



2011-12 Regulatory Performance

Meeting Customer Expectations

Veolia Water Central Ltd

12th July 2012

Executive Summary

The purpose of this Report is to confirm that we:

- Have complied with all our relevant statutory, licence and regulatory obligations;
- Are taking appropriate steps to manage or mitigate the risks we face;
- Explain significant matters relevant to our performance in 2011-12; and
- Look ahead to any matters which deserve mention in such a Report.

As a regulated water business we work within five year cycles for the achievement of regulatory outputs and outcomes.

We now measure performance against a set of twelve key performance indicators required by Ofwat. These indicators provide Ofwat, our customers, stakeholders and investors with an overall picture of company performance and this is set out in the table below under sections A to D.

Veolia Water Central (VWC) Key Performance Indicators for 2011-12

A: Customer Experience

1	Service incentive mechanism (SIM)	77.7	Score
2	Water supply interruptions	0.31	hours per total properties served

B: Reliability and Availability

3	Serviceability infrastructure	Stable	
4	Serviceability non-infrastructure	Stable	
5	Leakage	158	MI/day
6	Security of supply index (SoSI)	100	Index score

C: Environmental Impact

7	Greenhouse gas (GHG) emissions	116	ktCO ₂ e
8	Pollution incidents (water)	10	Cat. 1-3 incidents per 1,000km/main

D: Financial Performance

9	Post tax return on capital	6.96%	%
10	Credit rating	BBB+	
11	Gearing	58%	%
12	Interest cover	2.5	Adjusted Cash Interest Cover

Further information on the background to these results is given in sections A to D below. Additional information not related directly to the KPI's is given in section E (Other Regulatory Outputs). Section F (Compliance) is our statement on compliance. We have set out our

accounting separation data in a separate publication 'Veolia Water Central 2011-12 Accounting Separation Data'.

Business Change

On 28th June 2012 Veolia Water UK sold a 90% stake in its three regulated water businesses to a consortium led by Infracapital Partners, the infrastructure investment fund managed by M&G (the European Investment arm of Prudential plc) and Morgan Stanley Infrastructure Partners. Veolia Water UK has retained a 10% stake, to ensure continuation of mutual sharing of best practice between the three regulated businesses and Veolia Water UK. Under new ownership, VWC maintains its vision to be the leading community-focused water company, in the eyes of the communities we serve, our people, our regulator and other stakeholders.

In response to our request, Ofwat proposed that we replace Veolia Water East (VWE) and Veolia Water Southeast (VWSE) as the water undertaker for the areas of appointment of VWE and VWSE, unifying the three companies. The benefits of this are that we can:

- Reduce costs by centralising certain functions, and in time, use these savings to lower customers' bills; and
- Simplify the regulatory framework as there will be two fewer licensees.

If this change proceeds, VWC will be responsible for compliance across all of the supply areas of the former companies. Since VWE and VWSE remain separate licensees they are reporting separately to Ofwat on risk and compliance as on other required matters.

Risk and Uncertainty

We have a formal and continuous process for identifying, evaluating and managing the key risks we face. Risks, both strategic and operational, are reviewed and discussed monthly at the Executive Management Committee (EMC). A key aim is to foster a culture in which staff, throughout the business, manage risk as part of their management of day to day operations. The Audit Committee reviews the EMC's work on risk management and reports to the Board on significant risks.

The main risks and uncertainties that we have identified are:

- Maintaining supplies in the event of a third dry winter
- Maintaining infrastructure serviceability
- Meeting leakage targets
- Maintaining high levels of water quality
- Achieving or exceeding the efficiency targets set in the Final Determination
- Loss of IT systems
- Higher levels of customers' debt
- Risks associated with change and, more specifically, the impact on people from restructuring.
- Uncertainty about sustainability reductions and how we take account of them within our Water Resource Management Plan (WRMP)

Each of the key risks has a 'risk owner' from the senior management team who is responsible for establishing appropriate controls to mitigate the risks as far as possible. In addition to these main risks, other identified risks are also allocated to specific risk owners.

Regulatory Compliance and Assurance

Our approach to achieving and assuring compliance with our statutory licence and regulatory obligations is based on a sound system of internal controls and governance. Our Board and Audit Committee members carry out a range of activities to inform themselves about our compliance. Responsibility for monitoring regulatory compliance rests with The Director of Legal and Regulation, who is assisted in this duty by members of Regulation and Internal Audit teams. We continue to employ a reporter to give scrutiny, challenge and independent advice on procedures used to collect and report the information underpinning this Report.

A: Customer Experience

1	Service incentive mechanism (SIM)	77.7	Score
---	--	-------------	--------------

We improved our SIM score this year from 75 to 78 having reduced written complaints by 25% and controlled both abandoned calls and unwanted contacts. We halved the number of complaints that had to be escalated to second stage review and, for a further year there were no complaints escalated to the Consumer Council for Water. In surveys our customers reported high satisfaction with our service, reflected in our qualitative survey score of 4.3 out of 5.

Service Incentive Mechanism 2011-12

SIM Component	2010-11	2011-12
Number of unwanted contacts	160,647	161,440
Number of abandoned calls (> 10 sec)	57,116	-
Abandoned calls presented to advisers	-	26,122
All lines busy	0	0
Number of written complaints	2,623	1,987
Number of written complaints escalated to 2 nd stage review	231	119
Number of written complaints escalated to CC Water	0	0
Number of properties connected for water supply	1,282,063	1,290,050
Qualitative customer satisfaction score (1 to 5)	4.30	4.30
SIM Score	75	78

We need to improve the accuracy of our SIM data because our audits this year have shown that there were some errors of categorisation of calls between wanted and unwanted. These errors were in both directions. We rely on our contact centre advisers to distinguish between wanted and unwanted calls and this is not always straightforward. We need to improve our guidance to our contact centre advisers and reinforce our error checking processes. Our reporter identified these errors after the end of the year and we have developed an action plan to improve controls in this area.

We are establishing a SIM working group consisting of a small number of core staff drawn from across our business to implement the action plan. We will review our progress during this year with support from our reporter.

Guaranteed Service Standards (GSS)

There were 2,177 statutory GSS events during the year. The majority of cases arose in two categories, 892 cases of low pressure and 820 missed appointments. Our reporter identified some weaknesses in our GSS systems. Accordingly, we have devised an action plan to correct these weaknesses. The key features of the plan are to:

- Improve the systems for appointment tracking so that we are better able to identify missed appointments ourselves, and do not rely on customers to advise us of missed appointments;
- Clarify responsibilities for appointment keeping across our teams;

- Provide additional training to promote better adherence to company policies;
- Improve audit trails and current record keeping; and
- Report progress regularly.

We are establishing a GSS working group consisting of a small number of core staff drawn from across our business to implement the action plan. We will review our progress during this year with support from our reporter.

2	Water supply interruptions	0.31	hours per total properties served
---	-----------------------------------	-------------	--

The total number of properties interrupted for more than 3 hours was 52,446. This is 17% lower than last year's figure of 63,506. Of these, 53% were planned interruptions to carry out essential maintenance work and customers received prior notice in these cases as we are required to provide. The number of unplanned interruptions to supply greater than 3 hours was 23,874. In addition there were 529 interruptions caused when third parties damaged our supply system and 238 when planned works overran.

This KPI is a new measure that was not included as a final determination output. We will be reviewing our expected performance for both planned and unplanned interruptions in 2012-13 taking into account the nature and extent of our capital programme.

B: Reliability and Availability

3	Serviceability infrastructure	Stable	
---	-------------------------------	--------	--

We are pleased to report for infrastructure serviceability that we have reached the position of “stable”. However, we need a further year of similar performance to reassure both ourselves and Ofwat that this position has been achieved and that this can be maintained.

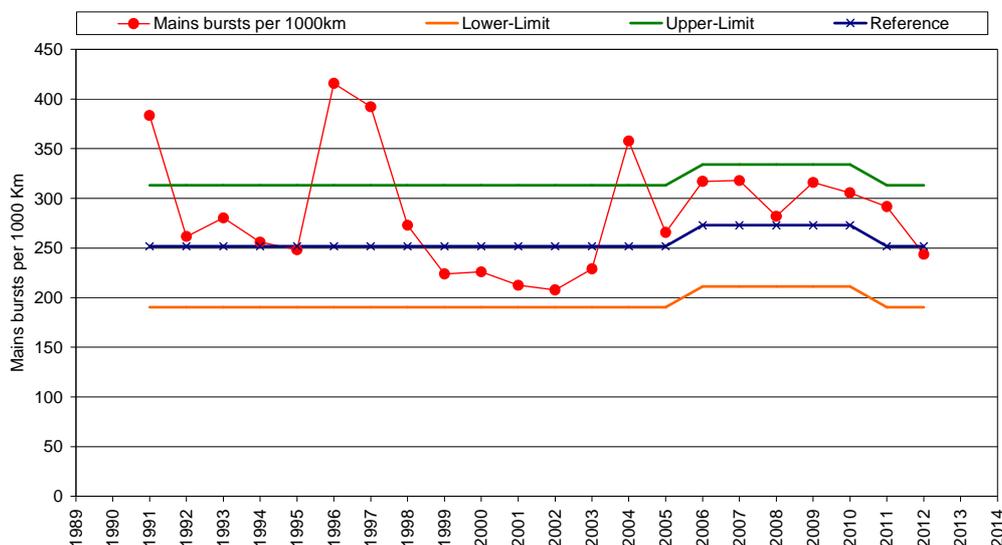
Serviceability Infrastructure 2011-12

Indicator	Reference Level	Actual Performance
Number of serviceability mains bursts per 1,000km	252	244
Number of serviceability mains bursts	3,458	3,537
No of properties with unplanned interruptions > 12 hrs	880	1,305
No. of properties at risk of low pressure	250	90
Iron-non-compliance	0.25	0.06
Turbidity, iron & manganese Index	0.07	0.03
Customer contacts for discolouration per 1000 prop	0.69	0.35
Distribution losses (Ml/d)	140	107

During the year we have met with Ofwat to discuss the serviceability performance of our infrastructure assets. We have taken on board comments from Ofwat when they visited us in January and also from previous meetings during last year. Accordingly, we have focussed attention on bursts (including ferrules) for this update.

We have renewed 136km of mains during the year. We finished the year below the reference level for bursts per 1,000km of mains and with only 79 bursts above the specific reference number.

Trend in Mains Bursts per 1000Km



With regard to secondary indicators, there were 1,305 properties suffering unplanned interruptions greater than 12 hours. This is the second year that this indicator has been above the reference level, and is above the upper control limit.

This was primarily due to two events of twin trunk main failures in close proximity. Following discussions with Ofwat we spoke to Northumbrian Water to learn from their approach to removing vulnerable points from their network. We have acted upon this to target both the removal of 'single points of failure' to reduce the number of customers affected by bursts on large mains and to ensure, when bursts occur, that we minimise disruption to customers.

We have revised our trunk main strategy by commencing the removal of 11 "hotspot" locations. These are locations where if the asset failed it would take some time to restore the water supply to customers.

4	Serviceability non-infrastructure	Stable	
----------	--	---------------	--

We continue to report our non-infrastructure serviceability as "stable" based on our performance during the year against our reference levels, set out in the following table.

Serviceability Non-Infrastructure 2011-12

Indicator	Reference Level	Actual Performance
Coliforms at water treatment works	0.050	0.023
No of service reservoirs with coliforms	0.000	0.000
Turbidity at water treatment works	1	0
No. of enforcement notices	0	0
Unplanned maintenance	8,238	8,318

Our indicator for unplanned maintenance is unrealistically high due to the replacement of paper-based job recording with an electronic system. We need a further year of using this system to improve the stability of our data series. This will allow us to improve training and guidance on the system.

5	Leakage	158	MI/day
----------	----------------	------------	---------------

Reducing leakage in an effective and economic way is important, particularly so during periods of drought when we have had to impose a temporary use ban. In 2011-12 we achieved our leakage target of 185MI/d with leakage levels of 158MI/d.

We will be carrying out a review to further improve the accuracy of both our target and reported leakage levels. We expect our performance both this year and next will continue to be below our target.

6	Security of supply index (SoSI)	100	Index score
---	---------------------------------	-----	-------------

We achieved a security of supply index (SoSI) score equal to 100 in respect of both reference and critical period scenarios and we expect to meet the target in the coming year.

The main risk to security of supply remains the prospect of sustainability reductions which could reduce the amount of water available to us. As we manage the current groundwater drought, we may also discover new information about the reliability and availability of resources that could change the SoSI score in future.

Drinking Water Quality

In calendar year 2011 our mean zonal compliance¹ with drinking water quality standards was 99.99%, compared to 99.96% in 2010. We investigate when water quality samples do not meet the standards set. None were likely to have been harmful to human health.

Low Pressure

We monitor pressure through a system of pressure loggers and by analysing customer contacts about apparent pressure problems. At the end of the year there were 90 properties on our low pressure risk register, compared to 148 a year ago.

¹ Mean zonal compliance is the average of the compliance rates for 39 parameters that are tested to establish the quality of water and is the main measure used by DWI to demonstrate compliance.

C: Environmental Impact

7	Greenhouse gas (GHG) emissions	116	ktCO ₂ e
---	--------------------------------	-----	---------------------

Almost all of our carbon emissions, about 95%, are the result of using energy produced by others to abstract, treat and distribute water to customers. We measure our performance through the carbon intensity per megalitre of water put into supply. We reduced carbon intensity to 356kg CO₂e/MI compared to 375kg CO₂e/MI last year. Our total operational emissions were 116kt, consistent with the projection we made in our business plan in 2009.

8	Pollution incidents (water)	10	Cat. 1-3 incidents per 1,000km/main
---	-----------------------------	----	-------------------------------------

The number of pollution incidents recorded by the Environment Agency (EA) was 14, although one of these incidents relates to a different company. Each event recorded was classified by the Environment Agency (EA) as being Category 3, the least serious. Twelve of the remaining 13 of cases resulted from mains bursts leading to treated water escaping and subsequently draining to watercourses. The EA considered that no further action was necessary in any of the cases.

Ofwat ask us to make this assessment by reference to the industry average for the years 2008-10, which we do not know and cannot calculate. Therefore we have not assessed our performance for this measure as red, amber or green.

D: Financial Performance

9	Post tax return on capital	6.96%	%
---	----------------------------	-------	---

Our post tax return on capital was 6.96%.

10	Credit rating	BBB+	
----	---------------	------	--

The credit ratings of our financing subsidiary Veolia Water Central Finance PLC are BBB+ with Standard & Poors and A3 with Moodys, both of which are investment grade ratings. These ratings agencies advise that these ratings are under review for downgrade following our recent acquisition by a consortium led by Infracapital Partners. However, we do not expect this to put the investment grade rating at risk.

11	Gearing	58%	%
----	---------	-----	---

The ratio of net debt to RCV at the year end was 58%.

12	Interest cover	2.5	Adjusted Cash Interest Cover
----	----------------	-----	------------------------------

Our interest cover ratios are tabulated below. We believe they are consistent with the values required to maintain credit ratings of at least investment grade.

Interest cover ratios 2011-12

	2011-12
FFO ² / Interest	8.2
Adjusted Cash Interest Cover	2.5

² FFO is the Funds From Operations

E: Other Regulatory Outputs

Health and Safety

The number of near miss and hazard reports increased again this year from 711 to 734. Compared to last year the total number of accidents fell from 62 to 59 and the number of RIDDORS³, fell from 7 to 6.

Key Outputs Completed

The table below provides a summary of our key outputs covering the first two years of Ofwat's Final Determination for 2010-15. These are not included in the twelve key performance indicators set out earlier.

Item	Units	FD09 ⁴ output	Actual
Base service water efficiency target (cumulative)	MI/d	2.48	3.08
Length of mains renewed (cumulative)	Km	252	281
Optional meters (cumulative)	Nr	15,500	20,077
UK Biodiversity Action Plan	BAPw1	1	1
Customer contacts discolouration per 1,000 population	Nr	0.50 by 2015	0.35

We have two mains cleaning projects in Roydon and Blackford. We have a commitment (undertaking) with the Drinking Water Inspectorate (DWI) to complete these projects by March 2014 and June 2014 respectively.

The Roydon mains cleaning project is dependent on the installation of treatment to remove manganese at Roydon water treatment works. These works are substantially complete with only final commissioning into supply, of the improved works, scheduled for the summer of 2012. Planning and enabling work is underway so that mains cleaning can start in October this year but this could be affected by drought and our resource position at the end of the summer. We have kept the DWI informed of the situation.

Work to install fish screens at Chertsey water treatment works has experienced some delays but the overall programme of work to install screens at three treatment works remains on target.

³ RIDDOR is the HSE specified accident and injury reporting requirement (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations).

⁴ FD09 refers to the Final Determination 2009.

F: Compliance

We recognise the importance of demonstrating to our customers, stakeholders and regulators that we are meeting the statutory and regulatory obligations that apply to our activities. We have set out in this Report our compliance with and performance against certain key performance indicators, legal requirements and regulatory outputs. Where we believe that we need to improve the accuracy of the data we collect to inform our reporting, we have explained the measures we are taking to make those improvements. We have also identified the risks that we are facing and the steps we are taking to manage and mitigate those risks.

In preparing this Report we have considered, in particular, our compliance with those legal and regulatory obligations for which OFWAT is the enforcement authority. In respect of these obligations, subject to the matters set out in this Report, we confirm that:

- we have a full understanding of, and are meeting, our statutory and regulatory obligations;
- we have taken steps to understand and meet our customers' expectations;
- we are satisfied that we have sufficient processes and internal systems of control to meet fully our obligations.
- we have appropriate systems and processes in place to allow us to identify, manage and review our risks; and
- where we have identified material or potential risks, we have set out in this Report the steps we are taking to manage and or mitigate those risks.

Alongside this Report, we are publishing our Regulatory Accounts for the year ended 31 March 2012 in which we:

- confirm that we have sufficient financial and management resources available to us for at least the next twelve months to meet our obligations as a water undertaker;
- confirm that transactions with associated companies are at arms length (except where agreed by OFWAT) with no cross-subsidy occurring;
- confirm that contracts entered into with associated companies include requirements concerning the standard of service to be provided, to ensure we can meet our obligations as a water undertaker;
- confirm that, if a special administration order were to be made, we would have available sufficient rights and assets (other than financial reserves) to enable a special administrator to manage the affairs, business and property of our regulated activities;
- explain links between the standards of performance we achieve and directors' and senior executives' pay;



For and on behalf of the Board
Richard Bienfait
Managing Director