

April 2023

Accelerated infrastructure delivery project: draft decisions

About this document

This document sets out Ofwat's draft decisions to allow PR24 transition expenditure for schemes in the accelerated infrastructure delivery project. With the exception of SES Water, all English water companies submitted proposals for acceleration, and, after careful consideration, we propose to approve 31 schemes for acceleration, valued at around £500 million over the 2023-2025 period and over £1.6 billion overall. In addition to this, we have identified a further 37 schemes, totalling potentially £376 million of investment, in the 2023-25 period and £1.5 billion in total, that companies can progress through the 2024 price review (PR24) transition expenditure programme at their own risk¹.

This document sets out how we have assessed company proposals and our draft decisions on schemes to be funded through the PR24 transition expenditure programme. Appendix 1 sets out our assessment of individual schemes. Appendix 2 sets out our proposed arrangements for cost recovery and customer protection.

¹ Ofwat, "[Our final methodology for PR24](#)", December 2022, p.89.

Responding to this consultation

We welcome any comments on this document. Please email them to ofwat-defraacceleratedprocess@ofwat.gov.uk. The closing date for this consultation is midday on Monday 24th April.

We will publish responses to this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our privacy policy.

If you would like the information that you provide to be treated as confidential, please be aware that under the FoIA there is a statutory Code of practice which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

The water sector is facing substantial challenges.

There is increasing pressure on drought resilience from climate change, population growth and abstraction reductions. We are already seeing dry summers, more frequent and intense rainfall, more variable river flows and biological changes in water bodies. In England, it is estimated that there is a 25% chance of the worst drought in recorded history within the next 30 years².

There is a need to significantly improve river and bathing water quality by reducing spills and so harm from storm overflows. There is also a need to reduce nutrient pollution in rivers from wastewater treatment works to protect our environment. Each of these areas will require significant investment from water companies in the next price control period, 2025–30.

To help to tackle these issues, we agreed with the Department for Environment, Food and Rural Affairs to initiate a project to accelerate infrastructure delivery in England. We were pleased to see all English water companies (except SES Water) put forward proposals for accelerated additional infrastructure delivery in 2023–24 and 2024–25.



After careful consideration, we are pleased to announce we propose to approve 31 schemes for acceleration, valued at around £500 million over the 2023–25 period and over £1.6 billion overall³. As part of our assessment process, we are proposing to accelerate schemes where companies have demonstrated a clear need and benefits to customers and the environment.

2. National Infrastructure Commission, '[Preparing for a drier future: England's water infrastructure needs](#)', April 2018, p5.

3. All figures in this document are in 2020–21 Financial Year Average CPIH prices, except where otherwise stated.

United Utilities
 Potential £919 million
 Four schemes

Severn Trent Water
 Potential £70 million
 Three schemes

South Staffs Water
 Potential £99 million
 Two schemes

Bristol Water
 Potential £3 million
 Two schemes

South West Water
 Potential £129 million
 Four schemes

Portsmouth Water
 Potential £12 million
 One scheme

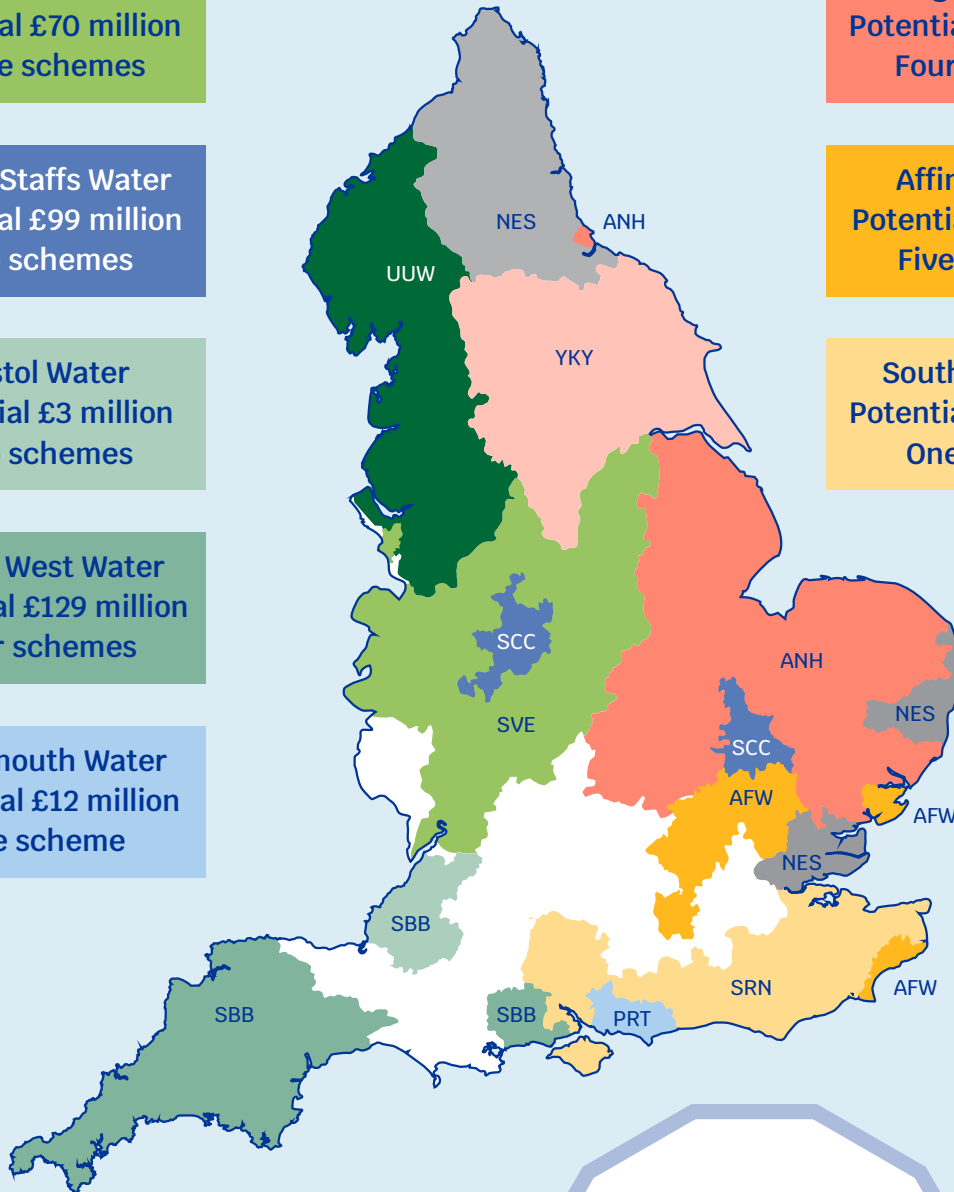
Northumbrian Water (Essex & Suffolk)
 Potential £69 million
 Three schemes

Yorkshire Water
 Potential £67million
 One scheme

Anglian Water
 Potential £80 million
 Four schemes

Affinity Water
 Potential £21 million
 Five schemes

Southern Water
 Potential £50 million
 One scheme



31 schemes
£1.6 billion
 overall

£500 million
 over 2023–25

Alongside the accelerated infrastructure delivery project, further detailed scheme assessments are being undertaken through existing industry processes such as the water resources management plan (WRMP) and water industry national environment programme (WINEP). To assist in the deliverability of a potentially much larger 2024 price review (PR24) investment programme, we have extended the scope of the transition expenditure programme for PR24⁴. We expect companies to accelerate other schemes which will qualify for transition funding if their need is confirmed through those processes.

We are proposing to accelerate potentially £400 million worth of investment in water resilience schemes. This includes seven smart metering schemes, which equates to 462,000 smart meters over 2023-25. This will help to increase drought resilience faster, by helping to reduce water demand and allow leaks to be identified quicker. Despite WRMPs still being at draft stage, we are proposing to accelerate four water supply schemes which will provide an additional 48 Ml/day of water once delivered. We are also proposing to accelerate four water quality schemes which will protect a maximum of 31 Ml/day of peak output.



Water resilience

Potential
£400 million



Storm overflows

Potential
£1.1 billion

We are also proposing to accelerate investment of about £1.1 billion (ten schemes across seven companies) to tackle storm overflows. These proposals include more innovative ways to reduce spill frequencies, such as Anglian Water's use of digital and other solutions and Southern Water's use of sustainable solutions at scale, such as constructed wetlands and stopping infiltration from private lateral drains, to deliver defined spill reduction targets. Combined, the proposals aim to provide interventions at over 250 storm overflows and reduce annual average overflow spills by around 10,000.

4. Ofwat, '[Setting expenditure allowances](#)', December 2022, p115.

To ensure our environment is protected, we are intending to accelerate three nutrient neutrality schemes, of potentially £160 million, for Anglian Water, South West Water and United Utilities that will protect natural ecosystems, continue to facilitate the economic development of the different areas including enabling the development of up to 82,500 homes, and help wildlife by improving the water quality of our rivers at 14 different sites.



In total we are proposing to accelerate 31 schemes where companies can demonstrate that they will deliver earlier benefits for customers, communities and the environment.

Where companies did not provide sufficient evidence for this accelerated process, we have identified a further 37 schemes (totalling £376 million of investment in the 2023-25 period and £1.5 billion in total) that companies can progress through the 2024 price review (PR24) transition expenditure programme, if companies consider that the schemes will meet the transition expenditure criteria, for example that the schemes will be included in final WRMP or WINEP programmes and companies have adequately addressed any concerns that we have raised⁵.

5. Ofwat, '[Our final methodology for PR24](#)', December 2022, p89.

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1. Introduction

The water sector is facing substantial challenges. There is increasing pressure on **drought resilience** from climate change, population growth and abstraction reductions. There is a need to significantly **improve river and bathing water quality** by reducing spills and so harm from storm overflow. There is also a need to **reduce nutrient pollution** in rivers from wastewater treatment works to protect our environment. Each of these areas will require significant investment from water companies in the next price control period, 2025–30.

We are keen to facilitate increased investment in the sector that will see earlier benefits for customers and the environment. To assist the deliverability of a potentially much larger PR24 investment programme, we are keen to spread any increased investment over a longer period. In the 2024 price review (PR24) methodology we increased the scope of the transition expenditure programme, so that it covers work undertaken in 2023–25. This allows companies to undertake work in this price control period on their PR24 enhancement programmes and receive funding through the PR24 process, enabling the increase in investment to be a spread over the PR19 and PR24 periods. We will make decisions on the transition expenditure allowances through our draft and final determination process.

To provide companies with additional certainty to take forward schemes, Ofwat agreed with Defra to take forward an accelerated infrastructure delivery project for English Water companies. This acceleration process provides companies with certainty that approved schemes would be funded through the transition expenditure process. The efficiency assessment of schemes would continue to be made through the price review determination process.

On 7 October 2022, Defra asked English water companies to propose schemes for accelerated additional infrastructure delivery in 2023–24 and 2024–25 that would provide benefits for customers, communities, and the environment. Defra asked companies to propose schemes in **three areas: water resilience (supply and demand), storm overflows and nutrient neutrality**.⁶

Companies were given until 17 October 2022 to set out proposed schemes. We were pleased to receive formal submissions from all English water companies (except SES Water).

When requesting proposals, Defra set out several criteria that schemes needed to meet to be considered for acceleration. Given the accelerated nature of the process, the need for

⁶ The latter (nutrient neutrality) relates to investment required for wastewater treatment works (WWTWs) to meet the Technically Achievable Limits for Phosphorus and/or Nitrogen if the provisions relating to nutrient pollution standards in the Levelling-up and Regeneration Bill currently before Parliament are enacted and the catchment areas to which those WWTWs discharge are designated for this purpose.

schemes had to be **clear and uncontroversial**. Other criteria included timing (projects needed to start this price control period (2020–25) and be finalised by the end of next price control period (2025–30), additionality (schemes needed to provide additional benefits) and schemes needed to be deliverable.

A key part of the criteria for acceleration is that companies would use the PR24 transition **expenditure programme** to fund the investments⁷. This requires Ofwat to make decisions on which schemes can be funded through the transition expenditure process. We have therefore assessed schemes, considering the views of other regulators. This includes the Environment Agency, the Drinking Water Inspectorate (DWI), the Consumer Council for Water (CCW) and Natural England (NE). We are grateful to these organisations for their input.

Most enhancement schemes that are funded through the price review normally go through an existing industry process, and so are subject to detailed scrutiny, before being submitted as part of company business plans. This includes water resources management plans (WRMPs), where schemes are consulted on as part of the preparation process, and the Water Industry National Environment Programme (or National Environment Programme in Wales). It is therefore important that we do not accelerate schemes that could later be identified as not required or inappropriate through these industry and price review processes. Consequently, our draft decisions focus on schemes that are low or no regret.

Even where we are not approving schemes for acceleration as part of this process, companies can still accelerate schemes through the transition expenditure programme, with decisions made as part of the price review process. The rest of the document sets our draft decisions on schemes for acceleration, our approach to assessment and funding arrangements.

We are now consulting on our draft decisions. We will consider all responses in our final decisions. To respond to the consultation, please email your comments to ofwat-defraacceleratedprocess@ofwat.gov.uk. The closing date for responses is midday on Monday 24th April.

Alongside this document we are also publishing two further documents:

- Appendix 1 sets out our assessment of individual schemes
- Appendix 2 sets out our proposed price control deliverables for schemes which we are proposing to accelerate.

⁷ Ofwat, "[Our final methodology for PR24](#)", December 2022, p.89.

2. Our proposed acceleration schemes

Our draft decision allows Anglian Water, Northumbrian Water (including Essex and Suffolk Water), Severn Trent Water, Southern Water, South West Water, United Utilities, Yorkshire Water, Affinity Water, Bristol Water, Portsmouth Water and South Staffordshire Water to accelerate, in total, 31 schemes. These schemes will result in potential expenditure of around **£492 million during the 2023-25 period and over £1.6 billion total expenditure**. We set out the potential expenditure for each company below. Final expenditure allowances will be set out in our draft and final determinations when we will undertake our efficiency assessment of the expenditure. All figures in this document are in 2020-21 Financial Year Average CPIH prices, except where otherwise stated.

Anglian Water will invest a potential £80 million to deliver four schemes to contribute to improving supply resilience and addressing river water quality.

- **Smart metering accelerated roll-out:** The accelerated delivery of 60,000 smart meters will allow Anglian Water to achieve 1.3 Ml/d in water savings by developing a near-real time understanding of customers' usage to support them reducing water usage. The increased insight also helps the company to proactively identify leaks on customer properties.
- **Storm overflows:** Potentially £27 million will be invested to tackle 21 storm overflow improvements and accelerate investigations to better understand the operation and solutions at 148 storm overflows. The accelerated scheme aims to utilise digital technologies to manage flows in networks to reduce discharges alongside traditional and nature-based solutions. The scheme targets a spill reduction to Sewer Overflow Discharge Reduction Plan targets of 188 per year through digital solutions alone, with a total spill reduction of over 450 across the 21 storm overflows using a combined approach.
- **Improving river water quality:** This scheme will accelerate the construction of nutrient removal treatment processes at Fakenham, Dereham and Whitlingham wastewater treatment works.
- **Pilot re-use plant:** The acceleration of a pilot re-use plant and transfer in Colchester will allow the company to understand how to deliver the proposed main reuse plant in 2025-30 more effectively as well as allow sharing of learning on re-use schemes across the industry which can lead to better long-term outcomes for customers.



Northumbrian Water (including Essex and Suffolk) will invest a potential £69 million to deliver three schemes to improve water resilience in their regions.

- **Improving water resilience:**

The acceleration of an improvement of the resilience of water supplies in the Essex and Suffolk area by adding 7 Ml/d capacity to the New Linford water treatment works. This will be provided by drilling a new borehole and building a new treatment works that will treat water from the new borehole and an adjacent well that was previously redundant.



- **Accelerating designs:** Bringing forward detailed engineering designs ahead of the construction of two strategic pipelines connecting the 'Northern Central' zone with the 'Blyth' and 'Hartismere' zones. These pipelines will ultimately improve the resilience of water supply networks allowing surplus water to be moved from the 'Northern Central' zone to where it is needed ahead of new supply schemes becoming available.
- **Storm overflow scheme:** Acceleration of work to progress a 'concept and definition' feasibility phase to understand the full range of interventions required to reduce storm overflow spills at 42 locations in the Berwick Upon Tweed catchment.

Severn Trent Water will invest a potential £95 million to deliver three schemes to improve water supply resilience and ensure treatment / flow compliance.

- **Acceleration of smart metering:** The acceleration of 250,000 smart meters will allow the company to achieve 11.3 Ml/d in water savings by facilitating behaviour change, identifying leaks quicker and better management of peak demand pressures.
- **Increasing reservoir capacity:** The acceleration of this programme will allow the company to increase the Draycote Water reservoir capacity by approximately 6% (1,400 Ml of extra storage) making an additional 9 Ml/d of water supply available during drought.
- **River flow monitoring scheme:** The acceleration of 80 flow to full treatment monitor installations at wastewater treatment works to enable the company to monitor compliance and ensure overflows do not spill outside of permit conditions.

Southern Water will invest a potential £50 million to reduce the use of storm overflows.

- **Southern Water storm overflow scheme:** The acceleration of up to 36 schemes across three geographical areas (Solent, the North Kent Coast and Chichester & Langstone Harbours) to deliver a reduction in storm overflow spills of up to 600 per year. The proposal will maximise learning by exploring innovative options and piloting sustainable interventions at scale to reduce spills (for example building constructed wetlands, improving surface water management across non-permeable areas and sealing private lateral drains). It will support effective and efficient spill reductions in 2025–30 and beyond. The company proposes to share its learning to benefit all UK water companies.

South West Water will invest a potential £128 million to deliver four schemes.

- **Acceleration of smart metering:** The acceleration of 40,116 smart meters in Colliford will allow the company to achieve 1.2 Ml/d in water savings by monitoring near real-time flows to better manage demand and identify leaks quicker.
- **Improving river water quality:** Building nutrient removal systems at five locations will contribute to enhancing the ecological habitat in and around the River Axe and Camel catchments.
- **Better standards:** This scheme will aim to accelerate 14 storm overflows in the Falmouth and Sidmouth catchments to meet new bathing water and shellfish water standards. The scheme will include a reduction in spill frequency of around 330 spills per year across the 14 storm overflows.
- **Free customer leak replacements:** Movement away from free leak repairs to supply pipe replacement for customers will provide longer lasting benefits.



United Utilities Water will invest a potential £914 million to deliver four schemes to improve river water quality and reduce harm from storm overflows.

- **Improving water quality:** The company will aim to accelerate investment to several wastewater treatment works within the Eden catchment in Cumbria (Appleby, Brampton Kirkby Stephen, Warwick Bridge, Carlisle and Penrith) which will protect natural ecosystems, continue to facilitate the economic development of the area, and help wildlife by improving water quality in Cumbria's rivers.



- **Tackling storm overflows:** The company will accelerate around £800 million investment for three separately identified storm overflow improvement programmes. The three schemes are: an acceleration of 135 2025–30 WINEP storm overflow improvements; a further 4 storm overflow improvements specific to improving discharges to Lake Windermere; and a further 15 storm overflow schemes to address bathing water areas. All three schemes will reduce the frequency of storm overflow discharges in the area. Based upon the 2021 EDM return this will equate to a spill reduction of over 8,400 spills per year, and involve installing approximately 327,000m³ of attenuation storage and 61.5 ha separation across the three schemes.



Yorkshire Water will invest a potential £67 million to tackle storm overflows in their network.

- **Ilkley Inland bathing water scheme:**

To accelerate investments to improve the relevant combined sewer overflows (CSOs) and wastewater treatment works to ensure compliance with bathing water quality standards at the inland site of Ilkley Wharfe. The scope of works is to ensure meeting the statutory standards as set out in the Bathing Water Directive and ensure all CSOs within 5km of the bathing sites discharge only one time per bathing water season. Additional investments will also be delivered to safeguard public health from the discharges downstream of the statutory sampling point.



- **Coastal bathing waters – improvement of Wheatcroft CSO:** This scheme will accelerate the improvement of the operation of Wheatcroft combine sewer overflow to meet the storm overflow reduction plan requirement for coastal bathing water of an average of two spills per bathing water season using an attenuation storage solution and screen.

Affinity Water will invest a potential £21 million to deliver five schemes.

- **Pathfinder smart metering rollout:** The acceleration of 20,000 smart meters will allow Affinity Water to achieve 0.3 Ml/d in water savings by increasing water efficiency. The scheme will also allow the company to learn more about the benefits of smart metering and reduce the delivery risk of its PR24 smart metering rollout.
- **Improving water quality:** The acceleration of four new treatment schemes (three for nitrate and one for PFOS⁸) to install new treatment processes that will ensure continued supply of compliant water quality for customers and help maintain resilient supplies.

⁸ Perfluorooctane sulphonate (PFOS) has been identified as being persistent, bio-accumulative in the environment and toxic in terms of human health. [Guidance on the Water Supply \(Water Quality\) Regulations 2016 specific to PFOS and PFOA concentrations in drinking water, DWI, January 2021](#)

Bristol Water (now part of South West Water) will invest a potential £3 million to deliver two schemes to identify and remediate supply pipe failures and reduce risks from lead pipes.

- **Smarter, Healthier Homes:** The implementation of 1,000 new supply pipes to stop leaks on customers' properties.
- **Replacing lead pipes:** This scheme will allow the company to identify and replace 500 customers' lead supply pipes and 250 internal plumbing pipes.

Portsmouth Water will invest a potential £12 million over 2023–25 and £120 million to accelerate their universal smart metering programme in Hampshire and West Sussex.

The scheme will focus initially on accelerating investment on supporting infrastructure which will enable the use of smart meters early in the 2025–30 period. This supporting infrastructure includes a meter data management system, cloud storage infrastructure, software purchasing and system implementation and integration. It will also include the implementation of a smart metering trial which will involve the installation of 500 smart meters. The investment will enable an additional 43,300 smart meters to be installed in the 2025–30 period. These additional meters are expected to deliver water savings of 2.5 MI/d by March 2030.



South Staffordshire Water (including Cambridge Water) will invest a potential £99 million to deliver two smart metering schemes.

The schemes will focus on accelerating the installation of 91,400 smart meters in both household and non-household properties. These projects will allow the company to achieve 5.4 MI/d in water savings by reducing water demand in the future and allowing the company to identify leaks quicker.

3. Assessment approach and criteria

3.1 Our assessment criteria

We have assessed company submissions for acceleration against the criteria set out in Table 3.1. We discuss our approach to funding arrangements, price control deliverables, certainty of delivery and commitments by companies below. Appendix 1 sets out details of our assessment of each scheme against the criteria.

Table 3.1: Our assessment criteria

Criteria	Explanation
Scope	Proposals must increase water resilience (supply and demand), reduce the use of storm overflows and or address nutrient neutrality (in those sites that need it to progress development). Projects must be new, align with UK government's environmental ambitions, provide customer value and can be delivered to schedule, without impacting on the delivery of existing regulatory obligations.
Timelines	Projects must be started in 2020-2025 (AMP7) and finalised by the end of 2025-2030 (AMP 8).
Need for investment	Is the need for the schemes clear and uncontroversial? Is there a clear link to a specific statutory driver and/or part of existing or draft programmes such as WRMP/DWMP/WINEP? Does the investment deliver additional benefits, above those that companies have already committed to delivering in this period, including any Green Recovery projects? Does the proposed investment overlap with activities funded through base expenditure allowances? Is the need for the scheme uncertain, for example, projects that are dependent on changes in government or regulatory policy?
Best option	Has the company considered an appropriate range of options to meet the need? Is there evidence that the proposed solution represents best value for customers, communities and the environment for the long term?
Certainty of delivery	Is the company underspending on associated enhancement activities? Has the company provided assurances that new projects will not distract or impact on the delivery of existing plans? Has the company set out where they are accelerating existing schemes in period, and if not the reasons why? Are projects deliverable?
Clear outputs and price control deliverables	Has the company clearly set out the expected outputs (e.g. number of smart meters delivered) and outcomes (reduction in leakage and per capita consumption)? Are these outputs and outcomes additional to those delivered by the PR19 programme? Has the company committed to clear price control deliverables (for 2023-24 and 2024-25), which allow funding provided to be adjusted if these deliverables are not achieved. For schemes that span more than one control period, has the company clearly set out the outputs that will be delivered this period, and the overall deliverables that will be delivered by the project?
Commitments by companies	Has the company shown commitment that they are willing to deliver more themselves as part of the process (in addition to those that they are funded for), whether that is going beyond their existing leakage or PCC targets, or committing to greater storm overflow or nutrient reductions this period than previously envisaged? Has the company reflected the benefits from inflation on their RCV (Regulatory Capital Value) when making their proposals?
Funding	Is the company proposing that funding is provided through transition funding for 2023-24 and 2024-25, with funding provided as part of the PR24 price review process?

3.2 Funding arrangements

Acceleration schemes will be funded through the transition expenditure programme. This means that funding will be provided in the next price control period as part of PR24, with the approach set out in the PR24 methodology.⁹

Through the accelerated infrastructure delivery project, we have identified schemes for which we will provide transition expenditure funding for as part of PR24. Funding through the transition expenditure programme is limited to enhancement allowances. We are not providing enhancement allowances for accelerated schemes at this stage. This is consistent with our approach to other transition expenditure, where we will assess the efficiency of expenditure allowances as part of the overall totex assessment at PR24. This assessment will be undertaken through the draft and final determination process and the costs associated with these schemes will be subject to the same scrutiny and challenge as all other enhancement costs.

Although expenditure will be incurred in 2023-24 and 2024-25, for the purpose of cost performance incentive, it will be considered as expenditure incurred in the following regulatory period (2025-30).

In the context of our price control framework, companies should not be financially incentivised to delay making investment. As such, we will implement a time value of money adjustment to the transition funding programme incurred in 2023-24 for PR24, using the allowed return. This will take account of the time value of money between the time when the company incurs the expenditure and when it recovers the expenditure through revenues.

For PR24 transition expenditure (both 2023-24 and 2024-25), we will make a midnight adjustment to the RCV at the start of the new control period (i.e. 31st March 2025). This will allow a timely recovery of the efficient costs incurred in delivering the schemes. This is important given the potentially larger size of the transition programme at PR24. If there is material operating expenditure in transition funding, we will consider allowing companies to recover this in the first year of the new price control period, rather than through a midnight adjustment to the RCV.

Over and underspending against expenditure allowances are shared with customers to incentivise efficiency while sharing risk between customers and companies.¹⁰ We will apply the PR19 cost sharing rates to expenditure incurred under the transition expenditure

⁹ Ofwat, [PR24 final methodology – appendix 9 setting expenditure allowances](#), December 2022, p115-118.

¹⁰ Further details on cost sharing are set out in Ofwat, [PR24 final methodology – appendix 9 setting expenditure allowances](#), December 2022, p39-45.

programme at PR24. This will avoid distortions between cost sharing on different types of expenditure incurred in 2020–25.

3.3 Price control deliverables

One of the advantages of the acceleration programme is that customers and the environment will see the benefits from investment sooner than would otherwise be the case.

We asked companies to commit to clear price control deliverables (for 2023–24 and 2024–25) and the proposed funding adjustment if these deliverables are not achieved. For schemes that span more than one control period, companies should clearly set out the outputs that will be delivered this period, and the overall deliverables that will be delivered by the project.

Based on company submissions and engagement, we set out proposals for price control deliverables in Appendix 2. For schemes that are trials, these price control deliverables include requirements for sharing learning so that other companies and customers can also benefit from this investment.

Some of the accelerated investment is expected to deliver benefits during the 2020–25 price control period. To prevent companies from earning outperformance (or avoiding underperformance) payments in relation to their PR19 performance commitments from this investment, we have also asked companies to set out the impact that their accelerated investment is expected to have on their performance in 2023–24 and 2024–25. Companies should exclude this impact on performance from their reporting against PR19 performance commitments. We propose to adjust the PR24 performance commitment level starting position to reflect these impacts so that customers benefit from these improvements in future periods. We have reflected this proposal in the price control deliverables for relevant schemes (mainly smart metering schemes) in Appendix 2.

3.4 Certainty of delivery

To deliver customer and environmental benefits, acceleration schemes need to be delivered on time and not distract companies from the delivery of the existing significant 2020–25 investment programme. We have assessed certainty of delivery at a company level.

As set out in our water company performance report, most companies are underspending against their PR19 enhancement expenditure allowances, with companies on average spending only 68% of the 2020–22 water and wastewater enhancement allowances.¹¹ We want

¹¹ Ofwat, [Water company performance report 2021–22](#), December 2022, page 33.

to enable PR24 investment to be spread over a longer period to support deliverability, but we also need to ensure that companies are not distracted from delivering their existing PR19 commitments.

In our water company performance report, we identified four companies which were significantly behind in their enhancement investment programmes. These companies spent less than 50% of their water or wastewater allowance over the 2020-22 period. On water enhancements, Affinity Water and Northumbrian Water spent 47% and 48% of their expenditure allowances, respectively. On wastewater enhancement, Yorkshire Water and South West Water spent 20% and 39% of their expenditure allowances, respectively.

We asked each of the four companies to develop an action plan on how they will get their performance and PR19 enhancement programme back on track. As part of the action plan, we have requested these companies to set out (among other things) the profile of enhancement expenditure, target delivery dates and interim milestones that they expect to achieve in years 2022-23, 2023-24 and 2024-25. This will allow us to better monitor progress of companies' enhancement programmes. To ensure that the accelerated investment does not distract these companies from delivering their PR19 enhancement programmes, we propose to make the transition funding conditional on each company providing us with sufficient and convincing evidence at our action plan review meeting in July 2023 that they are on track to deliver their PR19 enhancement programme.

3.5 Commitments by companies

One of the criteria set by Defra was "Commitments by companies". Given that the acceleration of schemes would, in time, be paid for by customers, we asked companies to show commitment that they were willing to deliver more themselves, for example reflecting the benefits from inflation on the Regulatory Capital Value (RCV), when making their submissions by including additional commitments to outcomes for customers and the environment.

Overall, companies did not put forward material additional commitments, beyond those they had previously committed to. On balance, we decided to approve schemes that met the other criteria, in anticipation that the additional certainty for the early starts would benefit customers and the environment overall.

3.6 Taking forward schemes through the transition expenditure programme

For this price review, we have made transition funding available for schemes in 2023-24 and 2024-25 (a year earlier than in previous price reviews). Companies are free to accelerate further schemes themselves at their own risk and they will be eligible for transition funding if

they are included in the final WRMP or final WINEP and any concerns we have identified have been addressed.

To qualify for the transition expenditure programme for 2023–24, companies need to meet the criteria that we set out in the PR24 methodology:

- the company provides sufficient and convincing evidence to justify the early start; and
- the expenditure relates to schemes included in a final WRMP24 or statutory requirements set out in final PR24 WINEP/NEP submission, where early delivery helps reduce overall delivery costs in 2025–30 and helps earlier delivery of customer and environmental benefits.

Where companies propose transition expenditure, we expect them to make the case for why it is efficient to bring the investment forward, and why it was not part of its outcomes and long-term planning in PR19. Companies can also qualify for the transition expenditure programme for 2024–25 if they meet the criteria for 2023–24, or if other criteria are met such as the investment has early statutory deadlines in the next price control period; or the expenditure relates to early design and planning of large, non-routine investments.

Where schemes are set in a company's final WRMP24 or statutory requirements set out in final PR24 WINEP/NEP submission, companies need to ensure that they have addressed any issues that we have identified with any schemes in our feedback. We expect companies to be on track to deliver their PR19 investment programme, to make sure that acceleration of investment does not distract companies from delivering what they need to as part of PR19.

For the avoidance of the doubt, the transition expenditure programme should not be used to propose investments that have deliverables that are already required in this price control period (2020–25) or that have been previously funded, or to propose base cost investments.

To assist companies and wider stakeholders, we have identified whether proposed schemes could be eligible for transition funding for expenditure in 2023–24 (and 2024–25) if our concerns are addressed and the scheme is included in the final WRMP or final WINEP. We have identified these schemes in Appendix 1. Companies can accelerate these schemes 'at company risk' of them meeting the criteria for the transitional expenditure programme.

3.7 Company business plan submissions

We expect companies to include their acceleration proposals as well as their transition expenditure proposals in their business plan submissions in October 2023. We also expect companies to fully identify the range of potential investment that they can commit to through the life cycle of the price review period. Planning effectively into the long term should see companies managing programmes of investment effectively to deliver best value outcomes

through the process of five-yearly price controls. Our approach and requirements in relation to long-term adaptive plans further support this. We do not anticipate any need for another acceleration process or similar in future periods.

4. Overview of our assessment

This chapter provides an overview of our assessment across the three areas covered by proposals:

- water resilience (supply and demand)
- storm overflows
- nutrient neutrality

We then discuss several company specific issues relevant to our assessment.

Table 4.1: Overview of Ofwat proposed acceleration schemes

Area	Number of schemes	Potential expenditure in 2023-25 (£m)	Total potential expenditure (£m)
Water resilience	18	119.67	403.54
Storm Overflows	10	332.45	1085.56
Nutrient Neutrality	3	39.56	156.51
Total	31	491.67	1645.61

4.1 Water resilience (supply and demand)

Increasing water company resilience to drought is important if the sector is going to continue reducing abstraction whilst dealing with the long-term challenges of population growth and climate change. Water companies submitted four types of schemes for consideration as part of the accelerated infrastructure delivery project:

- Schemes to increase water supply;
- Schemes to reduce water demand, in particular smart metering;
- Water quality schemes (to reduce water quality constraints on water supply); and
- Resilience schemes (to reduce risks to interruptions to supply or other events).

Many of the proposed schemes interact with companies' draft WRMPs. WRMPs are the statutory planning tool for identifying investment needs and options to address drought resilience shortfalls to balance water supply and demand. It is therefore not surprising that a number of the proposals interacts with the companies' draft WRMPs.

The accelerated infrastructure delivery project coincided with companies' consultation on their draft WRMPs. The WRMP process allows a full consideration and thorough assessment of the best way to address supply and demand shortfalls. We are undertaking our assessment of company draft WRMPs in parallel to our assessment of company acceleration proposals. We have identified several issues with company draft WRMPs¹². This includes not considering and subsequently appraising enough options across a range of option types (both supply and demand). We expect companies to address these issues before finalising their WRMPs. In the accelerated process, we have therefore focussed on low and no regret schemes. These are schemes in companies' preferred programmes of their draft WRMPs, that are uncontroversial, not linked or reliant on schemes that are not being proposed for acceleration, and which typically have low unit costs. This approach should help mitigate the risk of accelerating schemes which are subsequently not included in final WRMPs.

Where schemes have not been successful for acceleration in this process companies can still choose to accelerate at their own risk and request funding through the transitional expenditure programme at PR24. Schemes that feature in a final WRMP²⁴ are suitable for transitional funding. Although this route is described as 'at company risk' the company can manage this risk by using draft WRMP consultation response feedback (received between February to May 2023) to determine a scheme's likely inclusion in a final WRMP, or wait until final WRMPs are published (in summer/autumn 2023) before choosing to accelerate. This would still mean an earlier start rather than waiting for PR24 final determinations.

For water supply schemes we expect schemes to provide a quantifiable water supply benefit at a water resource zone level, consistent with the requirements of WRMPs. Consistent with the assessment criteria, we also expect schemes to start to provide water supply benefits before the end of 2029-30. We propose to accelerate four water supply schemes that feature in companies' draft WRMPs. These will provide an additional 47.8Ml/d of water available for use, to companies' supply-demand balance, in drought once delivered. These include Severn Trent Water's Draycote Water reservoir raising and Northumbrian Water's new borehole and treatment works at New Linford.

We identify a further 27 schemes which feature within company draft WRMPs in part or full, in their preferred programme, where we have concerns and so have not accelerated. If companies can address these concerns, they can accelerate these schemes at their own risk through the transition expenditure programme. These schemes represent a potential expenditure of £267 million in 2023-25 and £1,230 million in total.

¹² Ofwat, [Ofwat's feedback on draft WRMP24 and draft regional plans](#), March 2023

Many companies submitted smart metering schemes as part of the accelerated infrastructure delivery project. Smart metering will help companies reduce leakage and per capita consumption. Given the potential benefits of smart metering we are keen to support schemes where they are proven to be the best option for customers and the environment. Most of these schemes have been identified by companies as a preferred option in their draft WRMP best value programme. We are proposing to accelerate smart metering schemes submitted by Anglian Water, Severn Trent Water, South West Water, Affinity Water, Portsmouth Water and South Staffs Water. These schemes will deliver water savings of 19.5 Ml/d by 2024-25 and 80.2 Ml/d once completed.

A few of the smart metering schemes that companies proposed for the acceleration process were not included in the company's draft WRMP best value programme. We can't therefore be confident that these schemes are the best option for customers and the environment. These schemes were submitted by Bristol Water, Portsmouth Water, United Utilities and Wessex Water. We are not proposing to accelerate these schemes. We are also not proposing to accelerate schemes where, although included in the company's draft WRMP best value programme, we have significant concerns about them being the best option. These schemes were submitted by United Utilities and Yorkshire Water. We set out our concerns about these schemes in Appendix 1. Namely, United Utilities provided evidence that suggests that the proposed scheme is not cost beneficial and presented unit costs which look high compared to those presented by other companies as well as those requested by the company at PR19. Yorkshire Water resubmitted its proposal with a unit cost that more than doubles the unit cost of the original proposal. It also failed to present cost-benefit evidence supporting the proposed scheme being a better option than lower cost demand management solutions such as pressure management. If companies are confident that these schemes are the best option, and that they can address our concerns and include these schemes in their final WRMP, they can accelerate them at their own risk through transition funding.

Affinity Water, Bristol Water, South East Water, Thames Water and Wessex Water submitted 13 schemes we considered to be water quality schemes, which aim to reduce water quality constraints on water supply. These schemes ranged in expenditure from less than £1 million to £40 million and covered water quality parameters such as nitrate, PFOS¹³, cryptosporidium, blue green algae and lead. We have assessed schemes liaising closely with, and taking into account the views of, the DWI and the Environment Agency where appropriate. We propose to accelerate schemes where companies could demonstrate a new need for investment to tackle water quality that risked supply output, whilst also detailing suitable and timely outputs and deliverables. Overall, we propose to accelerate five schemes across Affinity Water to protect a maximum of 31.4Ml/d of peak output and Bristol Water for lead supply pipe replacements. Where we have not supported schemes we expect some of

¹³ Perfluorooctane sulphonate (PFOS) has been identified as being persistent, bio-accumulative in the environment and toxic in terms of human health. [Guidance on the Water Supply \(Water Quality\) Regulations 2016 specific to PFOS and PFOA concentrations in drinking water. DWI, January 2021](#)

these may be included by companies as part of the DWI PR24 drinking water quality programme process¹⁴.

Affinity Water, South East Water, and Yorkshire Water put forward resilience (non-supply and demand) schemes. These schemes covered power supply resilience, sub-zonal resilience, and flood resilience. These schemes do not contribute directly towards the supply-demand balance as defined by WRMPs. We therefore assessed these schemes against the PR24 requirements for resilience enhancement.¹⁵ These include:

- a clear and systematic risk assessment process that shows the investment is a priority;
- risk assessments must address specific relevant hazards, investments should be cost beneficial, and represent 'best value';
- optioneering must consider all types of mitigations including– resistance; reliability; redundancy; respond and recover (the 4Rs); and
- where investments mitigate multiple risks, the costs should be proportionally allocated to the appropriate cost category, including base maintenance.

Companies were unable to provide sufficient and convincing evidence against these criteria and that this expenditure should be additional to base expenditure and so we are not taking forward resilience schemes as part of the acceleration process. Companies are free to take forward proposals through transition expenditure if they meet the criteria or use their existing expenditure allowances where schemes form part of base expenditure.

4.2 Storm overflows

The adverse impact of storm overflows on our rivers is not acceptable. We expect all companies to reduce the impact of storm overflows, for example by reducing the frequency and volume of spills from overflows. A significant proportion of storm overflow spills are considered to be due to asset health / maintenance issues.¹⁶ We have set an expectation that water companies will reduce their use of overflows to meet and, where appropriate, go beyond an annual average of 20 spills per overflow from 2025 onwards, without additional expenditure allowances. Several companies have committed to this target.¹⁷ Our PR24 methodology states that we will approve additional funding where government targets, for

¹⁴ DWI, [PR24 Price review process](#)

¹⁵ Ofwat, [PR24 final methodology – appendix 9 setting expenditure allowances](#), December 2022, p54-55

¹⁶ Root cause data has only been provided for high spilling overflows (greater than 60 spills per year) by all companies, apart from Yorkshire Water, who provided no root cause information. Where data on the root cause of storm overflows has been provided, just under a third, 29%, were attributed to asset health or data issues. Defra, ['Event duration monitoring annual Returns'](#), May 2022.

¹⁷ Anglian Water, Northumbrian Water, Severn Trent and South West Water as set out in Ofwat, ['Response to wastewater company river water quality action plans'](#), June 2022.

example in the Storm Overflow Reduction Plan, demonstrably go beyond current legal requirements.^{18,19}

We received proposals from eight companies to accelerate programmes of work to deliver storm overflow improvements through spill reductions. To assess companies' proposals, we applied a set of principles for minimum expectations of schemes. Company proposals needed:

- a defined list of storm overflows at which outcomes / outputs are to be delivered
- an environmental need for undertaking the work (confirmed by the Environment Agency);
- a defined set of outcomes or outputs (for example a commitment to reduce spills by a certain number);
- evidence that the reduction in spills cannot be achieved by maintenance activities (for example as evidence by stage 1 of the Storm Overflow Assessment Framework, or an equivalent assessment);
- evidence that the overflows are currently operating in compliance with its legal obligations;
- a strong and reliable evidence base to demonstrate the current problem and how proposed interventions will address this (for example from actual monitored data or validated modelled outputs);
- evidence that optioneering has considered a range of plausible interventions, including surface water separation and nature-based solutions; and promotes the best value option
- well-evidenced investment needs, with a focus on best value.

We propose to approve ten schemes across seven companies (Anglian Water, Northumbrian Water, Severn Trent Water, Southern Water, South West Water, United Utilities, and Yorkshire Water). Nine of these proposals ranged from advancing the optioneering for improving storm overflows and exploring more innovative ways to reduce spill frequencies to reduce harm from storm overflow spills. Combined, these proposals aim to provide interventions at over 250 storm overflows and reduce annual average overflow spills by around 10,000.

Severn Trent Water provided the tenth proposal which was to accelerate flow to full treatment monitor installations at wastewater treatment works. These monitors are a statutory requirement for installation by December 2026 and form part of the company's PR24 WINEP programme. Early delivery of more than half of the required flow monitor installations will ensure that the company is able to monitor compliance and avoid non-permitted overflow spills to waterbodies.

We need to ensure that additional funding is provided for additional enhancement works, and not to meet needs already provided for through base allowances. We are therefore including,

¹⁸ Defra, '[Storm overflow reduction plan](#)', August 2022

¹⁹ Ofwat, '[PR24 final methodology](#)', December 2022

where appropriate, a condition that to retain funding (and avoid a clawback), companies need to demonstrate that they are operating assets in compliance with their permits. We expect companies to appoint an independent third party (with a duty of care to Ofwat) to assure this evidence to our satisfaction. Companies should not take our acceptance of this evidence as our acceptance that they are meeting their legal obligations, it is only evidence on which to agree incurred expenditure may be considered enhancement expenditure for the purposes of this accelerated expenditure scheme.

Companies also need to demonstrate that spills were not due to maintenance issues. We are therefore including a requirement that companies need to demonstrate that spills are not due to insufficient maintenance when including relevant schemes for funding in their business plans. We will accept the results from a stage 1 SOAF,²⁰ or equivalent, as evidence of meeting this condition. Efficient costs for delivering these outcomes and outputs will be determined through the PR24 process and set out in the final determinations.

For other schemes which we decided not to progress, companies can still accelerate these between 2023 and 2025 if they are included in water companies final WINEP, and they meet the requirements for transition funding.

4.3 Nutrient neutrality

Nutrient neutrality is the term given to an approach developed by Natural England in England (and Natural Resources Wales (in Wales)) as part of their roles as statutory consultees in the local planning and environmental assessment process. Natural England advise local planning authorities in England on whether a plan or a project they are assessing as part of a Habitats Regulation Assessment, such as a new housing development, is likely to have an adverse effect in terms of nutrient impact on protected sites, including Special Areas of Conservation, and whether mitigation measures would be needed to offset this impact. The advice from Natural England is that compliance with the Habitats Regulations requires that new construction development activity should not add to the nutrient burden at protected sites in unfavourable condition.

The Levelling-up and Regeneration Bill, currently before Parliament, includes provisions in relation to nutrient pollution standards that would allow the Secretary of State to designate catchment areas for certain habitats sites polluted by nitrogen and/or phosphorus. The effect of designation would be to require English water companies to ensure that treated effluent from wastewater treatment works that discharge into the designated catchments will, unless exempted, meet specified standards for the removal of nitrogen and/or phosphorus from

²⁰ [Environment Agency, SOAF.pdf, June 2018](#)

wastewater by the applicable upgrade date. Wastewater treatment works that have a capacity of less than a population equivalent (pe) of 2000 would normally be exempt.

In expectation of the relevant provisions becoming law and catchment areas being designated, we therefore propose to confirm as suitable for companies to accelerate three schemes from three companies: Anglian Water (three sites), South West Water (five sites) and United Utilities Water (six sites). These decisions will be conditional on the relevant legislation being enacted, and the nutrient neutrality designation being made.

- We are not proposing to accelerate schemes that do not meet the 2000 pe threshold or are not in nutrient neutrality areas.

Some of the work to reduce phosphorus levels at both nutrient neutrality and other sites may also be required to meet the requirements of the Habitats Regulations²¹. Consequently, where requirements for improvements are set out in the final WINEP then, if companies meet the relevant requirements set out in the PR24 methodology, they can accelerate work in 2023–24 or 2024–25 through transition funding (see section 3.7).

4.4 Company specific issues

We identified several company specific issues in our assessment, which are set out below.

Southern Water, in their initial submission, submitted an accelerated package with four schemes and expenditure amounting to c.£300 million for the 2023–25 period. This would be a material addition to their RCV. Upon querying and a conversation with the company, they explained that apart from up to £50 million on storm overflows, most of their proposed accelerated package could not be funded through transition funding and they would require in-period funding. It was clear in Defra's commissioning letter that companies must finance their proposed accelerated package through the transition funding programme. Given this, we have only assessed a £50 million programme on storm overflows as part of this accelerated process.

Thames Water provided insufficient supporting evidence for its schemes in its submission. We queried the company, but it did not provide further supporting evidence. We have therefore rejected all Thames Water acceleration proposals.

Wessex Water submitted nine schemes as part of this process. Of the water supply resilience schemes several featured in the company's preferred draft WRMP programme whilst others were not. Based on the submission information and subsequent queries the

²¹ [The Conservation of Habitats and Species Regulations 2017](#) (SI 2017/1012).

company was unable to quantify the need for investment (ie the supply risk to be addressed or water available for use benefits) of these schemes and the contribution they would make to address the problem. We are also concerned that several schemes overlap with what we would expect the company to do through base expenditure allowances. The company provided insufficient supporting evidence for its wastewater proposals to identify need and the scope of work it was proposing.

Yorkshire Water submitted a total of 12 schemes as part of this process. However, upon querying, it was clear that three schemes were 'additional candidates' that the company had not fully fleshed out. As such, we have not included these schemes in our assessment.

Affinity Water submitted seven schemes as part of the process which form part of a programme of work identified in the WRMP and a wider programme called 'Connect 2050'. Five of these schemes are heavily dependent on each other with a decision on one impacting the others. At face value the schemes look reasonable in terms of unit costs (delivery totex per MI/d benefit). However, each scheme cannot independently deliver the benefits presented and therefore the costs do not represent the delivery of the stated benefits. This creates uncertainty about the value of the schemes and whether they can be considered low regret. The company will need to address issues with scheme presentation and justification in the final WRMP.

South East Water proposed 11 schemes as part of this process. Three of the schemes are sub-zonal schemes not providing a benefit to zonal supply-demand balance. If these are supply demand balance enhancement issues, the water resource zone integrity should be reassessed and re-zoned and then the schemes assessed as part of the WRMP24 with full options appraisal.

Many of the schemes proposed appear to address interruptions to supply risk. South East Water have significantly missed their target for interruptions in three of the past seven years. Activities required to meet the current interruptions to supply target should be covered by base or existing enhancement funding.²² We therefore consider that South East Water should get itself back on track with the delivery of its existing water supply commitment before asking for enhancement expenditure to go further.

South Staffordshire Water proposed six schemes with expenditure amounting to c.£60 million for the 2023-25 period. This would be a material addition to their RCV. After querying, the company said that 'it was never our intention to deliver all these schemes at an

²² In our PR19 final determinations we provided a £10.9 million allowance (2017-18 prices) for South East Water to improve water resilience, which should have improved its resilience to water supply interruptions. Ofwat. [PR19 final determinations: South East Water](#), December 2019, pages 36-37.

accelerated pace'. However, they provided a prioritised list of schemes which they would like to take forward. We have taken this into consideration in our assessment.

Table 4.2: Breakdown of individuals schemes for proposed acceleration

	Company	Scheme	Potential expenditure in 2023-25 (£m)	Total potential expenditure (£m)
Water Resilience (supply and demand)	Affinity Water	Raw Water Deterioration - Broome Nitrate	0.40	5.00
	Affinity Water	Raw Water Deterioration - Holywell PFOS	0.25	0.45
	Affinity Water	Raw Water Deterioration - Kingsdown Nitrate	0.40	5.00
	Affinity Water	Raw Water Deterioration - Stortford water quality - Nitrate & Resilience	1.94	1.94
	Affinity Water	Smart Metering	9.00	9.00
	Anglian Water	Colchester re-use	1.84	15.33
	Anglian Water	Smart Metering	9.09	27.26
	Bristol Water	Bristol Area lead free supplies	1.72	1.72
	Bristol Water	Bristol Area supply pipe leak replacements	0.98	0.98
	Northumbrian Water (Essex and Suffolk)	New Linford WTWs and Borehole	1.50	12.74
	Northumbrian Water (Essex and Suffolk)	Suffolk Strategic Network and Storage Enhancements	5.00	5.00
	Portsmouth Water	Accelerated universal smart metering programme	11.55	119.81
	Severn Trent Water	Draycote raise	1.31	2.62
	Severn Trent Water	Smart metering acceleration	40.66	67.73
	South West Water	Colliford smart metering and water efficiency	5.65	20.99
	South West Water	Free customer leak replacements	8.51	8.51
	South Staffordshire Water (including Cambridge Water)	HH New Meters	17.71	88.56
	South Staffordshire Water (including Cambridge Water)	NHH New Meters	2.18	10.90

Storm Overflows	Anglian Water	Regional overflow reduction plan	9.99	26.84
	Northumbrian Water	Berwick upon Tweed Storm Overflows	1.85	51.00
	Severn Trent Water	River flow monitoring UMON 04	24.50	24.80
	South West Water	DWMP Delivery Acceleration - Storm Overflows	23.00	70.05
	Southern Water	Storm Overflows	50.00	50.00
	United Utilities Water	Reduction in spill frequency for 135 storm overflows resulting in 7,800 spill reduction per annum.	137.50	699.60
	United Utilities Water	Reducing the frequency of storm overflow discharges in Windermere catchment	9.30	18.60
	United Utilities Water	Reduction in spill frequency for 15 overflows.	28.20	78.10
	Yorkshire Water	Coastal Bathing Water Improvements	3.78	3.86
	Yorkshire Water	Inland Bathing Water Improvement Scheme - Wharfe Ilkley	44.32	62.71
Nutrient Neutrality	Anglian Water	Nutrient Neutrality	9.04	10.31
	South West Water	DWMP Delivery Acceleration - Nutrient Neutrality	12.01	28.60
	United Utilities Water	Accelerating habitats improvements in the Eden catchment	18.50	117.60

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