

9 December 2005

Sir Nick Stern
Stern Review
2nd Floor, Room 35/36
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

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Dear Sir Nick,

Severn Trent Plc evidence for the Stern Review on the Economics of Climate Change

Severn Trent Plc welcomes the Stern Review on the Economics of Climate Change. Severn Trent is a FTSE 100 environmental services company, which for the last five years has been named the global utility sector leader of the Dow Jones Sustainability World Index. Our UK companies are amongst the largest in their sectors and include Severn Trent Water, Biffa Waste Services and Severn Trent Laboratories.

Climate change is an important consideration for the water and waste industries as we take decisions to invest in technologies and assets which will be in use for 25 years or more. Climate change will shape the operating environments of the future, with the UKCIP scenarios predicting drier summers, wetter winters and more intense weather events year-round as this century develops. The action the government takes to tackle climate change, including trading schemes, energy taxes and renewable energy and fuel obligations will shape the operating costs of different technology choices. Therefore an early understanding of how these tools are likely to develop into the future is crucial for sensible investment decisions today.

Severn Trent is keen to emphasise the importance of long term energy and fuel price stability for the energy intensive water sector and the transport intensive waste sector. We emit around 0.3% of UK greenhouse gas emissions, just over 2 million tonnes of carbon dioxide equivalent, reducing the group's net greenhouse gas emissions through generating around 5% of the UK's renewable electricity. The Renewables Obligation is an important support mechanism that will enable the development of further renewables generation within the group, particularly in extending landfill gas generation sets to smaller landfill sites and CHP technology to smaller sewage sludge digestion sites. We are also exploring other technologies and the security of enhanced revenues is vital to secure ongoing development and installation of renewable energy assets such as wind and solar power with the longer payback periods required.

A more detailed analysis of our projected emissions and renewable energy opportunities is undertaken in the attached copy of the Severn Trent Carbon Management Report, which was launched at a Severn Trent/Green Alliance conference in July 2005 focused on climate change and the water and waste sectors. The report is built on a scenario which projects that the group's net UK greenhouse gas emissions may increase by up to 25% by 2020 as further environmental legislation is applied over the coming years. The report also investigates the renewable energy potential of the water and waste industries to offset the projected emissions increase. In response to the scenario the group will be undertaking a number of steps to offset this potential emissions increase including: utilising biodiesel in the fuel mix for our waste vehicle fleet; further improving landfill gas capture; expanding our renewable energy generation activities where possible; and further improving energy efficiency in the treatment and distribution of drinking water and waste water.

You may also find interesting our Summary Corporate Responsibility Report 2005 (http://www.severntrent.com/ss_pdf/corporateresponsibility/CR_Report_2005.pdf) which includes an overview of how Severn Trent Water and Biffa are responding to the challenges of climate adaptation in the water and waste industries respectively.

Yours sincerely

Andy Wales
Group Head of Corporate Responsibility