

CHOLDERTON & DISTRICT WATER COMPANY LIMITED

FINAL BUSINESS PLAN 2010 – 2015

COMMENTARY

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Introduction

The Plan in Context

1. The Final Business Plan is the latest in a series of documents that the company has produced for the regulatory authorities since January 2008. The previous documents were:

- Draft Business Plan
- Strategic Direction Statement
- Drought Plan (final)
- Draft Water Resources Management Plan

2. The Draft Business Plan was published in September 2008 for review by OFWAT. Copies were sent to the other regulatory authorities and a copy was posted on the company's website for comment by consumers. Written responses were received from:

- OFWAT
- The Environment Agency
- Consumer Council for Water

3. Meetings were held with all three bodies to discuss their responses and the Final Plan takes their views into account. The most fundamental change from the Draft Plan has been at the insistence of OFWAT who have reduced the funding available that the company requested to reduce leakage and promote water efficiency measures.

4. The Draft Water Resources Management Plan forecast that the company would have apply for an increase in its abstraction licence during 2015 to meet greater demand for water from commercial and domestic consumers. This is no longer the case and the OFWAT position reflects the fact that the updated position no longer shows a deficit in the supply/demand balance.

5. The Consumer Council for Water expressed their concern at the amount by which the company intended to increase water charges particularly in the first year. This point has been addressed in the Final Business Plan where the initial increase has been reduced and the under-recovery spread over the later years.

6. The Strategic Direction Statement, from which the Business Plan is derived, looked forward 25 years and gave consumers the opportunity to see how the company was going to meet the challenges ahead. This Plan looks in more detail at the first 5 years and shows how the company will be investing to ensure that consumers receive an adequate, reliable and wholesome supply of water and how that investment will affect water bills.

Key Elements of the Plan

7. In the Draft Business Plan the company is focussing on the 5 years ending in 2015 in the context of the overall strategic plan. The six key elements the company has identified for action are:

- Leakage Management
- Maintenance & improvement of the Infrastructure Assets
- Instigation of further Flood Prevention measures
- Measures to protect Water Quality against rising nitrate levels
- Implementation of Water Efficiency measures
- Maintain the Supply/Demand Balance in surplus

8. The plan is underpinned by a capital expenditure programme totalling £164,000 over the five years. Excluding any inflationary element, average bills will rise by 14.78% over the 6 years 2009-10 to 2014-15.

Customer Input

9. A meeting was held with members of the Shipton Bellinger Parish Council and subsequently with the Chairman of the Cholderton Parish Council. The opportunity was taken to review the company's written plans and discuss any concerns of the councillors.

10. Unsurprisingly the main concern was that there should be no repetition of the disruption to supplies from flooding as had happened in December 2006. Although very brief, the episode demonstrated the vulnerability of the lower borehole to violent weather events at that time.

11. The rising level of nitrates in the water supply, which has been highlighted in the SDS and WRMP was also discussed in some detail and assurance was given that a solution would be found before the pollution threatened the quality of the drinking water by exceeding the legal limits.

12. The concerns around flood prevention and nitrate pollution are addressed in the 5 year plan. Arrangements are to be made to hold meetings with parish councillors on a regular basis. This will give consumers an opportunity to raise any points of concern and enable the company to give a report on the progress it has made in towards achieving the key objectives in the business plan.

Key Objectives

Leakage Management

13. The calculation of actual leakage has proved very difficult as the tools available to the larger companies for this purpose are not necessarily relevant to Cholderton's much smaller network. An MSc student, under supervision from the University of Exeter, spent the summer of 2008 working on a project to develop a model that would work for the company. In summary the report concluded that leakage in the distribution network feeding Shipton Bellinger was significantly less than that feeding Cholderton village and surrounding area.

14. However, the post project review reached the conclusion that some elements of the analysis were not sufficiently robust for the published leakage levels to be accepted at face value. It has been agreed that a more detailed study by a suitably qualified post-graduate student will take place in 2010. In the meantime, and in the absence of firm data, it has been assumed that the overall the level of leakage is approximately 28%.

15. The expenditure that the company proposed in the draft plan to reduce leakage has been removed for the reasons outlined in paragraphs 3 and 4. However, agreement has been reached in principle for the funding of a limited mains replacement programme with the aim of holding leakage at a manageable level. This programme is to be treated as infrastructure improvements. It is not an ideal solution but is better than nothing. The Cholderton Estate will play its part, at no expense to the customer base as a whole, by tackling leaks in mains that exclusively supply its farm buildings.

Improvements to Infrastructure Assets

16. Although the distribution network remains basically sound it is inevitable that the programme to prevent an increase in leakage levels will identify sections and valves that require renewal. This is particularly pertinent in the oldest section feeding Cholderton. There are also sections of small diameter pipe that were classed as mains when installed up to 100 years ago. New builds will require some of this to be renewed to give the appropriate pressure and flow rates.

17. Following a detailed investigation at the main water works it has been discovered that there are significant water losses within the system. Pipe work and valves related to some earlier facilities that were closed down many years ago and shut-off have failed. A major operation is to be launched to rationalise the layout and remove any redundant items permanently.

18. In addition to these major items there is a general programme of improvements including pump replacement, new data logging equipment, which will take remote meter readings, and a series of minor but nevertheless essential works. The overall expenditure on infrastructure is shown in the table in paragraph 28.

Flood Prevention Measures

19. The flash flooding at the end of December 2006 when the river Bourne burst its banks demonstrated the vulnerability of the alternative borehole. Although the emergency measures to recover the situation were swift and effective, the system was found wanting. The borehole is now protected by a bund wall and the river bed and banks have been cleared.

20. The changes that are happening to the climate make the likelihood of similar flooding in the future more, rather than less, likely. Following detailed discussions with the Environment Agency on the subject of responsibilities it has been agreed that the company will undertake to keep the river bed clear of debris and trees along the length where it has jurisdiction. This work will assist the free flow of water into the water meadows downstream of the borehole. Further work will be undertaken to make sure that future flooding, which may well be more severe than in 2006, does not threaten the potable water supplies.

Water Quality

21. In the latest annual report of the Drinking Water Inspectorate it can be seen that Cholderton has maintained its exemplary record for water quality. The company is determined to maintain this position and the appropriate investment will be made to ensure that the integrity of the service reservoirs and supply network are maintained to the highest standard.

22. However, the threat from an increasing level of nitrate pollution casts a shadow over the future. This issue, which has been fully aired in the Draft Water Resources Management Plan, will reach a critical point either towards the end of the period of the current plan or immediately thereafter, but certainly no later than 2018. The company has engaged the British Geological Survey to carry out a study that will start the process towards finding the most effective long-term solution to this very serious problem.

23. Blending using a bulk supply of water from out of the area or the treatment of the water from Cholderton's borehole to remove the nitrates are the likely alternatives. Either way it will be necessary to bring back into use one of the smaller service reservoirs at Thruxton and install the appropriate control gear. The costs associated with this work are included in the capital expenditure plans.

24. The company has maintained a constant dialogue with the regulatory bodies about the causes of this very serious pollution problem and how it can be successfully tackled. These discussions continue alongside exploratory talks with OFWAT about a mechanism that will protect consumers from having to bear an unreasonable burden of the costs of mitigation through their water charges.

Water Efficiency Measures

25. No one can be in any doubt about the need to save water; it has been explained frequently in the media and by the government agencies. In the South West climate change will lead to an overall drop in rainfall with hotter summers but more frequent severe weather events. This combination will place a further strain on water resources.

26. It is generally recognised that metering water is the most effective way of achieving savings in water usage. On 31 March 2008 Cholderton had 699 household connections of which 98, representing 14.2% of the total, were metered.

27. The OFWAT review of the draft plan has meant that the company has had to scale back its original proposals to increase the number of metered premises. The company understands that regulatory funding will only be available to cover:

- New builds
- Optants
- Change of ownership

28. The result of this decision is that meter penetration, which is already lower than that of many other companies, will not meet the target set in the Draft Plan. It is anticipated that by 2015, when the number of household connections will have increased to 713, the number of metered domestic properties will have increased to 147 or 20.62% of the total.

29. It is intended to publicise water saving measures by enclosing a leaflet on the subject when issuing the water bills. Information, courtesy of Wessex Water, on water efficiency methods in the home and garden will continue to be published on the website. If normal methods of persuasion and encouragement fail and water demand remains stubbornly high, the company, in consultation with the Parish Councils, The Consumer Council for Water and Ofwat, may seek to introduce tariff structures that reduce demand while protecting vulnerable customers. The aim is to reduce consumer water consumption by 2.5%.

30. The Drought Plan, which is published on the website and available from the company's offices, sets out quite clearly the conditions when the company will enforce water saving through a ban on hose pipe usage. The company already imposes a ban on sprinkler use.

31. There has been one complaint in the last year over the delay in fitting a meter to a domestic property. The company is determined that this will not be repeated and plans have been made to employ external contractors, who are used to doing this type of work, if the company's own work force is unable to respond promptly.

Balancing Supply and Demand

32. It has proved extremely difficult to gauge future housing development within the company's supply area. The RSS does not go into such detail and the Test Valley BC's Core Strategy relating to Rural Settlements Action Plan, which includes Shipton Bellinger, is still in preparation. In Cholderton the matter is complicated by the fact that Wiltshire has recently become a Unitary Authority and Salisbury DC is one of a number of local councils seeking a judicial review. For the purpose of the plan the estimates of new housing developments have been based on historical data marginally modified to allow for the construction of limited affordable housing.

33. The company's Draft Water Resources Management Plan envisaged an increase in the abstraction licence to take effect in 2013. Since then significant water losses between the borehole and service reservoirs have been identified and greatly reduced. Additionally, the anticipated industrial development which had an estimated demand of 30,000 m³ per annum is now most unlikely to take place. The effect of these two events is the removal of any requirement for an increase in the abstraction licence.

34. The company intends to achieve savings in water usage at 2008 levels in the following areas:

Area of Action	Saving m ³
Thrupton Works	30,000
Water Efficiency	3,300

35. These savings will enable the company to provide an adequate supply of water to consumers through the period of the plan even after taking into account the growth in population that will come as a result of new builds. The company will seek to ensure that any planning consent that is granted by the local authority for new housing includes a requirement for the latest water saving devices, including water recycling, to be installed.

Investment, Financing & Consumer Bills

Investment 2010-2015

36. To meet the key objectives the company is to embark on an investment programme totalling £164,000 spread over the 5 years. The following table shows how this investment has been allocated across the key objectives listed in the introduction:

Key Objective Category	Expenditure £	Paragraph Reference
Leakage Management	8,000	13-15
Infrastructure	82,750	16-18
Flood Prevention	11,500	19, 20
Water Quality	33,050	21-24
Water Efficiency	20,000	25-30
Other Investment	8,700	

'Other Investment' includes £5,700 in improvements to security and £3,000 in miscellaneous items of more than £1,000 each.

Financing

37. The Cholderton & District Water Company is a very small private limited company. This limits the options available to source funding to finance capital expenditure. However, the close association with the Cholderton Estate makes it possible to obtain term loans from commercial banking sources.

38. The business plan assumes that the capital expenditure will be financed by a loan from Lloyds TSB at their base rate + 2%, currently 7%, repayable by 2020. This financing package has been factored into the financial projections.

Consumer Bills

39. The following table shows what K factors have been applied and how the plan translates into average household bills:

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
K Factor		2.4	2.4	2.4	2.4	4.4
Avg. Bills £	187.71	192.21	196.82	201.54	206.38	215.45

The company has endeavoured to smooth out the increase in bills over the full period of the plan. The 'K' factor in the final year (2014-15) is higher in order to restore the margin to an acceptable level.

40. Excluding any allowance for inflation, average household bills will increase by £23.24 over the 5 years of the plan. In percentage terms this represents a 12.4% increase over the same period.

Summary

The Company's Commitment

41. The company has identified the Key Objectives that have to be implemented over the 5 years of the plan in order to safeguard water supplies well into the future. The successful execution of the plan will give Cholderton's consumers a water supply that is:

Reliable – Adequate – Wholesome - Protected against flooding

42. The company will invest approximately £164,000 during the period of the plan. This sum is required not only to meet the Key Objectives but also to start the programme that will protect the quality of the water supply from the very real threat posed by nitrate pollution in the years beyond the 2015.

Working Together

43. The company will set up a programme through the Parish Councils that will establish a regular dialogue. This will give consumers the opportunity of making their views known and the company a means of keeping them informed about the progress of its plans.

44. The business plan calls for the implementation of water efficiency measures to cut water consumption by 2.5% overall during the course of the next 5 years. These savings are necessary to combat the challenge of climate change which will be manifested in hotter summers, a reduction in annual rainfall and more violent weather events. The positive support of all consumers is an essential element in achieving these savings.

15 April 2009