

***“Scottish Water.....
Changing Times, Changing Approach”***

Keynote address - Scottish WaPUG Meeting 11 June 2002

Geoff Aitkenhead - Asset Management Director

Scale of the Business

Staff	Approx 5350 people work for us
Turnover	£800m per annum
Investment	£1.8bn over 4 years (2002 - 2006)
Customers	2.2m Domestic households 190,000 Non Domestic
Assets	45,500 km water mains 28,300 km sewers 441 Water treatment works 1,643 Sewage treatment plants
Water supplied	2,500 Megalitres/day



Ownership and Regulation

- Owner - Scottish Executive
- Economic Regulator - Water Industry Commissioner
- Drinking Water - Drinking Water Quality Regulator
- Environmental Regulator - Scottish Environment Protection Agency
- Health & Safety Regulator - Health & Safety Executive



Business Plan

Our Aim

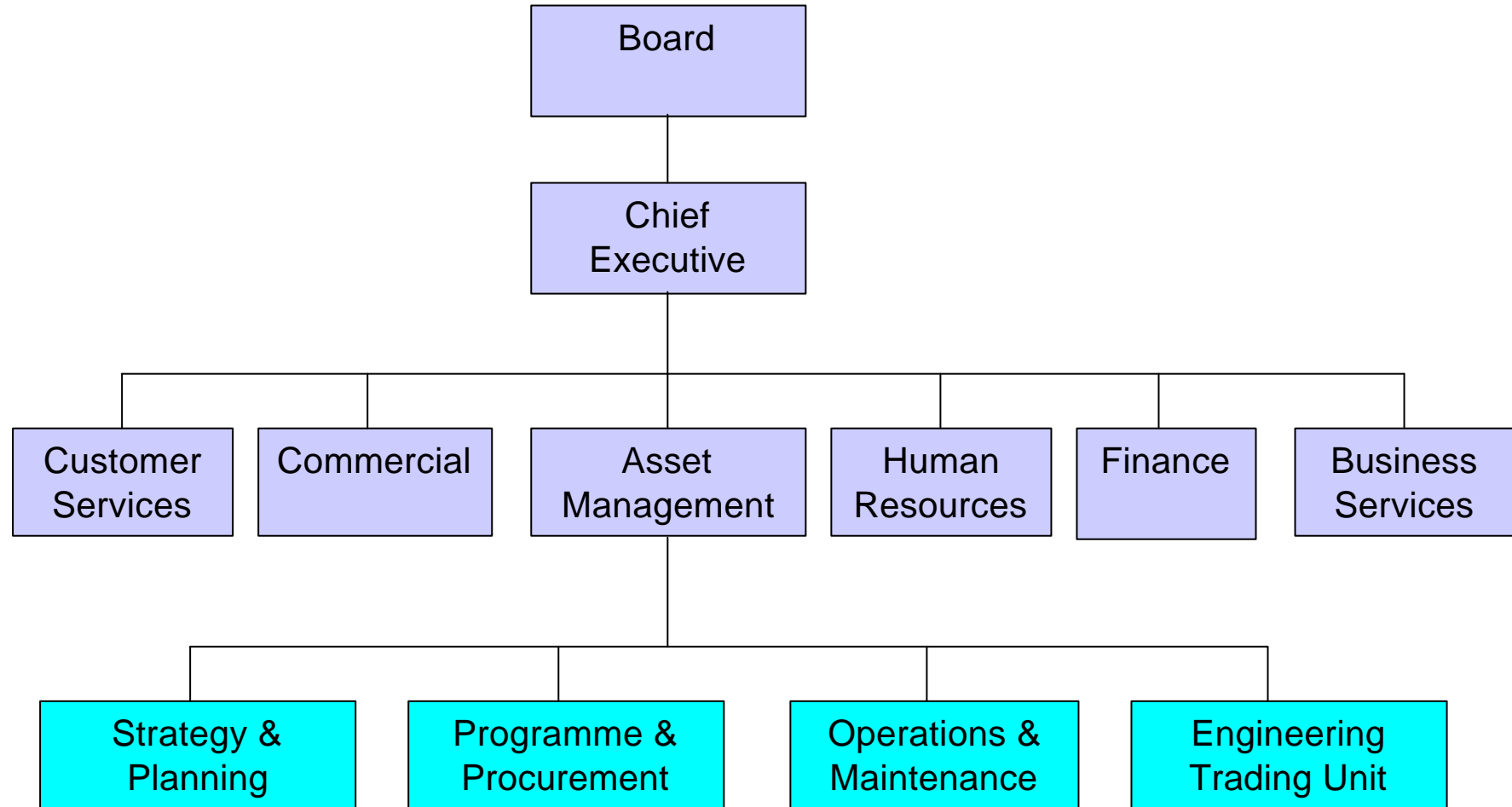
- To make sure Scottish Water has the capability to succeed in a competitive multi-utility market
- Shape a new commercial and efficient business model
- Establish a step change in performance and products
- Engage and involve our people in transforming the business

The Prize

- A competitive, efficient and successful public sector model
- Recognised for exceptional standards of customer service
- An organisation that people are proud to work for
- Provide a viable model for others around the world



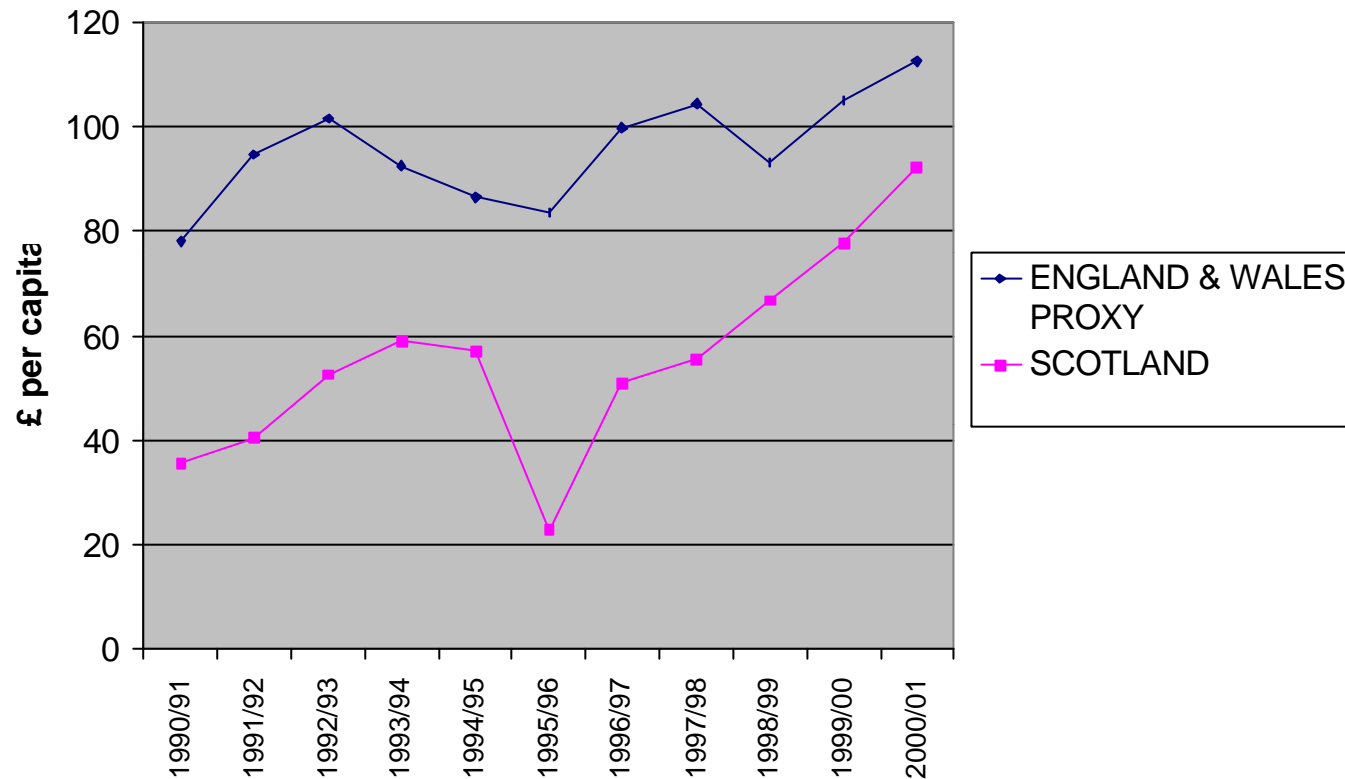
Organisational Structure



Asset Management - Our Inheritance

- At or near to the bottom of the UK performance league
- Assets under-funded for generations (>10 years behind England and Wales)
- Operating costs significantly above the efficiency frontier
- 3 investment programmes built on different strategies
- Different levels of risk assumed in developing programmes
- Current capital investment delivery models will not deliver efficiencies

Comparison of Investment per Capita

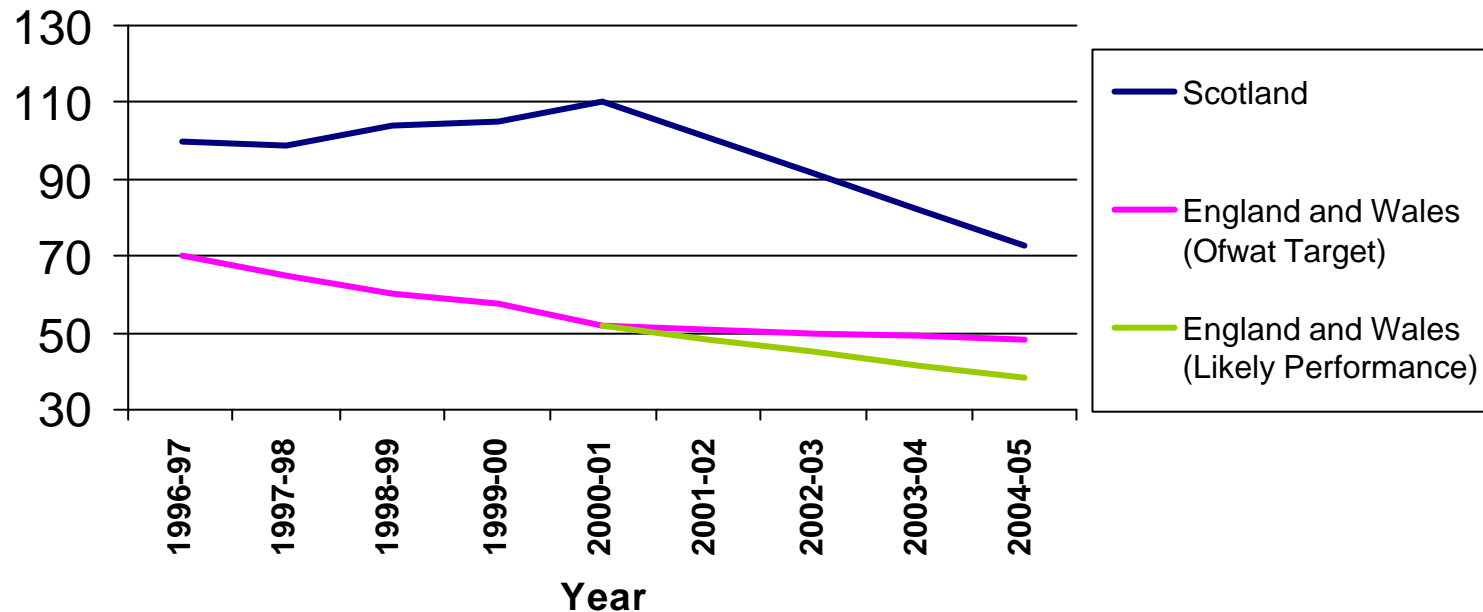


“There is a significant relative under-spend in Scotland, exacerbated by greater capital efficiency south of the border. The 2002-2006 investment programme will narrow the gap, but efficiency in programme delivery is critical to affordability”

Source: WIC Strategic Review of Charges - Sept. 2001

Relative Operating Cost Efficiency

Underlying operating expenditure trends since 1996-97,
projected over the next regulatory period



“The targeted gain in efficiency is significant but necessary. The gap with England and Wales could grow if the industry in Scotland underachieves”

Source: WIC Strategic Review of Charges - Sept. 2001

The Efficiency Challenge

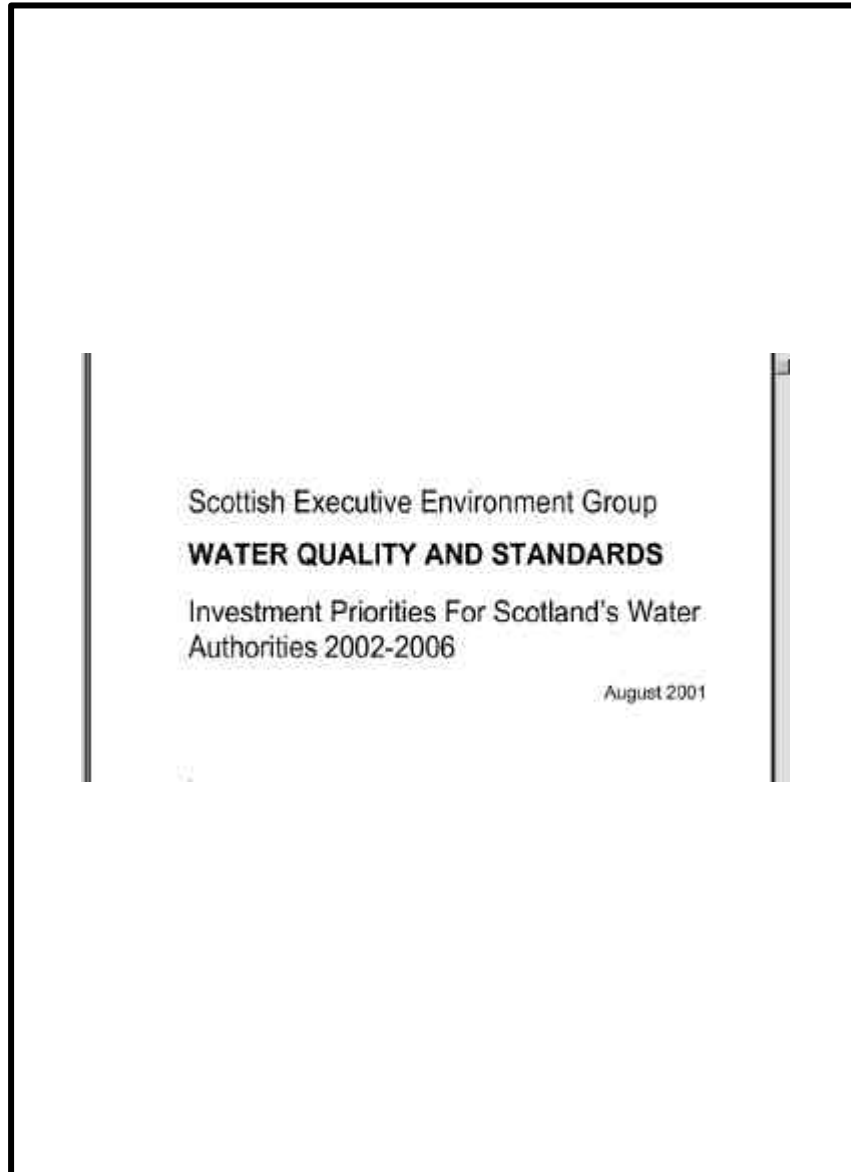
- **Improve Customer Service** to that of the comparator companies
- **Reduce operating costs by £209m out of £462m by end of 2005/06 (45%at 05/06 prices)**
- **Deliver the outputs required by the “Quality and Standards” paper for £1.8bn. (£500m less than the original estimated value of £2.3bn)**



The Time Pressures

- **Regulatory periodic review period of 4 years began on 1st April 2002 - 3 years and 9 months remaining**
 - **Customer expectations are rising, fuelled by awareness of current performance and price rises to fund investment**
 - **Competitive environment developing**
-

The Investment Plan



- Q&S II process and outputs
- Emerging risks

The Investment Plan

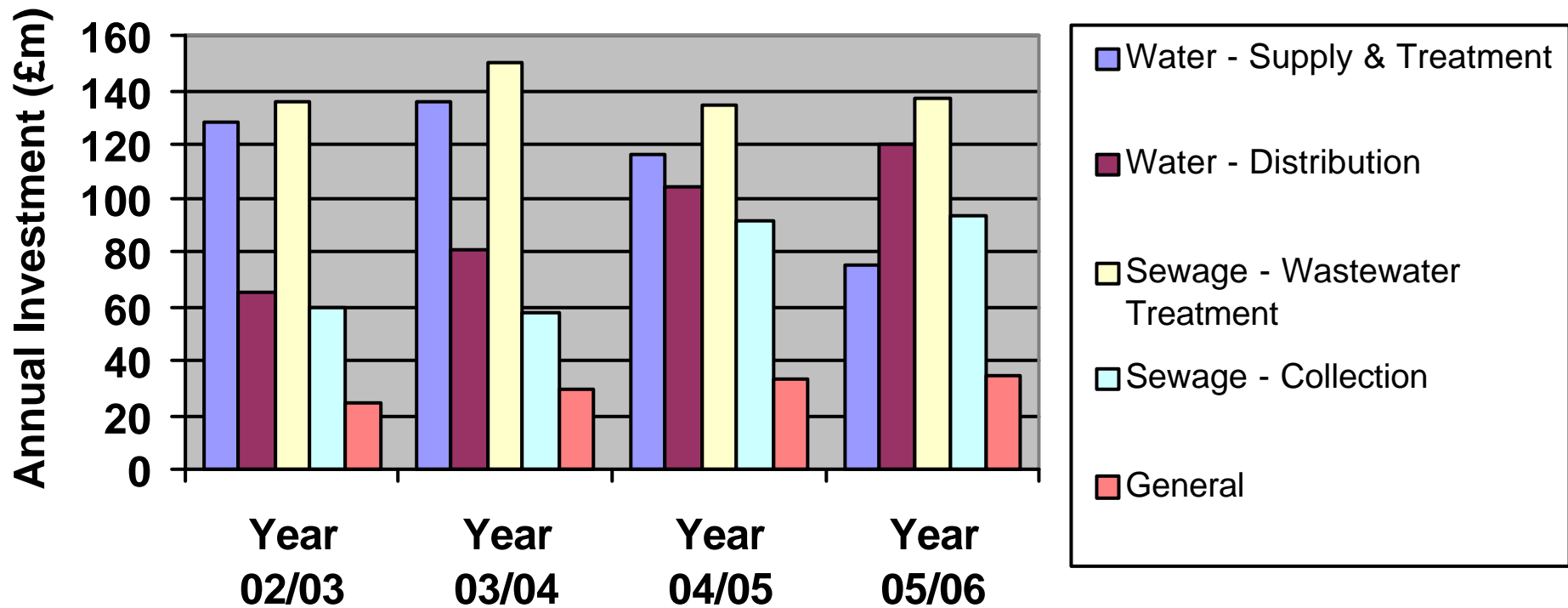
Quality & Standards II - Summary of Outputs

	East		West		North	
	2002	2006	2002	2006	2002	2006
Population Served by Secondary Treatment	82%	97%	65%	95%	79.5%	85%
Drinking Water Quality 1000 Index	990	991	965	980	948	991
Water Mains Rehabilitation	820km (7%)		1,811km (11%)		875km (5%)	
Sewer Rehabilitation	97km (1%)		129km (1.1%)		220km (3%)	



The Investment Plan

(Maximum Investment 2002-2006: £1,800m)





Emerging Risks and Issues

2 EVENING TIMES Wednesday April 17 2002

Contamination hits supply to 15,000 Ayrshire homes

Radio Scotland (Solway) 0750 hours 3 April 2002

Health scare as

Sunday Herald
2 June 2002

60,000 told to

“Galway and Upper Millsdale MSP Wasdair Morgan has urged Jon Hargreaves to review sewage works capacity in SW Scotland as it is undermining economic development in the region”

avoid tap water

of Scotland's

beaches





The Asset Management Challenge

**To achieve the optimum balance of performance,
cost and risk.**





The Asset Management Challenge

Understanding the risk profile with regard to:

- **Water Quality**
- **Wastewater Treatment Works compliance**
- **CSO compliance**
- **Foul flooding**
- **Interruptions to service**
- **Water pressure**

Determining our risk appetite



Enablers

Data, converted to timely, accurate and reliable information

Slimline processes and systems that cut out waste and unnecessary bureaucracy

Effective planning and risk management, using appropriate tools such as INMS, SIIOPS, FMECA

Programming and supply chain management

People, with the imagination, competencies, skills and energy to deliver what is needed

