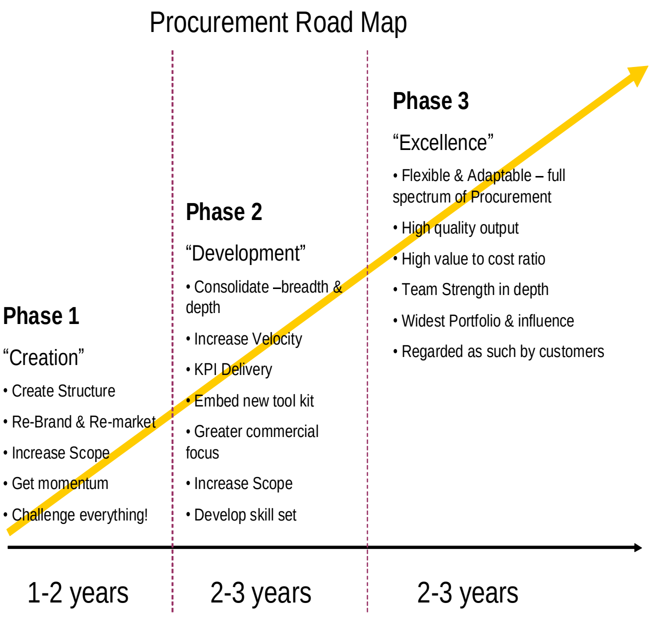
SW Procurement – The past



- **Fragmented procurement strategy**
- **Decentralised resources**
- **Disjointed supply chain**
- **Procurement efficiency not measured**
- **Transformation Roadmap required**

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SW Procurement – The present

- Supplier spend circa £500m p.a.
- Aligned & integrated supply chain
- Sustainable efficiency
- Wider community benefit
- Centralised CIPS gold standard team

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Procurement – The Future

- Collaborative relationships
- Targeted innovation
- Further efficiencies
- Value to SW vision

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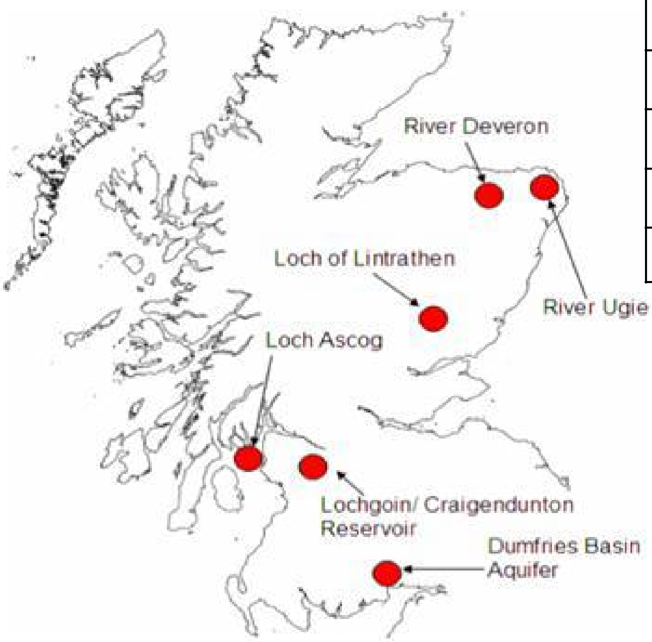
Protecting our drinking water catchments

Area (WTW)	Issue
River Ugie (Forehill)	Pesticides
River Deveron (Turriff)	Pesticides
Loch of Lintrathen (Clatto)	Nutrients
Loch Ascog (Loch Ascog)	Nutrients
Dumfries Basin (Cargen & Terregles borehole)	Nitrates
Lochgoin/ Craigendunton Reservoirs (Amlaird)	Colour



Protecting and enhancing our environment

Early Years	Now
Sewage seen as a major cause of pollution.	Actively manage Environmental Pollution Incidents (EPI). Diffuse pollution (not point source) now recognised as more significant in Scotland.
Localised decision-making for implementation of EC directives. e.g. Shellfish Directive investment to achieve standards, but no benefit.	Strategic investment process designed to deliver compliance. Evidence-based with benefit clearly identified. Strong co-operation with our environmental regulator (SEPA).
Environmental regulatory (SEPA) driving improvements in environmental quality	Scottish Water taking the innovative steps e.g. surface water action plans

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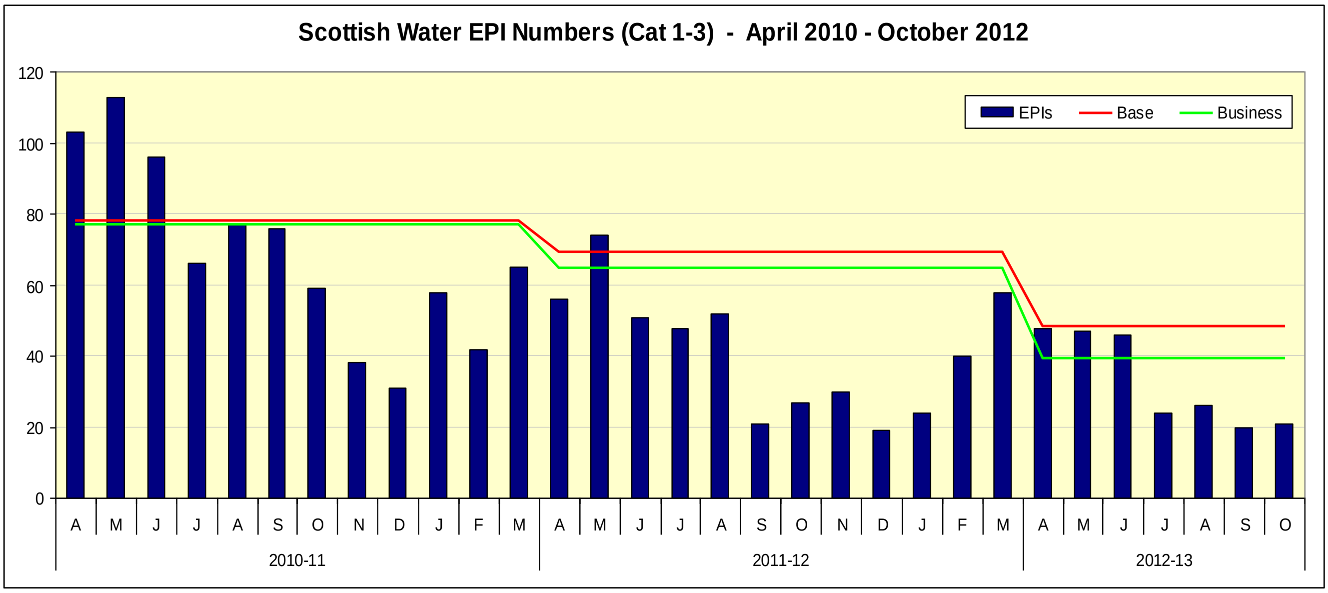
Environmental Pollution Incidents - Journey Since April 2010



- EPIs became a measure in April 2010. 44% reduction year on year.
- All months in 2012-13 Year to Date have produced fewer than 50 EPIs.
- On track to outperform 2012-13 year end Targets.

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Where are we now?

Delivering capital and operational efficiency = lower charges

Comparison with English and Welsh Plcs based on OFWAT published average charge

Water and Sewerage companies	Average Household bill for 2012/13
South West	£543
Wessex	£455
Welsh	£427
Anglian	£423
Southern	£416
United Utilities	£395
England and Wales Average	£376
Yorkshire	£361
Northumbrian (North East)	£352
Thames	£340
Severn Trent	£326
Scottish Water	**£324**

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Reminder of our journey

Now running the business for £3m per week less than when we started.

Written Customer complaints reduced by 42%

Our service as measured by OPA has increased by more than 100% since 2005/06

Increased the quality of drinking water from 99.44% to 99.86%

Reduced leakage by over 40% and on track to meet ELL in 2013/14

Delivered the biggest capital programme in the UK water industry – over £5.1bn since creation

Average household charges were £25 higher than average in E&W now £52 lower

38% reduction in calls to contact centre

Reduced the number of properties at risk of internal sewer flooding by over 70%

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Scotland's most valued and trusted business, one that we can all be proud of.

Serving	Committed	Responsible
Growing	Strong	Leading

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