

Part B3 – Research and Development**Summary Report by REPORTER****Summary of Audit Findings & Reporter Opinion****Water Supply – R&D**

As part of the B3 Service and Serviceability audit, the business case for Research and Development (R&D) was audited on the Supply side. This section summarises the findings of the audit.

It is the opinion of the Auditor that The Company has provided a robust case for investment. A large degree of work has been completed to prepare detailed costs for specific research and development.

Waste Water – R&D

As part of the B3 Service and Serviceability audit, the business case for Research and Development (R&D) was audited on the Waste side. This section summarises the findings of the audit.

It is the opinion of the Auditor that The Company has provided a robust case for investment. A large amount of work has been completed to prepare detailed costs for specific research and development, and to identify quantifiable benefits despite difficulty.

Water Supply – R&D

(TEXT REDACTED)

The Company carry out and manage 'applied' research and development (i.e. research and development targeted to solve specific industry / business related problems) where the risks are considered lower than 'fundamental' research (aimed at better or fuller understanding of a subject). Fundamental research is carried out typically by research universities where the Company have strong links. The Company also work with other Water Companies to help support and steer this fundamental research.

The future benefits of R&D projects are difficult to quantify, as the specific outputs are difficult to predict and also as the outputs will enable different areas of the business to deliver benefit. However, the Company assesses current and historic benefits of R&D projects against a number of standard headings such as OPEX savings in respect of manpower or other costs, CAPEX savings in respect of ensuring most appropriate solutions are chosen, innovations for project cost savings, and future CAPEX benefits. An average

benefit ratio for delivered R&D projects has been used to generate the overall expected benefit. Although this is difficult to accurately estimate, the methodology shown is agreeable.

The Company has limited interest in intellectual property value as this is outweighed by the business benefits such as savings etc. of bringing the process or product into beneficial use. One specific R&D project is rolling from AMP4 into AMP5. This project, the Water Reuse Project, is excluded from the AMP5 R&D case, as it is part of the Supply/Demand case.

Waste Water – R&D

(TEXT REDACTED)

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The future benefits of R&D projects are difficult to quantify as the specific outputs are difficult to predict and also the outputs will enable different areas of the business to deliver benefit. However, the Company assesses current and historic benefits of R&D projects against a number of standard headings such as OPEX savings in respect of manpower or other costs, CAPEX savings in respect of ensuring most appropriate solutions are chosen, innovations for project cost savings, and future CAPEX benefits. An average benefit ratio for delivered R&D projects has been used to generate the overall expected benefit. Although this is difficult to accurately estimate, the methodology shown is agreeable.

The value of maintaining intellectual property is outweighed by the business benefits such as savings etc. of bringing the process or product into beneficial use.

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