

June 2023

Accelerated infrastructure delivery project: final decisions

About this document

This document sets out Ofwat's final decisions to allow PR24 transition expenditure funding for schemes in the accelerated infrastructure delivery project. Apart from SES Water, all English water companies submitted proposals for acceleration. After careful consideration and taking into account consultation responses on our draft decisions, our final decisions will approve 33 schemes for acceleration, valued at around £500 million over the 2023-2025 period and just under £2.2 billion overall. In addition to this, we have identified a further 35 schemes, totalling potentially £371 million of investment, in the 2023-25 period and £1.3 billion in total, that companies can progress through the 2024 price review (PR24) transition expenditure programme at their own risk^{1,2}.

This document sets out how we have assessed company proposals and our final decisions on accelerated schemes through the PR24 transition expenditure programme. Appendix 1 sets out our final assessment of individual schemes considering consultation responses on our draft decisions³. Appendix 2 sets out our final arrangements for cost recovery and customer protection taking into account consultation responses.

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

² The proposed costs are estimates based on company submissions. These costs will be subject to our assessment at PR24.

³ Ofwat, "[Accelerated Infrastructure Delivery Project](#)", April 2022.

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 years⁴.

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.

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 our final decisions will allow 33 schemes for acceleration, valued at around £500 million over the 2023–25 period and just under £2.2 billion overall⁵. As part of our assessment process, we have been consistent in our final decisions so that schemes are only accelerated where companies have demonstrated a clear need and benefits to customers and the environment.

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

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

United Utilities
Potential £1.5 billion
Four schemes

Severn Trent Water
Potential £94 million
Three schemes

South Staffs Water
Potential £70 million
Two schemes

Bristol Water
Potential £3 million
Two schemes

South West Water
Potential £128 million
Four schemes

Portsmouth Water
Potential £64 million
One scheme

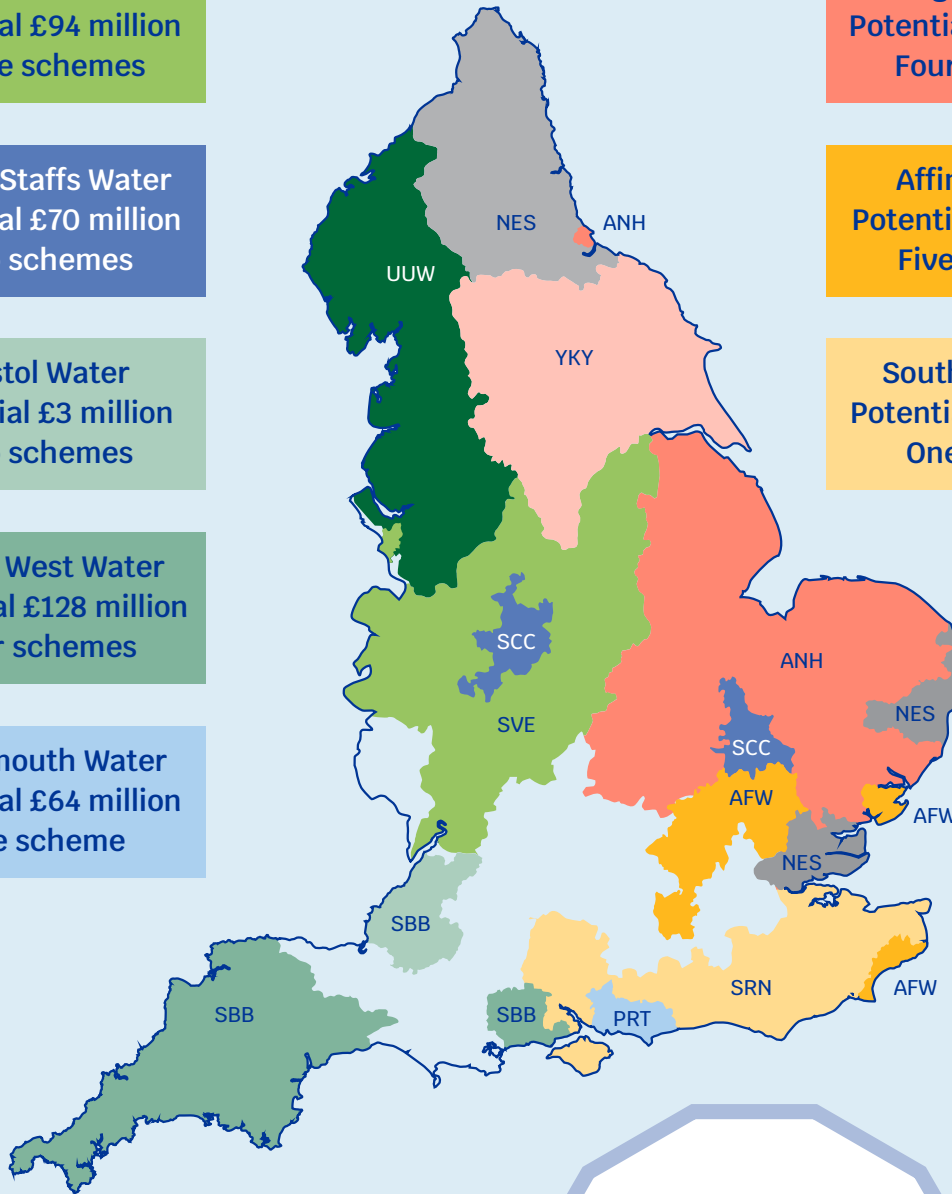
**Northumbrian Water
(Essex & Suffolk)**
Potential £99 million
Five schemes

Yorkshire Water
Potential £81 million
Two schemes

Anglian Water
Potential £80 million
Four schemes

Affinity Water
Potential £21 million
Five schemes

Southern Water
Potential £35 million
One scheme



33 schemes
£2.2 billion
overall
£500 million
over 2023–25

Alongside the accelerated infrastructure delivery project, further detailed scheme assessments are being undertaken through existing industry process such as the water resource management plan (WRMP) and water industry 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 funding programme for PR24⁶. We expect companies to accelerate other schemes which will qualify for transition funding if their need is confirmed through those processes.

Our final decision will accelerate potentially £350 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 will allow the acceleration of six water supply schemes which will provide an additional 75Ml/d of water once delivered. Moreover, our final decision will allow the acceleration of water quality schemes which will protect a maximum of 31Ml/d of peak output.



Water resilience
Potential
£350 million



Storm overflows
Potential
£1.7 billion

Our final decision will accelerate investment of about £1.7 billion (ten schemes across seven companies) to tackle storm overflows. These proposals include more innovative ways to reduce spill frequencies to deliver defined spill reduction targets. These include 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. Combined, the proposals aim to provide interventions at over 250 storm overflows and reduce overflow spills by around 10,000 per year on average.

6. Ofwat, ‘[Setting expenditure allowances](#)’, December 2022, p115.

To protect the environment, our final decisions will allow the acceleration of three nutrient neutrality schemes, worth potentially £160 million for Anglian Water, South West Water and United Utilities Water 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 water quality of our rivers at 14 different sites.



Nutrient neutrality
Potential
£160 million

Overall, our final decisions will allow the acceleration of 33 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 35 schemes (totalling £371 million of investment in the 2023-25 period and £1.3 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 programme 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 raised⁷.

7. 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) final methodology we expanded 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 programme at PR24. The efficiency assessment of schemes would continue to be made through the PR24 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**.⁸

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

⁸ 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 investments⁹. 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 final 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 final decisions on schemes for acceleration, our approach to assessment and funding arrangements.

We published our draft decisions for the accelerated infrastructure delivery project on 3 April 2023.¹⁰ We were pleased to receive formal responses to our consultation from ten water companies, the Consumer Council for Water (CCW), Water Resources East, Arqiva (a company involved in smart metering), Blueprint for Water, Ilkley Clean River Group, stakeholders associated with the River Clun (including Phillip Dunne MP) and a private individual. Responses generally supported the proposed decisions. Some companies requested that we accelerate some of the schemes we did not include in our draft decisions. Some companies also requested that we increase flexibility in price control deliverables, for example by allowing greater scope for in period changes. CCW stated that schemes should only be taken forwards if they were in customer interests and emphasised the importance of price control deliverables and the potential impact on bills. Environmental stakeholders generally wanted us to include some additional schemes in the acceleration process. We appreciate the time and thought that has gone into the responses.

⁹ Ofwat, "[Our final methodology for PR24](#)", December 2022, p.89.

¹⁰ Ofwat, "[Accelerated infrastructure delivery project: draft decisions](#)", April 2022.

In this document, we set out our final decisions and explain how we came to those decisions, taking into account the consultation responses we have received.

Changes from draft decision to final decision

We summarise the main changes below.

- We now approve the acceleration of the design of the North Suffolk Winter Storage and Lowestoft reuse schemes for the Essex and Suffolk area, given the linkages of these schemes to the Suffolk Strategic Network and Storage pipelines scheme, which we had previously proposed to approve. We also approve all the other schemes that we proposed to approve in our draft decisions.
- The total potential costs of the accelerated delivery project have increased from £1.6 billion to £2.2 billion. The increase is mainly driven by two United Utilities schemes, following updated advice from the company on scheme costs. The cost of accelerating 135 storm overflow improvements to reduce discharges could potentially increase by £472 million and accelerating 15 storm overflows to reduce the frequency of storm overflow discharges into bathing waters could potentially increase by £104 million. We will review scheme costs as part of the 2024 price review process.
- We have reduced the stated potential costs of Portsmouth Water's accelerated universal smart metering programme from £120 to £64 million. The £120 million figure quoted in the draft decision document refers to the smart metering investment that Portsmouth Water plans to make over multiple control periods. To improve comparability across schemes we have only included figures between 2023 and 2030 (£11.5 million for 2023–25 period and £52.8 million for 2025–30 period).
- Following a request from Southern Water, we have reduced the scope of its storm overflow scheme so that it removes 420 spills per year (down from 600 spills per year), reducing potential scheme costs from £50 million to £35 million.
- We have made some technical amendments to price control deliverables to improve clarity of the customer protections in relation to delivery.

Alongside this document we are also publishing two further documents:

- Appendix 1 sets out our assessment (taking into account consultation responses on our draft decisions) of all individual schemes.
- Appendix 2 sets out our final price control deliverables for approved schemes.

2. Our final decisions for acceleration

Our final decision will allow 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 (including Cambridge Water) to accelerate, in total, 33 schemes. These schemes will result in potential expenditure of around **£500 million during the 2023-25 period and just under £2.2 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 achieve a total spill reduction of 459 spills per annum across the catchment, with 188 of these spills being attributed to innovative digital solutions. 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 at the associated overflows to meet Sewer Overflow Discharge Reduction Plan targets.
- **Improving river water quality:** This scheme will accelerate the construction of phosphorus 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 £99 million to deliver five 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 pipeline designs:**

Bringing forward detailed engineering designs of the Suffolk Strategic Network and Storage Enhancements scheme, ahead of the construction of two strategic pipelines connecting the 'Northern Central' zone with the 'Blyth' and 'Hartismere' zones. These pipelines would ultimately improve the resilience of water supply networks allowing surplus water to be moved to where it is needed ahead of new supply schemes becoming available.

- **Reservoir design work:** We are accelerating the detailed design of the North Suffolk Winter Storage Reservoir which has the potential to work with the Suffolk Strategic Network and Storage Enhancements to unlock growth that is currently constrained by a moratorium on new supplies in the company's Hartismere zone.
- **Reuse design work:** We are accelerating the detailed design work for the Lowestoft Reuse scheme, which also has the potential to work with the Suffolk Strategic Network and Storage Enhancements to help remove the current moratorium on new non-domestic supplies in the area and provide increased resilience in Suffolk.
- **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 31 locations in the Berwick Upon Tweed catchment.

Severn Trent Water will invest a potential £94 million to deliver three schemes to improve water supply resilience and assist 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 a minimum of 69 flow to full treatment monitor installations at wastewater treatment works to enable the company to monitor compliance and identify overflows do not spill outside of permit conditions.

Southern Water will invest up to £35 million to reduce spills across at least 30 storm overflows.

- **Southern Water storm overflow scheme:** The acceleration of a minimum of 30 schemes across three geographical areas (Solent, the North Kent Coast and Chichester & Langstone Harbours) to deliver a reduction in storm overflow spills of at least 420 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 should 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 15 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 15 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 £1.5 billion 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 to remove nutrients 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 £1.4 billion 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 330,000m³ of attenuation storage and over 61ha of separation across the three schemes.



Yorkshire Water will invest a potential £81 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 assist compliance with bathing water quality standards at the inland site of Ilkley Wharfe. The scope of works is to meet the statutory standards as set out in the Bathing Water Directive and require 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 overflows 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.

- **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 PFOS¹¹) to install new treatment processes that will allow continued supply of compliant water quality for customers and help maintain resilient supplies.

¹¹ 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 £64 million in total 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 £70 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.

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?

In response to our draft decision, Blueprint for Water suggested that we should not rigidly adhere to the criteria when assessing schemes as it saw value in several of the wider proposals. Having considered Blueprint for Water's comments, we continue to consider that we should assess schemes against the criteria. Our approach reflects the criteria set out by Defra when it asked companies to propose schemes. The criteria were then used by the companies when deciding which schemes to submit for consideration in the acceleration process. We have been pragmatic in our assessments where appropriate, applying judgement and avoiding a strict 'tick box' approach. We also considered the specific points raised by Blueprint for Water on individual schemes, where appropriate. And we note that, even where a scheme has not been approved for acceleration as part of this process, companies can still accelerate certain schemes through the transition expenditure programme.

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.

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.¹²

Through the accelerated infrastructure delivery project, we have identified schemes 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

¹² Ofwat, [PR24 final methodology – appendix 9 setting expenditure allowances](#), December 2022, p115-118.

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.¹³ We will apply the PR19 cost sharing rates to expenditure incurred under the transition expenditure programme at PR24. This will avoid distortions between cost sharing on different types of expenditure incurred in 2020–25.

In its consultation responses, the Consumer Council for Water (CCW) raised concerns about the potential impact on bills of the acceleration proposals. Schemes will be funded as part of the PR24 programme, and so will not impact on customers' bills until the 2025–30 period. The impact on customer bills will depend on the final allowances made for each scheme at PR24, how those costs are incurred over the 2023–30 period and how costs are recovered over time from customers. Overall, we expect bill impacts of the proposals to be relatively modest at £1 per year or less for most companies. The impact on customers of United Utilities Water, which has the largest programme, are expected to be up to an average of £16 per year over 2025–30 (Up £6 per year from our draft decision due to reported increase in costs for United Utilities Water schemes).

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.

¹³ Further details on cost sharing are set out in Ofwat, [PR24 final methodology – appendix 9 setting expenditure allowances](#), December 2022, p39–45.

Based on company submissions, engagement and responses to our draft decisions, we set out our final price control deliverables in Appendix 2. For schemes that are trials, these price control deliverables include requirements for companies to share their learnings so that other companies and customers can also benefit from this investment.

CCW **supported the inclusion of price control deliverables** so that cost allowances are returned to customers in the event of failure, delay or part-delivery, and to help track delivery.

Anglian Water and South West Water did not agree with our proposal that companies should appoint an independent third party with a 'duty of care' of care to Ofwat and instead proposed to require the company's assurance processes to include reviews with an independent, third-party assurer. We continue to consider that the independent third-party assurer should have a duty of care to Ofwat and not just to the company. This will help the consideration that customer and environmental needs are met when assessing delivery. We have used similar arrangements for Thames Water's PR19 gated processes¹⁴.

Anglian Water questioned the need to set out interim deliverables in both the 2023-25 and 2025-30 period. We intend to retain AMP7 deliverables for 2023-24 and 2024-25. This will allow delivery in each year to be tracked. It will also allow the application of cost sharing and a time value of money adjustment for expenditure in 2023-24.

Anglian Water (in relation to Colchester Reuse), Severn Trent Water (in relation to Draycote reservoir) and Affinity Water (in relation to the Broome and Kingsdown nitrate, and Holywell PFOS schemes) request the removal of the percentage of the full scheme completed from the price control deliverable table as we are only committing to funding part of the scheme at this stage, for example the design and planning elements. We agree and have removed the percentage of the total scheme from the tables where the AMP8 activity is different to that being accelerated. We have retained this figure in the scheme description so that we are able to track if the final scheme costs change materially from those originally envisaged.

Where the approved acceleration activity continues into the 2025-30 period, we consider that we should set out anticipated price control deliverables for the 2025-30 period, even if we are only committing to part funding. This will assist us when we make decisions about funding for the 2025-30 period at PR24. We set out our approach to multi-period schemes in the PR24 final methodology.¹⁵

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

¹⁴ Ofwat, '[PR19 final determinations. Thames Water – Cost appendix](#)', December 2019.

¹⁵ Ofwat, '[PR24 final methodology: Appendix 9 – Setting expenditure allowances](#)' December 2022, p111-112

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 our final decisions 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.

In our draft decisions 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.¹⁶

Each of the four companies is required 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, these companies need 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. In our draft decisions, to reduce the risk that the accelerated investment distracts these companies from delivering their PR19 enhancement programmes, we stated that transition funding was conditional on each company providing us with sufficient and convincing evidence at our action plan review meeting in summer 2023 that they are on track to deliver their PR19 enhancement programme.

Northumbrian Water stated that whether they were on track with our PR19 programme was not relevant as there are no direct dependencies between the programmes and they were moving towards delivery phase of their PR19 programme, which involved different resources. South West Water stated that Ofwat should only need assurance that they were on track with most of their programme and that whether they were on track with their wastewater programme was not relevant to their water programme.

¹⁶ Ofwat, [Water company performance report 2021–22](#), December 2022, page 33.

The acceleration programme should not distract companies from delivering their PR19 programmes. While acceleration programme might involve different types of expenditure, for example water versus wastewater, or design versus delivery, it still has the potential to distract the delivery of the PR19 programme, particularly when management focus is needed on delivery where expenditure is behind original forecasts. **We are therefore retaining the requirement** that these four companies need to provide us with sufficient and convincing evidence at our action plan review meeting in summer 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 funding 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 submission, companies need to address any issues with schemes that we have identified 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 final decision for acceleration

Area	Number of schemes	Potential expenditure in 2023-25 (£m)	Total potential expenditure (£m)
Water resilience	20	135.90	347.40
Storm Overflows	10	328.17	1683.10
Nutrient Neutrality	3	39.56	156.61
Total	33	503.62	2187.10

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 have undertaken our assessment of company draft WRMPs in parallel to our assessment of company acceleration proposals. We have identified several issues with company draft WRMPs and provided feedback in the form of consultation responses¹⁷. This includes companies 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.

Blueprint for Water suggested that we should not consider whether there is a need to address a supply risk to customers as any additional supply scheme or water efficiency improvement would improve the regional water resource picture. We disagree, given the scale of investment required across the sector to address both water resource and water quality issues, investment should be focused in areas where there is a clear and well-defined need.

For water supply schemes we therefore 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.

Our final decision will allow the acceleration of six water supply schemes that feature in companies' draft WRMPs. Based on the consultation feedback we now include Northumbrian Water's North Suffolk Winter Storage Reservoir and Lowestoft Reuse which joins the Suffolk Strategic Network scheme which all benefit its Essex & Suffolk region. In total these schemes when completed will provide an additional 75 M/d of water available for use, to companies' supply-demand balance, in drought once delivered. These include Severn Trent Water's

¹⁷ Ofwat, [Ofwat's feedback on draft WRMP24 and draft regional plans](#), March 2023

Draycote Water reservoir raising and Northumbrian Water's new borehole and treatment works at New Linford.

We identify a further 25 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 funding programme. These schemes represent a potential expenditure of £262 million in 2023-25 and £993 million in total. We are keen that companies develop robust proposals as quickly as possible, addressing our and other stakeholder feedback, so that they can deliver schemes and have sufficient water resources going forwards, taking account of the Environment Agency's proposed abstraction licence reductions.

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. Our final decision will allow the acceleration of 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 54.3 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 are therefore not 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. Consequently, our final decision is not to accelerate these schemes. We are also not accelerating 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.

In summary, 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.

In response to our draft decision for acceleration, Arqiva challenged our decision not to accelerate six smart metering schemes arguing that delaying the rollout of smart water meters will delay the realisation of the benefits associated with this technology. Blueprint for Water also called for the acceleration of more non-household smart metering schemes (such

as United Utilities' non-household scheme). While we're not approving these schemes for the acceleration process, companies can accelerate these schemes at their own risk through the transition expenditure programme. Companies should provide evidence that these schemes are the best option, address our concerns and include these schemes in their final WRMP.

Arqiva also pushed us to support companies in their ambitions to deliver advanced smart metering technology (AMI) as opposed to less advanced metering options, such as Automated Meter Reading (AMR). As we set out in our PR24 Final Methodology we expect companies to consider the benefits of increasingly detailed demand data that can be read without directly accessing the meter and provided on a near real time basis. However, we do not consider we should specify the technology that companies should use, and companies should provide sufficient and convincing evidence for the smart metering technology they propose to adopt.

Blueprint for Water suggested that metering schemes funded through the transition expenditure programme should be required to share learning across the sector to better understand differences, barriers and successes achieved. We support a collaborative approach across the sector, and we expect companies to share learnings. In our PR24 Final Methodology we have already set out our expectation that companies should collaborate across the sector to introduce national standards relating to the data collected from smart meters to assist interoperability across the sector. We also set out our expectation that companies should engage with other stakeholders across the sector as part of this collaboration to gain their views on smart metering and their experience from previously completed studies and investigations¹⁸.

CCW requested that companies should be required to explain how companies will communicate the rollout of the programme to their customers and address any transitional affordability concerns. In our PR24 Final Methodology, we have already set out our expectation for companies to outline in their metering business cases how they will support customers, including vulnerable customers, such as through communication around bills, help with leakage and switching to social tariffs.

CCW also called on companies to explain how the rollout of smart meters will prioritise areas that will gain most and that smart meters will allow enable real time information to be provided to customers. Our PR24 performance commitments and outcome delivery incentives will encourage companies to focus meters where they will bring most benefit (as this will give them the greatest chance to outperform performance commitments). It will also encourage companies to share smart data (as this will help companies reduce consumption). Therefore,

¹⁸ Ofwat, '[Appendix 9: Setting expenditure allowances](#)', December 2022, pg. 106

we do not consider the need for additional requirements on companies. However, it is for companies to decide whether they will provide this data to customers.

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, PFOS¹⁹, cryptosporidium, blue green algae and lead. We have assessed schemes liaising closely with, and taking into account the views of, the DWI, Environment Agency and responses to the draft decision consultation where appropriate. We have been consistent in our final decision to only accelerate schemes where companies have demonstrated a new need for investment to tackle water quality that risked supply output, whilst also detailing suitable and timely outputs and deliverables. Overall, our final decision will allow the acceleration of 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 these may be included by companies as part of the DWI PR24 drinking water quality programme process²⁰ and companies can consider the need to submit transition funding as part of the PR24 price review process to meet DWI AMP8 deadlines.

Affinity Water, South East Water, and Yorkshire Water put forward resilience (non-supply and demand) schemes. These schemes covered power supply resilience, sub-zonal supply 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.²¹ 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 the transition expenditure programme if they meet the criteria or

¹⁹ 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](#)

²⁰ DWI, [PR24 Price review process](#)

²¹ Ofwat, [PR24 final methodology – appendix 9 setting expenditure allowances](#), December 2022, p54-55

use their existing expenditure allowances where schemes form part of base expenditure or are not meeting expected levels of funded performance.

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.²² 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.²³ Our PR24 methodology states that we will approve additional funding where government targets, for example in the Storm Overflows Reduction Plan, demonstrably go beyond current legal requirements.^{24,25}

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);

²² 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.

²³ 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.

²⁴ Defra, ['Storm overflow reduction plan'](#), August 2022

²⁵ Ofwat, ['PR24 final methodology'](#), December 2022

- 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.

In response to our draft decisions, Anglian Water and United Utilities stated that they wanted to be able to change the list of storm overflows covered as they continue to develop solutions. We continue to consider a defined list of storm overflows is important as it gives clarity to stakeholders where improvements will be made. However, we understand that in some circumstances a defined list of storm overflows to be improved can be difficult to provide with confidence. We have therefore amended our requirements so that where schemes are large scale or highly innovative, we will allow sites to be changed until the submission of the Strategic Business Plans in October 2023.

CCW stated that there was a lack of evidence that customers supported the specific storm overflow schemes proposed for acceleration. Most of the storm overflow schemes contribute directly towards meeting the targets in Defra's storm overflows reduction plan. Companies need to make rapid progress towards meeting these targets. Given that the need for the schemes is established through the storm overflows reduction plan, we do not consider that customer support is required for the schemes to progress.²⁶ However we encourage companies to engage with customers so that progress is made where there is greatest customer support/it provides the greatest benefit. We agree with CCW that the learnings from the Anglian Water and Southern Water schemes should be shared with other companies and have included specific requirements to do this in the price control deliverables.

Our final decision will allow ten schemes across seven companies (Anglian Water, Northumbrian Water, Severn Trent Water, Southern Water, South West Water, United Utilities Water, 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 the required flow monitor installations will enable the company to monitor compliance and avoid non-permitted overflow spills to waterbodies.

Companies need to demonstrate that they are operating assets in compliance with their permits, for which funding has already been provided through base allowances. We are

²⁶ Defra SPS sets an expectation that water companies should meet the requirements on storm overflows set out in the Storm Overflows Discharge Reduction Plan.

therefore including, where appropriate, a condition that to retain funding (and avoid a clawback) if this cannot be demonstrated. 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 under section 94 WIA as supplemented by Regulation 4 of the Urban Waste Water (England and Wales) Regulations 1994, it is only evidence on which to agree incurred expenditure may be considered enhancement expenditure. We will continue to review what can be considered covered by base expenditure through the PR24 draft and final determination process and whether there are further areas of compliance covered by base allowances.

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,²⁷ 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

²⁷ [Environment Agency, SOAF.pdf, June 2018](#)

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 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 response to our draft decision, United Utilities raised concerns about the conditions on nutrient neutrality schemes and proposed potential options to deal with the outstanding uncertainty regarding the legal requirement to deliver them.

We confirm that the proposed conditions on nutrient neutrality schemes set in our draft decision are still valid and remain as previously stated. These nutrient neutrality schemes are specifically intended to deliver the investment required for wastewater treatment works (WWTWs) to meet the nutrient pollution standards (sometimes referred to as the Technically Achievable Limits) for phosphorus and/or nitrogen set out in the Levelling-up and Regeneration Bill currently before Parliament. The conditions are therefore that the provisions in the Bill are enacted and that the catchment areas to which those WWTWs discharge are designated for this purpose. As there is some uncertainty as to when the legal requirements will be in place, companies may decide to start delivery of these schemes before designation and manage their own risk if they consider it will have a positive impact on the delivery of their overall PR24 programme. We will allow companies to re-submit their delivery schedule up until their business plans submissions. Should any changes in the delivery timescales occur, we expect companies to provide the relevant details of programme considerations and/or restrictions that led to the alteration of prior stated delivery timeframes.

In expectation of the relevant provisions becoming law and catchment areas being designated, our final decisions will allow 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.

Our final decision is not to accelerate schemes that do not meet the 2000 pe threshold or are not in nutrient neutrality areas.

4.4 Company specific issues

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

Northumbrian Water (including Essex & Suffolk Water) responded to the consultation and provided further information on the dependency of the Suffolk Strategic Network and Storage pipelines scheme (the 'pipeline' scheme), with the North Suffolk Winter Storage Reservoir ('storage' scheme) and Lowestoft Reuse ('reuse' scheme) schemes. The company stated that our draft decision to approve pipeline scheme was an important first step but not

enough to lift the moratorium on new development in its Hartismere zone without being combined with either the reuse or the reservoir scheme. The company pointed to both North Suffolk Winter Storage Reservoir and Lowestoft Reuse being selected in the long term on the best value and the adaptive pathway. The company stated that accelerated funding is expected to bring forward option delivery for all three schemes by 22 months, so that the pipeline scheme would be delivered by 2028, the reuse scheme by 2030 and the storage scheme by 2033. Given the linkages between the three schemes and the certainty of need and long-term best value, we have decided to accelerate the detailed design for all three schemes, despite the storage scheme having a delivery date after 2030. This recognises the dependency between the storage and the reuse scheme to provide water to support the pipeline scheme. This is a change from our draft decisions. The price control deliverable commits the company to the option development work and includes a break point should the final WRMP not support these options.

Severn Trent Water. In response to our draft decision, we received three wider stakeholder responses²⁸ proposing that we should accelerate the Severn Trent River Clun catchment schemes, which we rejected in our draft decision as the sites are below the 2000 pe threshold. We received an additional response from Phillip Dunne, MP, also supporting the project. Blueprint for Water challenged our decision not to approve sites below the 2000 pe threshold.

While we recognise that the River Clun catchment is a Special Area of Conservation, we continue to consider that we should not approve schemes that do not meet the 2000 pe threshold as part of the acceleration process as they may not be required for nutrient neutrality. We therefore maintain our decision not to approve this scheme for acceleration as the need for the schemes is not clear and uncontroversial. However, Severn Trent Water have the option to progress transition funding for 2023–24 for any actions in the Clun catchment that are confirmed in their final PR24 WINEP.

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 Regulations²⁹. Consequently, where the 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).

Southern Water initially 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 between £25 million and £50 million on storm overflows, most of their

²⁸ 1. A local resident, Chair of Clun Climate and Environment Group, an advisory group to Clun Town Council, Chair of River Clun Monitoring Group.

²⁹ [The Conservation of Habitats and Species Regulations 2017](#) (SI 2017/1012).

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. We therefore included a package of up to £50 million on storm overflows in our draft decisions. Following Southern Water's representation on the draft decision and subsequent discussion with the company to agree a defined scope and cost, we agreed to a revised potential £35 million programme on storm overflows as part of this accelerated process to remove 420 spills per year.

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. In response Thames Water agreed that it had provided insufficient detail to fully evidence the submission and schemes were not 'shovel ready'. It therefore had no substantive comments to make on the draft decision document.

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 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. The company did not respond to our consultation.

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 individual 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. The company responded with further details on each scheme and how the overall Connect 2050 programme had been modelled and optimised for multiple cost drivers. However, there are still questions about the scheme selection, interactions between schemes and unit costs. Due to this continuing uncertainty, we do not consider the need for these schemes to be clear and uncontroversial. We therefore do not have sufficient confidence to accelerate, at this stage. We have spoken to the company about its Connect 2050 programme to help it to make the required changes for its final WRMP and present robust enhancement

business cases at PR24. This includes fully accounting for previously funded and base activities and ensuring the driver for schemes is clear and avoiding double counting.

South East Water proposed 11 schemes as part of this process. We did not approve any of the schemes due to either potential overlaps with base expenditure allowances, where schemes addressed interruptions to supply risk, or the interaction with the water resources management plans (WRMP), where several sub zonal schemes were proposed which do not provide a water available for use (WAFU) benefit at a water resource zone, as required for inclusion in the WRMP.

South East Water provided a detailed response which stated that climate change and company specific factors such as South East Water's structure and history were the causes of interruptions to supply and these needed to be addressed through additional expenditure allowances. South East Water also stated that it considered that it was too late to undertake rezoning in WRMPs so that schemes provided a WAFU benefit at a water resource zone.

We provided South East Water with additional expenditure allowances in PR19 to deal with growth, improve intra-zonal connections and increase resilience. South East Water is not meeting its PR19 water supply interruptions performance commitment. It is therefore important that funding proposals should not cover expenditure through base or previous enhancement allowances, and any overlaps are removed. The schemes proposed by South East Water could be considered under several routes in the PR24 methodology depending on the circumstances and scheme involved. However, South East Water has not addressed the issues that we raised in our draft decisions and is yet to provide sufficient evidence to justify the schemes against these criteria as part of the accelerated process. South East Water could put forward base cost adjustment claims, if there are company specific exogenous factors that cause material differences in costs between companies and/or over time that are not captured in our cost models. South East Water could put forward a case for resilience enhancement investment if they can evidence that there is an increasing risk from hazards that are beyond their control and not covered by other enhancement areas, or South East Water could continue to consider schemes as part of a WRMP by either rezoning to identify a WAFU benefit at a water resource zone level or by identifying how the schemes release constraints at a zonal level. South East Water should decide which of these approaches is the most relevant to the circumstances that the company faces and, where appropriate, put forward relevant evidence as part of the PR24 business plan. If schemes are included in the final WRMP and our concerns are addressed, then South East Water can accelerate them in 2023–25 through transitional expenditure funding.

South Staffordshire Water (including Cambridge 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 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.

Water Resources East (WRE) regional group and South Staffs Water requested that the decision not to accelerate Grafham transfer scheme was reconsidered considering abstraction pressures in the east of England. WRE asserts that due to its geography Cambridge Water has limited options available to it and that unit cost benchmarking is not suitable. While we understand the pressures facing water resources in the east of England, this scheme represents a substantial investment for customers that could also pre-empt decisions on interdependent schemes. Anglian Water, which had also proposed part of this scheme through this process, responded to the consultation and stated that it understands the issues raised. Anglian Water accepted our decision not to support progression through this route and is exploring transition funding as an alternative delivery route. Work is ongoing by the companies to address the challenges raised by the DWI and Environment Agency relating to water quality and the Grafham transfer scheme's reliance on a drought permit respectively. Further, our concerns relating to options sufficiency and decision making in the relevant water resources management plans are yet to be fully addressed. The company can explore options both within and outside its operating area including water reuse options and transfers with all nearby companies and is not restricted primarily to WRE companies as appears to be the case in current plans.

Given the outstanding concerns around deliverability, the ongoing conversations with other regulators and the withdrawal of the related component of the transfer, the substantial costs and concerns whether it represents the best value solution, we continue to have some concerns about this scheme. Our final decision is to not approve the scheme through the acceleration process. However, we have made transition funding available whereby schemes in final WRMPs can be accelerated outside of this process via the PR24 transition expenditure programme and encourage Cambridge Water to explore this route alongside Anglian Water once it has addressed the concerns above.

Table 4.2: Final decisions breakdown of individual schemes for 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	7.49	12.49
	Northumbrian Water (Essex and Suffolk)	North Suffolk Winter Storage Reservoir	9.05	15.08
	Northumbrian Water (Essex and Suffolk)	Lowestoft Reuse	4.68	7.79
	Portsmouth Water	Accelerated universal smart metering programme	11.55	64.36
	Severn Trent Water	Draycote raise	1.31	2.62
	Severn Trent Water	Smart metering acceleration	40.66	66.52
	South West Water	Colliford smart metering and water efficiency	5.65	20.99
Storage	South West Water	Free customer leak replacements	8.51	8.51
	South Staffordshire Water (including Cambridge Water)	HH New Meters	17.71	61.99
	South Staffordshire Water (including Cambridge Water)	NHH New Meters	2.18	7.63
Storage	Anglian Water	Regional overflow reduction plan	9.99	26.84

	Company	Scheme	Potential expenditure in 2023-25 (£m)	Total potential expenditure (£m)
	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	35.00	35.00
	United Utilities Water	Reduction in spill frequency for 135 storm overflows resulting in 7,800 spill reduction per annum.	137.50	1,171.60
	United Utilities Water	Reducing the frequency of storm overflow discharges in Windermere catchment	9.3	41.20
	United Utilities Water	Reduction in spill frequency for 15 overflows.	30.00	181.60
	Yorkshire Water	Coastal Bathing Water Improvements	3.78	3.87
	Yorkshire Water	Inland Bathing Water Improvement Scheme - Wharfe Ilkley	53.24	77.14
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	117.70

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