

Date: 24 April 2023

Ofwat
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Dear Ofwat

Accelerated infrastructure delivery project: draft decisions

We welcome the draft decision on the accelerated infrastructure delivery projects for South West Water.

The accelerated investment that we proposed was chosen carefully and aligns to Defra's recent Plan for Water, of which our approved schemes contribute £0.13bn. The approved schemes will deliver much benefit to our communities and regions, including reducing 330 storm overflow spills by 2028 and over 10,000 additional free customer supply pipe replacements, as well as improving river quality in the Axe and Camel catchments.

Given the scale of enhancement investment necessary for AMP8, we would like Ofwat to consider accelerating further investment through the accelerated infrastructure delivery programme. For Cheddar 2, Sherborne and Bristol area smart metering we believe there is sufficient certainty to accelerate a further £23.6m by 2025 on top of the £52m in the draft decision, rather than waiting for the final statutory programmes.

Cheddar 2 is an important project, not least because no large reservoir such as this has been built in England and Wales for 33 years. With planning support we believe this could be built by 2030. To do this we need to accelerate its development through the RAPID gateway process. We consider this accelerated timeframe for Cheddar 2 to be investment that no one will regret, as a reservoir that has had local support for its development both to protect water supplies for the future and for its amenity value.

For the other schemes, including community ponds and wetlands, we will look to progress through the PR24 transitional funding arrangements. We believe there are opportunities to accelerate further, and in particular we note the emphasis in the Defra Plan for Water on the long-term action plans for habitat and catchment projects. This could have been boosted by our "Learning from Nature" proposal which would have 100 community ponds by 2028, which has not been accepted for acceleration. We continue to believe that these initiatives require local community buy in and

believe they represent the right long-term approach for our region, having benefits beyond water industry statutory programmes.

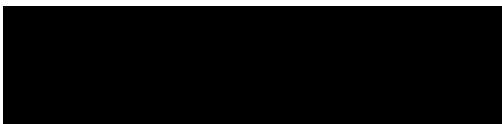
We welcome Ofwat's confirmation that transitional funding should be used for the statutory programme where it supports delivery over AMP8 – the opportunity to support delivery (with the appropriate evidence) by the supply chain and the public and stakeholder confidence that investment is being accelerated across the region are important considerations. We would welcome the opportunity to accelerate further water resource resilience, storm overflow and nutrient neutrality expenditure, and would like to discuss this potential with you in parallel to the final approval of these schemes. We would also like to accelerate some of the £78m of AMP8 accelerated spend into AMP7, and we would suggest exploring that as part of these discussions.

We set out in the table at Appendix 1 our response to the consultation, where we will consider transitional expenditure through final statutory programmes, and where we believe there is sufficient clarity to accelerate this expenditure now.

We provide specific comments and drafting points for the individual schemes in the draft decision consultation at Appendix 2.

Thank you for the opportunity to respond to this consultation. We have carefully chosen the schemes in our submission and are confident that we will be able to deliver the benefits which are so valued by our customers and the communities that we serve. Given the case for investment, and the strong links to the Government's recently published plan for water, we would ask that Ofwat reconsider some of the assessments under its final determinations as they will help to ensure that our region will have a plentiful supply of water for generations to come. We would welcome the opportunity to discuss our response in more detail with your teams in due course.

Yours faithfully



Dr. Lisa Gahan
Group Director of Regulation, Strategy & Asset Management



APPENDIX 1 – SUMMARY OF CONSULTATION RESPONSE

	AMP7 £m	Total £m	Summary of Ofwat's feedback	Summary of response (details provided below)	Proposed acceleration (AMP7 £m)
Scheme 1 – DWMP storm overflows	23.00	70.05	Accepted	Detailed comments on scheme count and description, and assurance requirements	23.00
Scheme 2 - Learning from nature	0 (5.00 proposed)	0 (20.57 proposed)	Pond and catchment management not water resource quality issue. Concerns with WRMP. EA concerns.	Will consider for final statutory programmes based on Ofwat's comments	N/A
Scheme 3 – DWMP Nutrient neutrality	12.01	28.06 included, 38.37 removed	2 schemes below 2,000 pe removed that do not meet criteria	Will consider for Final WINEP – but believe meets criteria now. Comments on assurance requirements	12.01
Scheme 4 – Colliford Reservoir Storage	0 (9.23 proposed)	0 (34.6m proposed)	Uncertainty in original draft DWRMP plus EA concerns	Scheme has progressed and will consider for transitional funding in final WRMP	N/A
Scheme 5 - Honeyhurst raw water transfer	0 (4.79 proposed)	0 (4.79 proposed)	Algal blooms not WRMP	Not an issue of algal blooms but scheme does not meet acceleration criteria	N/A
Scheme 6 - Sherborne raw water transfer	0 (0.84 proposed)	0 (0.84 proposed)	Algal blooms not WRMP	Not an issue of algal blooms – included in DWI submission so believe should be accelerated	0.84
Scheme 7 - Cheddar 2 advance works	0 (19.8 proposed)	0 (19.8 proposed)	No benefit until 2035, deliverability, funded at PR19	Ofwat regional plan feedback and additional cost of regional appraisal	19.8

	AMP7 £m	Total £m	Summary of Ofwat's feedback	Summary of response (details provided below)	Proposed acceleration (AMP7 £m)
				means meets criteria	
Scheme 8 - WQ monitoring	0 (1.03 proposed)	0 (1.03 proposed)	Not new	Part of DWI scheme so agree does not meet criteria	N/A
Scheme 9 - Resource West	0 (1.45 proposed)	0 (1.45 proposed)	Not WRMP best value, off track on PCC	Will consider in final WRMP	N/A
Scheme 10 - Reuse and desal	0 (1.35 proposed)	0 (1.35 proposed)	Feasibility only	Feasibility completed so full scheme can be considered in final WRMP	N/A
Scheme 11 – Colliford smart metering	5.65	20.99	Accepted	Comments on assurance requirements	5.65
Scheme 12 – supply pipe leakage	8.51	8.51	Accepted	Comments on assurance requirements	8.51
Scheme 13 – Bristol supply pipe leakage	0.98	0.98	Accepted	Comments on assurance requirements	0.98
Scheme 14 - Bristol Smart metering	0 (2.99 proposed)	0 (2.99 proposed)	Not WRMP best value,	AMI has been clarified by Government so can be accelerated	2.99
Scheme 15 – lead supply pipes	1.72	1.72	Accepted	Comments on assurance requirements	1.72
Total	51.87	130.31			75.50

APPENDIX 2 – CONSULTATION FEEDBACK

Scheme 2: Learning from nature – we note your comments and will consider whether we can accelerate through transitional funding based on the final WRMP, DWMP and WINEP programme. There is a significant demand and need for local community ponds and it is important that an early start on these projects to accelerate nature based solutions, can provide multiple benefits, and help to demonstrate that societal challenges on water and wastewater are more complex than currently perceived.

Scheme 4: Colliford Reservoir storage– the development of this investment has been accelerated already based on the lessons from the 2022 drought and this will be considered as part of the final WRMP.

Scheme 10: Resuse and desalination – the feasibility study this related to has been accelerated, and the investment is currently being considered for acceleration based on action arising from the 2022 drought, and therefore will be considered as part of the final WRMP. We will consider whether to include the subsequent schemes through PR24 transitional funding.

Scheme 11: Colliford smart metering and water efficiency – we did not understand the reference in this scheme feedback – we think instead the section in yellow should be deleted, or at least refer to the water enhancement programme. We are not sure that water and wastewater delivery should cross-over in this way, and we would expect we would provide confirmation to Ofwat in any case. For this programme, we believe the PR19 and Green Recovery programme should be sufficient conditions.

“To ensure that the schemes is additional to the company’s existing PR19 and Green Recovery commitments, we are proposing a condition on transition expenditure funding for this investment on the company delivering its PR19 and Green Recovery metering programmes and obtaining confirmation from Ofwat that the company is on track to deliver most of its wastewater enhancement programme by 31 March 2025.”

We note the pre-condition relating to significant and convincing evidence at our action plan review meeting in July 2023 that we are on track to deliver the PR19 enhancement programme, which we think is the relevant reference point here for consistency. Given the significant change on water enhancements we believe a service specific reference may be appropriate, but do not wish this to be taken as any doubt on our delivery commitment, it is merely to identify a potential inconsistency / ambiguity.

For clarity we confirm that for schemes 11, 12 and 13, the leakage and pcc benefits set out in the draft decision document reflect the cumulative value in the year from accelerated investment programme, which will need to be converted into three year averages for consideration against the total reported leakage and pcc targets. These targets were originally set based on December 2022 approval for the accelerated investment, so we will consider the later approval in our reporting on actual delivery and would not expect a lower 2023/24 position to impact on the outcomes. In addition, these deliverables are also considered separately and incrementally to the existing Green Recovery delivery.

Scheme 6: Sherborne Raw Water Transfer – this scheme was included in our DWI Appendix B submission in January 2023 and is part of our final plan and delivers best value. We would like to accelerate the delivery of this scheme through this final process. It provides resilience by allowing use of a source within a treatment process that can blend with other water in drought conditions. This is more from reducing the risk to water quality arising from algal blooms rather than causing this, and is therefore resilient to increasing water quality challenges during drought conditions, which enhances supply and demand resilience.

We do not include Scheme 6 for Honeyhurst as this is different from Sherborne in that it is a resilience proposal rather than water quality, and therefore does not meet the final criteria for accelerated investment set out by Ofwat.

We note Ofwat's approach that accelerated investment only relates to supply and demand, but we take the view that this wasn't the sole purpose of accelerated investment and DWI schemes can also be considered such as Sherborne.

Scheme 3: DWMP delivery acceleration for Nutrient neutrality – we understand the pre 2000 policy distinction between those schemes we proposed (Axe and Camel catchments) and those that were not accelerated. We are happy to work on this basis given nutrient neutrality accelerated investment is subject to the relevant legislation designation, in particular as sensitive phosphorus catchments. However, their inclusion in WINEP is not just dependent on the legislation – the secondary drivers (e.g. P removal) should allow inclusion in accelerated investment in any case. If this policy position changes, then we believe Ofwat should be able to accept the below 2000 pre schemes subsequently. It would be helpful if Ofwat could consider and clarify this for the final accelerated infrastructure delivery project decision paper.

We agree that the forecast impact of this scheme should be reflected in our PR24 business plan submission as described (subject to the condition on the scheme).

Scheme 7: Cheddar 2 Reservoir advanced works – the strategic need for Cheddar 2 has become clearer and we expect this will be included in our final WRMP (for South West Water). Although Ofwat are correct that the original RAPID gate funding for a scheme to Southern was included at PR19, this proposal was to accelerate this further, recognising that greater funding is required for considering accelerating as part of a regional water resource scheme. We also note the feedback by Ofwat in response to the draft Water Resource Management Plans on ensuring the individual plans in the region are consistent on the use of Cheddar 2, which this acceleration proposal was necessary to progress and then deliver the reservoir earlier than would otherwise be the case. We believe there is still a strong desire to accelerate water resource schemes and our desire is to progress this so it can be delivered for 2030 or shortly afterwards, with the support of the accelerated delivery process. We would welcome the opportunity to discuss further how we can accelerate this important strategic water resource so it can be delivered as soon as possible.

As this scheme is using an existing abstraction licence, the progression through the RAPID gateways would address any Environment Agency concerns. This feedback may be in advance of the draft WRMP as we do not believe there are any concerns relating to the existing abstraction licence at Cheddar springs that Cheddar 2 would utilise based on existing abstraction permits. We do not believe there is a link to peatlands or reductions in flows that would affect deliverability, given this is an existing SRO scheme where these points have not been made at earlier gateways, or in relation to the Bristol area draft WRMP or draft WINEP by the Environment Agency. We believe this should be clarified for the final accelerated infrastructure delivery decision.

Scheme 14: Bristol Area smarter meter replacement programme (accelerated WRMP) - given the recent Government Policy on AMI meters, this confirms our intention to revisit the AMI vs AMR choice for the final WRMP. We believe Ofwat could therefore consider approval through accelerated investment programme of this scheme, consistent with the delivery of the accelerated investment programme for the Colliford area. We would accept that Ofwat would approve the accelerated investment with the proviso that it was included in the final Bristol area WRMP and this reflected the best value option. Approval now, however would boost supply chain delivery for smart metering.

Scheme 1: Storm overflows

We provide the following observations on this scheme:

1. We can confirm that the delivery and spill reduction profile for this scheme matches that included in the draft consultation (as laid out in the table below), although as we note below there is one additional site we had included that was omitted from the draft decision document.

Line description	Units	DPs	2023 - 24	2024 - 25	2025 - 26	2026 - 27	2027 - 28	2028 - 29	2029 - 30	2030 +
1 Expenditure per year	£m	3	9.750	13.250	19.500	15.250	12.300	0.000	0.000	0.000
2 Storm Overflows improved	Nr	0	0	0	4	5	6	0	0	0
3 Spill reduction	Nr	0	0	0	110	220	330	0	0	0

We recognise that the PR24 performance commitment level for storm overflows will take into account this spill reduction profile.

2. The draft determination sets out 14 sites in connection with the storm overflows scheme, whereas we included 15 sites in our original submission. The additional site is Grove Place No 1 CSO in the Falmouth catchment.

The draft determination funding for this scheme corresponds with our original submission, we therefore believe that Grove Place No 1 CSO should be included.

3. We note that Ofwat have clarified that the highlighted section below should refer to South West Water instead of Southern Water and this will be reflected in the final determination.

Storm overflows

The allowance is conditional on the company evidencing to our satisfaction that all funding is for enhancing the functioning of the asset beyond the level set out in its environmental permit or beyond that which could be achieved through maintenance. This test for "compliance" is for the purposes of the Southern Water storm overflow acceleration scheme only. Whether a company is actually compliant or not with the conditions in its environmental discharge permits is a matter for the Environment Agency, not Ofwat. Similarly this test should not be read as in any way indicating Ofwat's views on the compliance standards required by section 94 of the Water Industry Act 1991 as supplemented by the provisions of Regulation 4 of the Urban Waste Water Treatment (England and Wales) Regulations 1994 (which Ofwat and the Secretary of State enforce).

4. The consultation states that "We will require a final report summarising the outputs that have been delivered, what innovative solutions have been implemented, and how this has been shared across the industry". We are happy to comply with this term.

We will confirm in our PR24 business plan in October 2023 how this delivery in addition to maintenance will be evidenced.

Assurance requirements

Both Scheme 1: Storm Overflows and Scheme 10: Colliford smart metering include assurance terms as described below in Appendix 2 of the draft price control deliverables.

“The company must commission an independent, third-party assurer, with duty of care to Ofwat, to assure, to our satisfaction, that the conditions below have been met and the outputs of the scheme set out below have been delivered”

South West Water already commissions independent third-party assurance on our Annual Performance Report, regulatory submissions and which was extended to cover the specific requirements for Green Recovery reporting and assurance – highlighting the specific nature of the investment. In terms of assurance of outputs for the Accelerated Delivery, we would propose a similar approach where our robust assurance framework is applied to the specific requirements of the Accelerated programme. We would be happy to share the Acceleration report of the independent, third-party assurer with Ofwat to assure delivery against these requirements.

We would propose the following wording:

“The company’s assurance processes should include reviews with independent, third-party assurer, and their assurance should report that the above conditions have been met. The Company will submit the relevant assurance reports to Ofwat.”

The Scheme 3: nutrient neutrality does not have the same assurance words, and we suggest consistency with this expectation (for nutrient neutrality in addition to the specific requirements relating to section 96F(2) WIA91).

The Scheme 12: customer supply pipe leakage scheme could also have the consistent description of assurance we propose. This would also apply to Bristol area schemes 13 and 15.