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24 April 2022

Dear Ofwat Accelerated Delivery Team,

Thank you for the opportunity to comment on Ofwat's draft decisions regarding PR24 transition expenditure in relation to the joint regulators accelerated delivery initiative.

Given the scale of investment required across the sector in AMP8 and beyond, especially in the areas focused on by this initiative, an early start on many aspects of this investment will be essential and we hence welcome Ofwat's draft decision to potentially bring forward some £500m of this investment to the remaining part of AMP7.

Given AMP8 deliverability assessment work undertaken by both Jacobs and Stantec, early investment will be critical for deliverability of what will be a very stretching investment programme to remain viable.

In light of the financeability constraints facing companies, we also welcome Ofwat's draft decision to allow a time-value-of-money adjustment at PR24, to account for the time between expenditure being incurred in 2023-25 and being recovered through revenues from AMP8 onwards. As set out in the draft decision document, this is an important element to ensure that companies are not financially incentivised to delay investment. Indeed, had details of this adjustment been provided sooner in the process, it would have been both viable and advantageous for us to seek a significantly greater amount of accelerated funding in our original submission in October 2022. Again, given the scale of AMP8 investment needs, a reasonable return will continue to be essential at PR24 to maintain financeability.

There is one area where we would urge Ofwat to review its draft decision in advance of reaching a final conclusion. This is in relation to our proposal to accelerate detailed design activity for our Lowestoft Re-Use and North Suffolk Winter Storage Reservoir schemes, which Ofwat did not endorse in its draft decision.

We describe the case for accelerating these schemes in more detail in **Annex 1**, however in summary we have existing supply demand constraints in the Suffolk area now, which are the reason for a current moratorium on new non-household supplies. This activity is essential to address the current supply demand shortfall and accelerating it is essential if we wish to lift the moratorium sooner. In this context find that endorsement for early funding being made

conditional on scheme completion by 2030 both arbitrary and not in customers' best interests – and it results in economic growth in the area being constrained for longer than is necessary.

We have also reviewed Ofwat's proposed Price Control Deliverables (PCDs) and suggest some amendments/clarifications in **Annex 2**.

The development of our detailed plans for AMP8 and beyond has naturally progressed significantly following our initial accelerated delivery submission in October 2022 and will continue to do so in the run up to business plan submissions this October. We would like to make Ofwat aware, for information, of some amendments that this process has identified for certain schemes contained in our original submission and/or broader dWRMP.

This further work has identified the need for additional mains as part of the Suffolk Strategic Network Enhancement option – which will ensure sufficient water can be supplied to all parts of the Hartismere water resource zone.

Additionally, we have identified further options for inclusion in our dWRMP core plan which will reduce unplanned outage and therefore increase supply headroom. These include nitrate reduction schemes at Barsham WTW (Northern Central WRZ), Langham WTW (Essex WRZ) and Langford WTW (Essex WRZ) and a Ultra Violet (UV) plant at our Langford WTW for cryptosporidium risk management. These schemes are justified as they will reduce the 1 in 500 year supply deficit in both our Essex and Suffolk supply areas, however for clarity they do not reduce the need for any of the schemes put forward for accelerated delivery.

This planning activity has also identified a greater need for transition expenditure across a greater number of schemes than had been identified six months ago – in order to maintain deliverability of our AMP8 plans. We are in discussions with our Board regarding the feasibility of financing additional transition investment, and where appropriate intend to claim further costs under the transition expenditure mechanism at PR24.

Finally, we note that Ofwat proposes to make transition funding conditional on us providing sufficient and convincing evidence at the next performance action plan review meeting in July 2023 that we are on track to deliver our existing PR19 enhancement programme.

As discussed in the meeting with John Russell on 27th January, we are forecasting to deliver the majority of our AMP7 enhancement schemes by March 2025 although we accept scheduling for these in some cases is tight. However regardless of this:

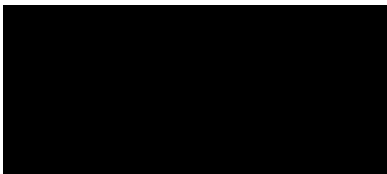
- There are no direct dependencies between completing the existing programme of enhancements, and making an AMP7 early start on those aspects of these future WRMP schemes described in our answer to Question 1.

- Our existing AMP7 schemes are all rapidly moving into (if not already in) the construction phase of activity. At this stage these schemes draw upon different resource groups (both internally and within our supply chain) to those resources needed for the activities described in this response (i.e. detailed design, planning, environmental assessments). This progress is explained in the materials provided for the meeting referred to.
- The scale of the early design and preparatory work outlined above which is required is very modest in comparison to the programmes we are delivering in AMP 7 already – we are not trying to add very significant activity to the current programme we are trying to deliver and have been targeted and cognisant of this challenge in our accelerated delivery request.
- Finally, given the scale of the emerging AMP 8 capital programme our board approved proposals in January to begin a major transformation programme to ensure that the business is as well positioned as possible to complete that programme of work, this included new dedicated resources to focus on AMP 8 readiness which could also pick up with work. We are therefore specifically proposing to allocate additional resources to these activities in any event.

Hence, we are confident that accelerating these schemes will not impact upon delivery of existing commitments.

We would be grateful if Ofwat would reflect on the points made in this letter before reaching its final conclusions on this matter and would welcome a discussion on any of these points if needed.

Yours sincerely,



Andrew Beaver
Regulation and Assurance Director

Annex 1: The case for accelerating delivery of dWRMP24 Schemes: Lowestoft Re-use and North Suffolk Winter Storage Reservoir¹

Our Suffolk region comprises three water resources zones (Blyth, Hartismere and Northern Central) and is acutely water stressed, with baseline supply demand assessments (Dry year annual average – DYAA) showing a deficit in all three zones across the majority of the WRMP planning horizon, as set out in table 1 below:

Table 1: Baseline Supply Demand Assessment for Suffolk Zones (MI/d – DYAA)

Zone	End AMP8 29/30	End AMP9 34/35	End AMP10 39/40	End AMP11 44/45	End AMP12 49/50
Blyth	0.36	-5.44	-5.32	-6.07	-6.90
Hartismere	-4.20	-6.27	-6.25	-6.88	-7.62
Northern Central	-0.40	-4.17	-2.73	-17.89	-33.49

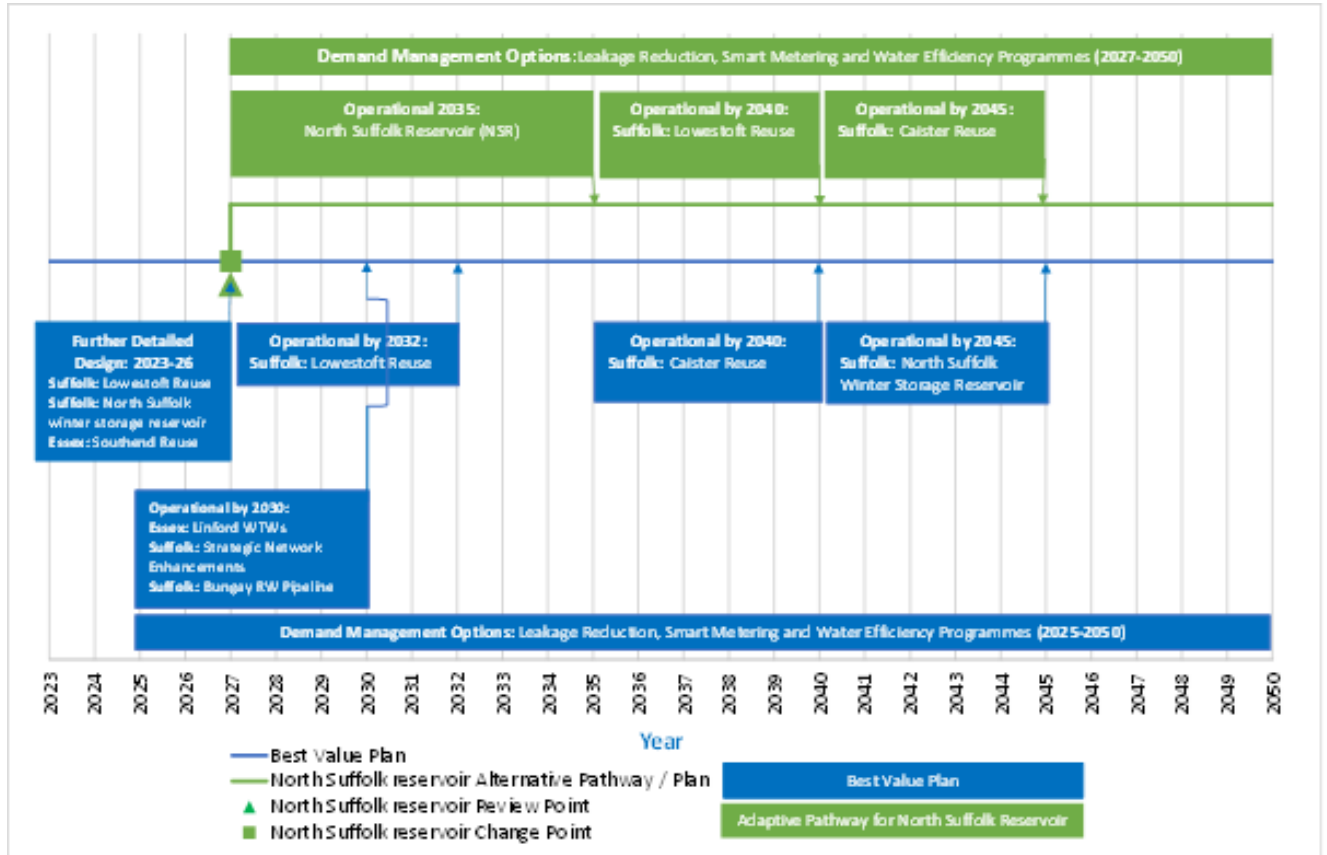
Source: ESW dWRMP24

Pressure is most acute in the Hartismere zone, where in response to unprecedented levels of non-household growth which was not forecast at the time of PR19, we have had no choice but to impose a moratorium on new non-household supplies in order to protect supplies to existing household and non-household customers. This is currently constraining economic growth in the area.

In response, our dWRMP Best Value Plan (BVP) (see Figure 1 below) has been developed, which includes an adaptive pathway for North Suffolk Reservoir:

¹ See also ESW dWRMP Sections 6-8

Figure 1: ESW dWRMP24 BVP & Adaptive Pathway for North Suffolk Reservoir



Source: ESW dWRMP24

The Suffolk Strategic Network Enhancements scheme, which Ofwat has endorsed for accelerated delivery funding in its draft decision document, is a crucial first step to establish interconnectivity across the Suffolk zones. In the immediate term this enables any Northern Central WRZ final plan supply surplus to be utilised in Hartismere, and in the longer term allows additional water from new resources (i.e. Lowestoft Reuse and / or North Suffolk reservoir) to be utilised across the area. This is especially important as no viable opportunities for new resources have been identified within Hartismere.

This in itself, however is not sufficient to either a. enable the moratorium in Hartismere to be lifted or b. maintain a positive supply demand balance across all areas in the longer term.

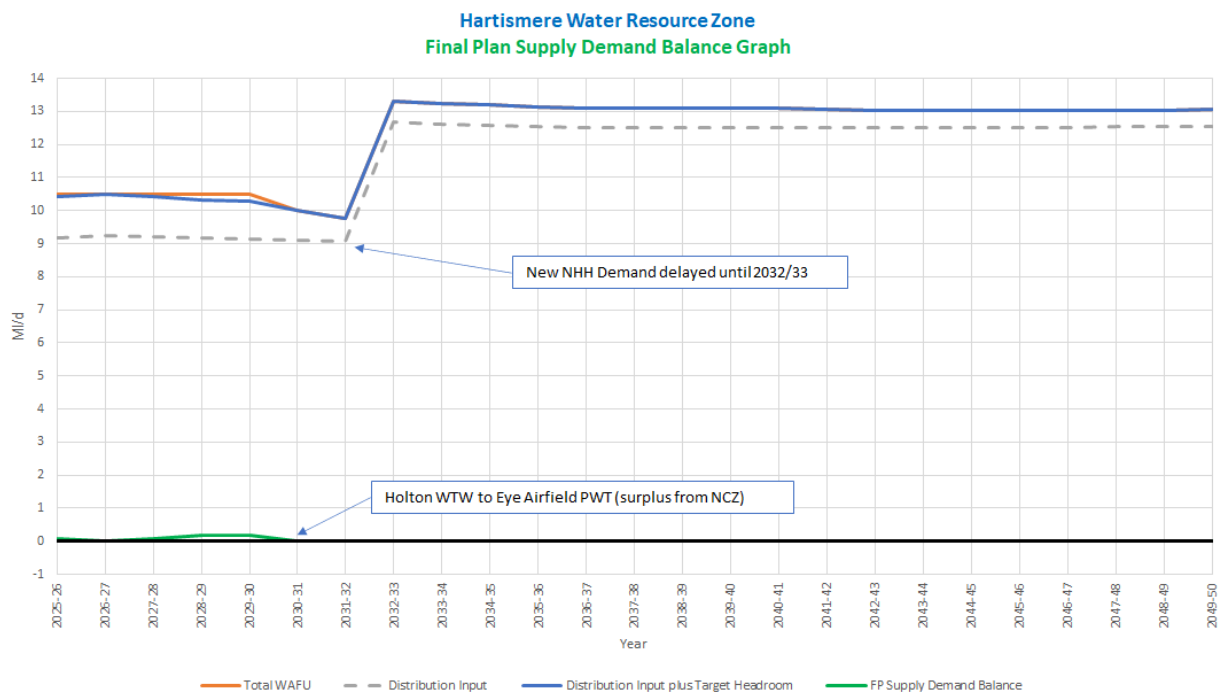
Two new resource schemes have been identified to enable this, **Lowestoft Re-Use** and **North Suffolk Winter Storage Reservoir**.

The extent of future sustainability reductions dictates that both schemes are ultimately required. This can be seen on both the blue BVP and green alternative pathway in figure 1.

In addition at least one of these schemes is required before the moratorium in Hartismere can be lifted, which under our best value plan would occur in 2032, and in 2035 under the adaptive pathway – which would also require a derogation to defer sustainability reductions in Hartismere until 2035.

This is illustrated in figure 2 below, which represents our BVP, which shows that aligning the increase in Distribution Input associated with the Lowestoft Re-Use scheme, with the lifting of the moratorium, maintains a zero supply demand balance from 2031/32 onwards, and hence that lifting the moratorium sooner would trigger a deficit.

Figure 1: BVP Supply Demand Assessment for Hartismere WRZ (DYAA)



Source: ESW dWRMP24, note green SDB line generally zero and hence masked by black line.

As can be seen in figure 1, there are options for the sequencing of the two schemes.

Our BVP prioritises completion of Lowestoft Re-Use first, as its expenditure mix of lower capex and higher opex proves more cost beneficial over the 25 year planning horizon used for our dWRMP24, and it also enables the moratorium to be lifted sooner.

However, the North Suffolk Reservoir is a better fit with our broader environmental objectives, giving significantly greater scope to increase biodiversity and natural capital, with reduced power consumption and hence opex and greenhouse gas emissions. From a broader environmental perspective it is hence advantageous to prioritise the reservoir scheme (as per the adaptive pathway), but only if detailed design indicates that its completion date can be brought forward sufficiently to enable the moratorium to be lifted in a

reasonable time frame. We are also seeing emerging evidence of stakeholder preference for the reservoir scheme.

Given the pressures on supply/demand, the current moratorium in Hartismere, the potential for additional sustainability reduction in 2030 to those included in our draft WRMP24, the options for sequencing the schemes described above (which indeed reinforces the benefits of incorporating adaptive pathways in plans), and the fact that in any case both schemes are ultimately required, it would be enormously beneficial to accelerate feasibility and detailed design for both schemes now.

This will enable the optimum pathway to be established sooner than would otherwise be the case, and hence for the first of the resource schemes to be implemented sooner, and in turn for the moratorium to be lifted sooner. Whichever pathway is selected both schemes are still ultimately required so none of the detailed design activity is abortive.

Finally, sustainability reductions give a particular challenge, commencing in 2026/27 and 2030/31, with further reductions expected from 2040 as part of longer term Environmental Destination. Since submitting our dWRMP24 in October 2022, the EA has confirmed that we need to allow for further abstraction sustainability reductions in our Northern Central WRZ from 2030 in our revised draft WRMP24. This follows the outcomes of a judicial review against the EA which concluded that abstraction licence changes between 2010 and 2015 as part of the EA's Review of Consents process, didn't sufficiently protect the designated features of the Norfolk Broads Natura 2000 sites. Consequently, the EA is now reviewing all water company and non-water company abstraction licences with a view to making further sustainability reductions in 2030. These additional sustainability reductions could cause a final plan supply deficit in the Northern Central WRZ between 2030 and 2032 and so the need to deliver either Lowestoft Reuse or the North Suffolk reservoir earlier through Accelerated Delivery is in fact now greater than that presented in our dWRMP24.

Ofwat raises two concerns in its draft decision document in relation to these schemes.

Firstly, that these schemes are not due to complete by 2030, and secondly that the lack of options presented raises concerns about value.

Given the circumstances in Suffolk, and especially the current moratorium in Hartismere and the associated consequences for economic growth, we find the imposition of a 2030 cut-off for scheme delivery a. rather arbitrary and b. not in the best interests of customers and the wider region. Our baseline demand forecast confirms that the schemes are needed before 2030 but because they can't be delivered before 2030, the moratorium is needed – the moratorium is treated as an option and picked in our final plan as it is the only way of presenting a legally compliant final plan with a supply surplus.

If Ofwat is concerned about giving early approval for schemes which extend into AMP9, then we would remind Ofwat that all we are seeking at this stage is funding for detailed design, and there is nothing prohibiting more substantive funding for these schemes being made conditional on a check point/review once detailed design for both schemes is complete and the preferred pathway is established.

Regardless of endorsement for early funding, the nature of adaptive pathways generates a requirement for such check points in any case, and in our PR24 plan we will provide more detail on a proposed approach to this for these specific schemes.

Regarding optioneering a full options appraisal has been completed and is presented in our dWRMP24 and supporting technical reports. New feasible supply options are limited in our Suffolk supply area and particularly in our Hartismere WRZ which is landlocked (no desalination or effluent reuse opportunities), has no ground or surface water available for abstraction licensing and has no opportunities for importing water from neighbouring water companies.

Additionally, we have already maximised feasible demand management options in our final plan which will include compulsory smart metering of all household and non-household properties. Indeed, we are fast tracking our Suffolk meter installation programme with AMP8 meter installations being delivered over the remainder of AMP7 – this will allow full compulsory metering by 2030 instead of 2035.

Given the shortage of new resource options in Hartismere, water needs to be imported via the proposed strategic network option as supported by either Lowestoft Reuse and / or the North Suffolk reservoir.

Annex 2 – Price Control Deliverables

Berwick Storm Overflows – Ref p16 / Scheme 7 of Ofwat's Appendix 2

A number of points of clarification are set out below. Please advise soonest if Ofwat disagrees with any of the points raised:

- a. For clarity as set out in cell Q8 of the data template accompanying our original submission, the number of overflows in scope is 31. This figure was reiterated by Ofwat in subsequent query NES-AP-SO-001. The figure of 42 quoted in the draft decision document is incorrect.
- b. Our understanding is that this initial concept and definition activity by March 2025 will seek to validate best value solutions at each overflow based on model verification and root cause analysis. Consideration of best value solutions will encompass the range of options referred to by Ofwat, and will give further consideration to the role of maintenance activity in achieving future spill targets.
- c. We note and accept the requirement to describe our approach/method for this work in more detail alongside our business plan submission in October 2023. For clarity this will be an approach/methodology document, not the conclusion of this initial concept and definition activity. This will include as requested a proposed approach to sharing the conclusions/evidence of this work with Ofwat, once it is complete by March 2025.
- d. We note the reporting requirements set out by Ofwat including progress updates in APRs, an interim report by end May 2024, and a final report by March 2025. For efficiency we would like to request that the May 2024 interim update is aligned with APR timing in July 2024 – to avoid the need for two separate updates to be provided in close succession.
- e. Finally, we also assume that the 3rd party assurance requested is to align with the final report, and is hence due by March 2025.