

Accelerated Infrastructure Delivery: Our Response to Ofwat's draft decision

Anglian Water

April 2023

Overall comments

We welcome the decision from Ofwat and Defra to approve the acceleration of these important investments and look forward to proceeding with urgency to deliver the four approved schemes.

We note the decision to include two schemes relating to water availability as 'at risk' and will consider further whether to include these in our wider PR24 transition programme, providing confirmation in our October Business Plan submission. We have discussed this draft position with South Staffs Water, and understand that the concerns raised relating to Grafham to Bury St Edmunds and the Drought Resilience scheme are connected to wider feedback on the draft Water Resource Management Plan and will respond via that route.

We also note with disappointment the decision to exclude the Grid Decarbonisation scheme. We will include more details of our Net Zero plans for AMP8 in our October business plan submission.

Views on PCDs

As we have said previously we support PCDs as a mechanism to protect customers in the event of non-delivery of investment. However, at present we do not believe the design of the proposed PCD mechanisms are practical or acceptable, and we provide detailed comments in the appendix below on requested changes to these mechanisms.

Our teams are already working on this acceleration and we request urgency in confirming final decisions to minimise the impact on delivery given we are now already in the 24 month AMP8 transition period.

Technical comments

Concerns raised by Ofwat

We note the concerns raised and provide these initial comments in response:

- Grafham to Bury St Edmunds transfer
 - o We understand the issues raised and recognise the link with those raised in response to the dWRMP statutory consultation. We will respond to the concerns via that route and in our draft Business Plan. Whilst this scheme will not be included in AID from this point, we will review whether to include it (or elements of it) in our wider PR24 transition programme, recognising the importance of this scheme to our WRMP and AMP8 Business Plan, as well as in Cambridge Water's future plans.
- Drought Resilience
 - o As above we understand the concerns raised and the link between these concerns and those raised under dWRMP response and ongoing discussions for WINEP. We will respond to the concerns via those routes. We will review whether to include this work in our wider PR24 transition programme, in particular the Ipswich Intrazonal transfer component which is urgent to respond to licence reductions which come into effect on 1 April 2026.
- Nutrient Neutrality
 - o Ofwat have approved the Phosphorus Removal schemes within this area, but not approved the Nitrogen Removal schemes that we introduced in response to query ANH-AP-NN-002. Although the Nitrogen schemes would have further improved the situation relating to housing development schemes currently on hold in Norfolk, we acknowledge that the main improvement comes from progressing the phosphorus schemes and will therefore progress the Nitrogen investments outside of AID within our wider WINEP

programme to 2030. The document notes that “there is currently no environmental need for nitrogen removal at the wastewater treatment works”. We have questioned this with local EA teams as it appears to contradict Natural England guidance, and are awaiting confirmation. We will continue to develop both the Phosphorus and Nitrogen schemes with the EA under the Nutrient Neutrality driver and will submit final cost data in the PR24 Business Plan submission in October.

- Smart metering
 - o Our proposal for smart metering included 60,000 additional smart meters per year across 2024/25, 2025/26 and 2026/27. Although Ofwat’s draft documents state a total potential expenditure of £27.26m with £9.09m accelerated in to 24/25, the appendix 2 PCD detail only relates to the additional meters accelerated in to 2024/25. We therefore assume that the meters to be delivered after that date in AMP8 will be subject to normal PR24 processes as part of the main smart metering programme and not included in AID.

Price Control Deliverables

We understand from the Final Methodology¹ there are 4 principles for the design of PCDs:

1. Benefits of the investment not linked to or fully protected by PCs
2. PCDs should be used to protect customers for material enhancement investments
3. Outcomes over outputs/inputs
4. Level of aggregation PCDs could be set at a scheme, programme or benefit level

As currently drafted, the package of PCD metrics along with multiple conditions for each accelerated scheme are overly prescriptive for the scale of investment approved and we request simplification to avoid stifling innovation and scope for better delivery of outcomes for customers and the environment, as well as ensuring our teams are devoting attention to securing those outcomes rather than complying with regulatory processes.

Below we have included detailed comments on each proposed PCD, drawing from the above principles.

Next steps

We would welcome the opportunity to meet again to discuss our comments above to expedite final decisions, and are happy to respond to queries about the points raised in this response to reach the earliest certainty to support the early delivery of outcomes to customers and the environment.

¹ Section 5.4.4 here [PR24_final_methodology_Appendix_9_Setting_Expenditure_Allowances.pdf](#) ([ofwat.gov.uk](#))

Appendix: Price Control Deliverables – Detailed comments

An important part of the calibration of the PCDs is the incentive rates associated with the PCDs. These currently lacking from the AID documents. The only reference to this is within Severn Trent's PCD for River monitoring which states *"The PCD unit cost is to be determined as a part of the PR24 process"*.

Both Ofwat at PR19 and the CMA in their redetermination used scheme cost along with cost sharing rates to calculate incentive rates for returning investment to customers in the event of non-delivery. We would ask Ofwat to clarify the mechanism and sharing rates for these investments rather than waiting for the PR24 Final Determination. As explained in previous correspondence on both WINEP and AID the costs we have provided are evolving as we gather more cost intelligence data both from our own supply chain and external benchmarks we are actively seeking. We will confirm our final costing of all investments in our October Business Plan submission and fully expect there to be some variance from those costs provided in earlier submissions. If incentive rates are published in the final decision documents then we expect them to be subject to change at Draft Determination when updated costs are available and request that this is noted in the AID documents.

When clarifying unit rates for incentives we would also ask Ofwat to clarify the mechanism for them to be applied. We assume the PCDs would operate in a similar way to our PR19 bespoke performance commitment for smart metering, giving partial return of investment for partial delivery, as opposed to a pass/fail measure similar to our AMP7 bespoke performance commitment for Regulation Collaboration². If the PCDs were proposed as pass/fail then we would strongly disagree with the principle that partial delivery results in full return of funding, as this could lead to a scenario where 90% of the benefit was received by customers but 100% of the cost was borne by the company.

Most of the PCDs proposed have staged deliverables over several years. We are unclear on the consequences of falling behind these staged targets if the final target is reached, and would ask Ofwat to clarify this point in their final decision documents. In general we do not believe that staged deliverables are necessary to provide customer protection for non-delivery of schemes which have an agreed completion milestone, adding unnecessary complexity.

Scheme	Metric proposed	Comments
Colchester	% of full re-use scheme completed	<p>We understand that this PCD relates to the larger Colchester Re-use scheme within our dWRMP and that completion of the stated deliverables for the pilot plant and transfer will equate to the % delivery required. We believe there is an error in the table since the text refers to the completion of some deliverables by 31st March 2025, and a second set by 31st March 2028, whereas the table refers to 2023/24 and 2024/25.</p> <p>We are not clear on the meaning of the condition "engage the industry on the funding by hosting an event", but assume this means inviting other companies to hear a presentation of the results of the pilot plant. This cannot be completed until well after the pilot plant is commissioned otherwise there will be no</p>

² Section 1.2.25 here [PR19-final-determinations-Anglian-Water—Outcomes-performance-commitment-appendix.pdf \(ofwat.gov.uk\)](#)

		<p>data to share on the performance in the operational phase, therefore we ask that this condition is noted to be required by 2030.</p>
Nutrient Neutrality	<p>Number of schemes complete, with design stagegates</p>	<p>In our AID submission we proposed number of schemes completed as the PCD and therefore support that component of the measure. However, we are not clear on the rationale for the inclusion of detailed design milestones in addition with third party assurance. This seems to protect customers from programme slippage at a mid point in the project and therefore we believe is unnecessary to protect customers from non-delivery, and request these additional steps are removed.</p> <p>We note the requirement to report the schemes in APR table 7F, and assume this applies from APR24 onwards.</p>
Storm Overflows	<p>1.% of scheme spend per year 2. number of modelled spills removed by digital solutions 3. total spill reduction</p>	<p>We ask that the % of scheme spend per year is modified to remove the 20% in 23/24. These are pathfinder schemes and establishing the supply chain will take time. Our original submission to Defra only included 3% of scheme expenditure in the first year followed by 34% in the second year. Ofwat have not explained a rationale for further acceleration beyond this.</p> <p>Principle 4 above is intended to “retain flexibility over the benefits to deliver using the most efficient solutions”. The PCD already requires a reduction in the number of spills and as explained during the engagement meetings on this topic between Anglian Water, Ofwat, Defra and the Environment Agency these technologies are innovative. Appendix 1 also states that the improvement schemes are transferrable between catchments depending on the outcomes of the investigations. We therefore do not agree that it is necessary to specify in the PCD the catchments where the investment will take place, and ask that this table with associated requirement to seek approval to substitute one catchment for another is removed.</p> <p>In line with principle 3, we agree that PCDs should protect customers in the event of non-delivery, and we support the idea that they are as outcome based as possible. However, we are cautious of metrics which risk returning money to customers if the intended benefit is not achieved, even if the investment has been completed. We prefer metrics that are closely tied to the contribution of the investment (such as modelled spill reduction) rather than one that could be significantly affected by exogenous factors (such as actual spills affected by rainfall). We therefore ask that the third line in the PCD is amended to read ‘total modelled spill reduction’, as opposed to ‘total spill reduction’.</p>

		<p>In PR19 we have bespoke PCs where assurance is required, for example Cyber security³, which requires that: “The company will provide assurance from an appropriately qualified third party to confirm that the risk ratings assigned to each site are appropriate”. To reduce ambiguity we request that the sentence ‘An independent, third party assurer will assure, to our satisfaction, that the hydraulic models are fit for purpose for this analysis’ is brought more in line with the PR19 requirements and is replaced with ‘Anglian Water will provide assurance from a suitably qualified third party to confirm that the modelled spill reductions achieved are appropriate’.</p>
Smart metering	Number of smart meters installed	<p>Principle 4 above is intended to “retain flexibility over the benefits to deliver using the most efficient solutions”. We therefore do not agree that it is necessary or desirable to require that we stick to the exact number and type of AMI/AMR meters as specified in the table taken from the query process, and ask that this table is removed and replaced with delivery of 60,000 smart meters by 31st March 2025, to be in line with our AMP7 bespoke performance commitment⁴. If in the delivery phase we are forced to substitute one geographic area for another because of external constraints and therefore install a different volume of dumb to AMI as opposed to new AMI installs then as the PCD is currently written we have no flexibility at all and would be penalised.</p> <p>We are unclear on the design of the condition imposed relating to the interaction with the delivery of the PR19 smart metering programme, which is already covered by our bespoke performance commitment in PR19 for smart metering delivery. We believe that the intention of this metric is to protect customers for the additional 60,000 smart meters proposed in 2024/25, over and above the cumulative total of 1,096,397 specified in the PR19 measure. The way that the PCD is written at present suggests that in the event that we deliver any less than 1,096,397 under the main programme, then all of the funding for the 60,000 would be returned regardless of how many had been installed. This is not logical as we would already return funding for any non-delivery of smart meters via the PR19 ODI. We request that this condition is removed.</p> <p>We note the requirement to exclude the impact of the scheme on leakage and per capita consumption from performance reporting in relation to PR19 performance commitments covering the period from 1 April 2020 to 31 March 2025. Ofwat have referenced the assumed level of benefit to exclude as being equal to 0.1 l/h/d PCC reduction & 0.173 ml/d leakage reduction</p>

³ Section 1.2.16 here [PR19-final-determinations-Anglian-Water—Outcomes-performance-commitment-appendix.pdf \(ofwat.gov.uk\)](#)

⁴ Section 1.2.17 here [PR19-final-determinations-Anglian-Water—Outcomes-performance-commitment-appendix.pdf \(ofwat.gov.uk\)](#)

		<p>based on our response to query ANH-AP-WR-001. However having reviewed this assumption again, given that the meters will be installed progressively through that year we now believe that it would overstate the same level of benefit in 2024/25 as in subsequent years, since those installed at the end of the year would have no time to take effect, and therefore request that the benefit to reflect is reduced by 50% to reflect a flat monthly installation profile. In line with the PR24 final methodology we will take the benefit of the accelerated smart meters into account when setting PCLs for 2030.</p>
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