

# Price control deliverables detailed commentary

PR24 Draft Determination Representations – August 24



This document provides detailed feedback on specific aspects of a targeted number of Price Control Deliverables (PCDs).

Our focus relates to four specific PCDs:

- Mains renewals
- First time sewerage
- Metering
- Storm overflows

We make more technical comments on the other PCDs.

## Contents

<b>Mains renewals PCD</b> .....	2
<b>First time sewerage (section 101a)</b> .....	9
<b>Metering</b> .....	12
<b>Storm overflows</b> .....	14
<b>Further detailed comments on wider PCDs</b> .....	17
Growth at WRCs.....	17
Continuous river water quality monitoring.....	17
Supply interconnectors.....	17
Water supply schemes (excl interconnectors).....	17
Raw water deterioration and taste odour & colour.....	18

# Mains renewals PCD

## Summary

Our main representations set out our wider concerns on Ofwat's approach to Asset Health and the mains renewal adjustment.

In this document we focus on specific concerns should Ofwat retain its proposed Mains renewal PCD. Specifically:

- The delivery profile of the PCD fails to recognise the complexity of mains schemes which will impact the timing of schemes delivered in AMP8; and
- We set out the evidence that supports structural mains relining being classified as mains renewal for the purposes of the AMP8 PCD.

## Delivery profile

### Ofwat's approach needs to reflect the lead times for mains renewal schemes

The development and delivery of mains renewal schemes are a function of many factors. The length of time for a mains renewal scheme can vary significantly. These factors include the scale of ecological surveys, the scale of community disruption and whether the mains impact on wider utilities and services; specifically any major highways or rail crossings. All of these factors have wider implications, involve greater stakeholder engagement and add complexity and ultimately will take longer to deliver relative to schemes which are not subject to these factors.

Reflecting these factors, we would categorise mains renewal schemes into three levels of complexity:

- (1) Low complexity schemes – relatively simple schemes – swift to progress to site as they may have few ecological, traffic or community constraints;
- (2) Medium complexity schemes - require more significant input, for example customer engagement programmes, more detailed dewatering strategies to prevent pollutions or significant traffic management scenario planning; and
- (3) High complexity schemes - requiring significant enabling and working with other bodies to be delivered with their own statutory time frames to respond, for example a Basic Asset Protection Agreement (BAPA) to cross a Network Rail railway line or full Environmental Impact Assessment (EIA).

We estimate that on average low complexity schemes take up to 11 months from start to finish, medium complexity between 11 and 14 months, and highly complex schemes take greater than 2 years.

## Our AMP7 experience of delivering mains renewal schemes

We have analysed our AMP7 delivery of mains renewals against this categorisation. We estimate that of our mains renewal schemes delivered in AMP7

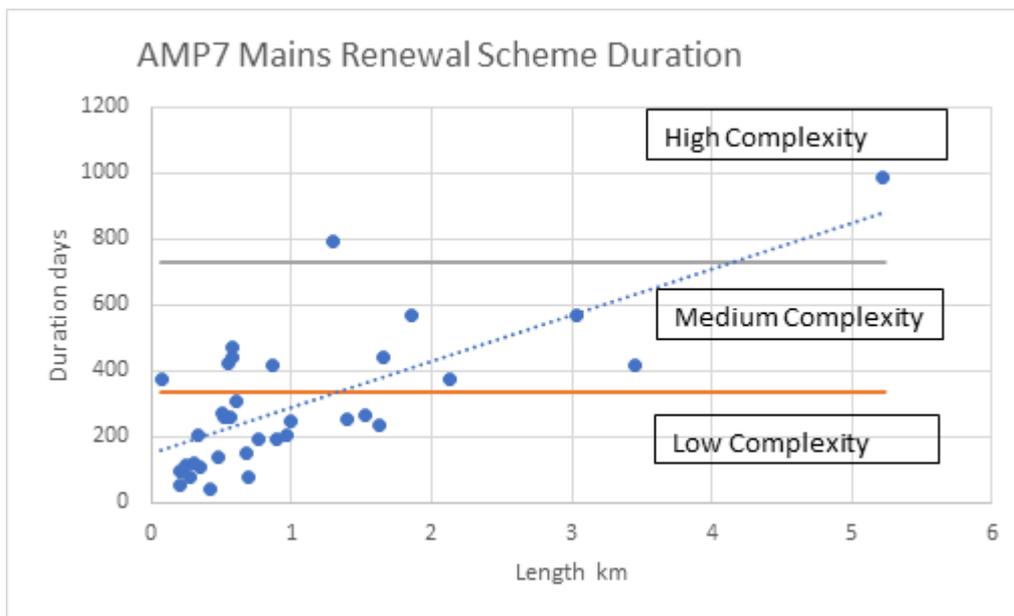
- 65% were considered low complexity;
- 29% were considered medium complexity; and
- 6% were considered high complexity.

Analysing the duration of mains renewal schemes in AMP7 we estimate:

- An average duration from scheme confirmation to completion of 298 days;
- A 75<sup>th</sup> percentile duration of 416 days; and
- A 25<sup>th</sup> percentile duration of 139 days.

The distribution of schemes by complexity and duration is demonstrated below:

**Figure 1:** mains renewal scheme duration



## Implications for Ofwat's delivery profile

We are concerned that the profile of mains renewal outlined in Ofwat's DD is unachievable early in AMP8.

Based on the understanding of average duration and complexity, we would expect a lower 2025/26 output and a gradual increase across 2026/27, 2027/28 and 2028/29 flattening into 2029/30 as the final completions for the AMP are completing.

Our experience of mains renewal and other mains laying schemes demonstrate that in order to achieve Ofwat's proposed delivery profile, we would need to promote roughly 50-60% additional mains renewal length into our delivery process for any given year. Delivery for the purposes of the PCD would be impacted by the complexity of the scheme which would drive the ultimate delivery dates.

We are also concerned that the increased levels of mains renewal for the industry in DDs will impact availability and cost of resources in the supply chain. Securing resources in such a situation may drive a premium into costs. Arbitrarily setting an early delivery profile will constrain companies' ability to flex their delivery programme to achieve the best value trade-off between early benefits and securing resources cost effectively.

## Proposed profile and volume

In line with our view on the level of mains renewal that is appropriate and the above discussion of delivery profile, we outline our proposed profile for the PCD in the FD below.

**Table 1:** proposed profile of main renewal by activity type

Category	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Base renewal (km)	32	80	106	106	76	400
Climate vulnerable mains CAC (km)	38	149	191	191	126	695
Leakage enhancement (km)	6	9	11	11	8	44
<b>Total (km)</b>	<b>75</b>	<b>238</b>	<b>308</b>	<b>308</b>	<b>210</b>	<b>1,139</b>

## The scope of the PCD should include structural relining

The technical appendix "Price control deliverables appendix" (July 2024), states (p14) that:

*"Mains renewals Include mains sleeving/pipe cracking/sliplining where used for this category of work to restore the structural integrity of the main. Mains renewals do not include mains which are relined for the purposes of improving water quality only".*

Through the Draft Determination query process, we raised a query (ANH43) in relation to the inclusion of emerging technologies that allow structural mains relining. Ofwat's response to this query requested we comment on the scope of the PCD in our representation.

We propose there is sufficient evidence and confidence that structural relining should be included in the scope of the mains renewal PCD and included within future APR reporting as contributing to the effective reporting of potable mains renewed.

## The role of structural relining in Asset renewal

We have embarked on an active programme of seeking low/no-dig solutions for mains renewal to improve efficiency of delivery, increase asset lifespan, reduce customer disruption, reduce carbon emissions and mitigate risks to the environment resulting from more intrusive traditional mainlaying techniques.

This programme has highlighted a number of options (currently eight in total) of which two have full Regulation 31 and the Water Regulation Approval Scheme (WRAS) approval, while meeting the other criteria outlined above.

The first of the two methods uses a roll-down technique to install a 'standard product' polyethylene (PE) pipe within an existing asset, thus providing a fully structural lining within the asset being renewed. This method has been effectively trialled on one scheme of 1.5km and will soon be trialled on a longer 3.2km scheme. In the event this second trial is successful then this method is likely to be adopted as one of the approaches for meeting the requirements of the AMP8 renewal programme.

This type of liner is effectively sliplining and therefore meets the APR reporting requirement of **6C.2 Total length of potable mains relined.**

The second liner with Regulation 31 approval and which provides semi-structural and structural lining opportunities is a polymeric spray liner developed by "Resiline". The advantage of this liner is that it can be applied in layers with each layer (3mm thick) added improving the structural strength of the liner being provided. The minimum application (3mm thick) provides a corrosion and water quality protection layer within the existing asset (at this thickness the reporting intent of **6C.2 Total length of potable mains relined is met**).

With subsequent layers being added (up to a possible 25mm for significantly eroded/end of life pipes) the pipe moves from a "semi-structural liner for the internal rehabilitation of pipelines" at 6mm application to structural from 9mm thickness. At these thickness the application of Resiline would meet the intent of mains renewal for the purposes of the Mains Renewal PCD by 'restoring structural integrity'.

The above is based on the spray lining product being used on an asset with a proportion of usable lifespan still remaining at the point of lining. However, Resiline took a further step and tested the product on a 'fully deteriorated' range of pipes in order to provide a guide on the thickness of the product application in order that it can withstand normal operating pressures as a self-supporting product. The outcome is the guidance table below. This shows for example that for a fully deteriorated <100m pipe 5.7mm of resiline can enable the asset to continue operation at 8 bar, or 9mm of resiline can enable a <300mm pipe to operate at 4 bar.

Figure 2: mains renewal scheme duration



**Lining Thickness for RESILINE™ 320 (mm) – Fully Deteriorated Pipe**

Pipe Diameter (mm)	Operating Pressure (Bar)			
	2	4	6	8
≤ 100	1.6	3.0	4.4	5.7
≤ 150	2.3	4.5	6.6	8.5
≤ 200	3.1	6.0	8.8	
≤ 250	3.9	7.5		
≤ 300	4.7	9.0		

**Assumptions**

1. The lining is required to be self-supporting in the absence of adhesion (Class III per AWWA M28/Class B per EN ISO 11295) - maximum DR 100 is applied.
2. The lining is required to act as the primary pressure containment, with no reliance on the host pipe, for up to 50 years.
3. Lining thicknesses are calculated per ASTM F1216, Equation X1.7 (Factor of Safety =2)

For use of this calculator, refer to Resimac terms and conditions of sale and Resiline 320 Design and Application Guide.

Calculations are based on ASTM F1216-16 Appendix X1

The above testing also confirms that with no reliance on the host pipe for structural support the product has a life span of up to 50 years. When the structural support of the existing asset is taken into account the pipe has a long-term life span of greater than 50 years, a point confirmed by the independent laboratory tests set out in the next section.

As noted above, the performance of the spray liner was tested by an independent laboratory Robinsom P.C.E. Ltd the summary of findings were:

Robinson P.C.E. LTD was engaged by Resimac Ltd. to undertake an assessment of the material in the context of its proposed use, both as a non-structural (corrosion protection) lining and as a semi-structural lining. The product has been found to demonstrate excellent corrosion resistance and durability in accelerated exposure tests, and in this respect could be expected to exhibit a level of long term performance comparable to that of other aliphatic poly-isocyanate based materials which have been used with success over many years in the UK water industry. The product appears to offer considerable potential as a semi-structural lining (Class II/Class III per AWWA M28 definitions<sup>1</sup>) and also exhibits sufficient long term tensile (creep rupture) strength to enable the lining to be designed to act as the primary pressure containment, depending upon pipe diameter and operating pressure constraints. When deployed as a semi-structural lining, the following long term (“50 year”) properties would be applicable for design purposes:

- Flexural Strength – 22.5 MPa
- Tensile strength – 12.5 MPa

In reaching the above conclusions the testing by Robinson P.C.E. LTD included a burst test where the liner was applied at 3mm thickness within a host pipe, which was then removed to test the burst performance of the minimum coverage level. The summary of the outcomes was that independent of the 'host' asset the liner was able to withstand pressure in excess of 15 bar before it ruptured (the mean at failure was at 17.6 bar and took 76 sec of constant pressure to fail).

A series of trials have been set-up for delivery in 2024/25 and if successful the aim is for this methodology to be adopted by us as a key component of the AMP8 and beyond mains renewal programme. Therefore, our forecast for **6C.2 Total length of potable mains relined** has been updated to 0.3km and **6C.3 Total length of potable mains renewed** has been reduced by the same length to 66km.

## Reporting and assurance

Within the “RAG 4.11 – Guideline for the table definitions in the annual performance report” (April 2023), page 130,

Line **6C.2 Total length of potable mains relined** is defined as “*Total length of potable mains relined in report year. Include all spray applied lining.*”

**6C.3 Total length of potable mains renewed** “*Total length of potable mains renewed in report year. Include mains whose prime purpose is renewal of an existing main, even where existing main remains in service (i.e. is not abandoned immediately on commissioning of new main). Include mains sleeving/pipe cracking/sliplining where used for this category of work.*”

The consequence of these definitions could mean where structural restoration is provided by means of spray lining via application of the Resiline product at two or more passes (6mm thickness or greater) being excluded from mains renewal. This would be counter to the intent of the PCD of capturing structural renewal.

We believe that structural relining is a promising new solution that will improve efficiency for customers. We believe this is in line with the intent of the PCD as it significantly increases the life of assets, even when their existing condition is poor. To ensure that companies can deliver this type of innovation we propose that reporting within the APR the definition of 6C.2 is clarified to capture relining for “water quality purposes only” and that 6C.3 is amended to include structural relining. We will then add the mains lining length restoring structural integrity to the length reported in line 6C.3 to give the total length of mains renewal to count towards satisfying the mains renewal PCD definition, which as shown above requires the restoration of structural integrity. We would welcome the chance to input and help drafting the reporting requirements.

### Assurance for structural mains relining

This reporting will be externally assured through our APR external assurance processes.

## First time sewerage (section 101a)

For this PCD we are proposing to amend the definition of the deliverable to reflect factors within our control. Specifically we propose the PCD relates to connectable rather than connected properties.

More generally, we observe there is significant uncertainty relating to which schemes will be required. While the PCD returns funding to customers for individual schemes, there is no likewise adjustment if we become obliged to deliver new schemes during AMP8.

This presents a material risk to Anglian as demonstrated by the recent appeal for the Thurne s101a scheme which is not included in the named list of schemes, but could require £35m of investment in AMP8 to connect.

### The deliverable is not within management control

The current wording of the PCD leaves us exposed to a risk of a non-delivery payment even if the schemes are delivered in full.

The emphasis in the deliverable<sup>1</sup> refers to connected properties. While we could deliver the required network infrastructure, if customers choose not to connect we would still be liable for a non-delivery payment.

We propose that the scope of the PCD should be amended to be the number of 'connectable' properties to First Time Sewerage schemes.

Based on AMP7 schemes we have seen an average of 62% of connectable properties ultimately connect:

Table 2: AMP7 uptake of first time sewerage schemes

Ref	Scheme Name	Connectable	Connected	% connected
1	Billockby & Clippesby	34	26	76%
2	Knapton	112	85	76%
3	Ashingdon	21	15	71%
4	Buckworth	38	28	74%
5	Rockland St Peter	75	50	67%
6	Morley St Botolph (Vac)	69	39	57%
7	Belstead	75	45	60%
8	Wormegay (Vac)	86	27	31%
9	Little Bealings	22	14	64%
10	Shepreth Meldreth	3	3	100%
	<b>Total</b>	<b>535</b>	<b>332</b>	<b>62%</b>

<sup>1</sup> Section 14.4.2, PR24 draft determinations: Price control deliverables appendix

Currently the lateral connection to First Time Sewerage schemes (known as a Section 101b connection) is included within the price control. In AMP7, the costs for delivery of lateral connections to support uptake of the new infrastructure we have delivered have been socialised across the generality of customers. This supports helps the scheme's viability and improves environmental outcomes (the original driver of the scheme) by incentivising a higher rate of connections.

## The impact of regulatory changes for AMP8 will materially impact the scale of properties connecting to s101a schemes

In the final methodology appendix 3, December 22,<sup>2</sup> Ofwat indicated that all site-specific services would be outside of the price control and would need to be directly funded by developers as to limit risk of cross-subsidy. At this point it was indicated that lateral drains would be excluded from the price control, although it was not clear that they intended to include S101b lateral connections (those associated with a concurrent S101A scheme). We were supportive of the move outside of the price control at this time.

As lateral connections will be outside of the price control and our ability to socialise these costs is removed.

In their Draft Excluded Charges Consultation, May 23,<sup>3</sup> Ofwat confirmed that S101B would be included within their 'excluded charges' as these were categorised as lateral drains. At this point it was noted that S101A customers would now need to fund the lateral connection in addition to any private works undertaken from their property to their boundary. We wrote back to Ofwat to ask them to re-consider this exclusion specific to S101B element of the price control changes.

It is anticipated that private costs could average between £5-£10k per property. The lateral connections budgeted as per the PR24 plan equate to circa £9.5k per property. This is a total of £15-20k each customer would need to fund in order to connect to the new S101A first time sewerage scheme under the proposed changes

In August 23, Ofwat consulted within their licence modification<sup>4</sup> changes how the excluded charges would be implemented. We again wrote back to Ofwat to express concern on the removal of the S101B due to viability concerns relating to cost of the lateral connection.

In April 24, Ofwat confirmed through their decision under sections 12A & 13 of the WIA that they would exclude this charge (see page 5).<sup>5</sup>

## Concerns with the proposed scope of the PCD

Given the regulatory changes for AMP8 which means customers will need to fund their own lateral connections, we are concerned that uptake will be even lower than we have seen in AMP7 (62%). We have 17 schemes proposed for AMP8 of which only one (Wendens Ambo) could be considered to be in an affluent

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<sup>2</sup> [https://www.ofwat.gov.uk/wp-content/uploads/2022/12/PR24\\_final\\_methodology\\_Appendix\\_3\\_Developer\\_Services.pdf](https://www.ofwat.gov.uk/wp-content/uploads/2022/12/PR24_final_methodology_Appendix_3_Developer_Services.pdf)

<sup>3</sup> [Developer Services - Draft Excluded Charges for initial consultation.pdf](#)

<sup>4</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2023/08/Licence-modification-consultation-notice-changes-to-the-Excluded-Charges-definition-in-Condition-B.pdf>

<sup>5</sup> Page 5, <https://www.ofwat.gov.uk/wp-content/uploads/2023/08/Decision-under-sections-12A-and-13-of-the-Water-Industry-Act-1991-to-modify-Condition-B-of-water-companies-licences.pdf>

area. Low uptake could mean operational issues for the systems, particularly the 11 vacuum systems we have planned to deliver, leading to odour and septicity issues.

We surveyed a number of customers who live in the areas of the proposed schemes, writing to 865 properties. We received 177 responses:

- 82% initially interested in connecting to public sewer
- 66% not interested if they had to fund the lateral connection
- 34% not interested as ‘happy with current system / recently upgraded system’

We would also be liable for a non-delivery payment even if we had delivered the required infrastructure. This is not appropriate for these statutory schemes.

**We propose that to address this the price control deliverable is amended to measure connectable properties** i.e. properties that could connect to the new infrastructure and there is sufficient capacity to accommodate them.

We observe that better customer and environmental outcomes are likely to be delivered if expenditure associated with lateral connections (section 101b) were returned to being within the price control.

## **Effective operation of the s101a PCD will require substitution of named schemes**

There remains some uncertainty about these schemes. On 14 August 2024 the EA made a determination that a new scheme at Thurne Bungalows should be delivered by 31 March 2029. We anticipate this scheme will cost £35m but it is not currently within our representation. Substitution and flexibility within this PCD, including increasing allowances for over delivery on new statutory schemes. This would be similar in principle to the approach to the Growth at WRC PCD.

The scale of the expenditure risk will need to be reflected in the Final Determination; either through an ex-ante allowance or the ability to recover this expenditure should it be incurred during AMP8.

# Metering

The scope of the PCD needs to be updated to reflect the correction to our data tables and confirmation of the volume of meter upgrades in AMP8.

The PCD requirement for companies to ensure connectivity requirements is beyond direct management control and would expose companies to potential penalties based on reliability standards not guaranteed by manufacturers.

## The volume in scope of the PCD requires updating

Within our submission we have not included any plans to upgrade existing meters to smart meters. All of our existing meter population will become smart via a meter replacement.

We have identified an error in our submitted data tables. We have erroneously submitted average unit costs for meter upgrades in CW7. This error has been corrected in our updated data tables submitted as part of our DD response. It appears in the subsequent DD that costs for our programme have been split between Meter Replacement (Base) and Meter Upgrade (Enhancement) with differing volumes for each.

**Table 3:** DD volume of deliverables

PCD outputs (cumulative)	Unit	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Meter upgrades	nr	0	59,880	274,584	493,055	705,030	918,295	1,074,034
Meter Replacements	nr	0	54,930	269,634	488,105	700,080	913,345	1,069,084

Our AMP8 plan will see us replace 1,074,034 meters with smart meters. We believe that, using the table above as a template the PCD in the FD should be as follows:

**Table 4:** our proposed volume of deliverables

PCD outputs (cumulative)	Unit	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Meter upgrades	nr	0	0	0	0	0	0	0
Meter Replacements	nr	0	59,880	274,584	493,055	705,030	918,295	1,074,034

We note that the number of new meter installations is dependent on customers agreeing to the installation. In instances where we can demonstrate reasonable endeavours to install a meter at property that does not currently have a meter, we do not believe it is appropriate to have to return full funding for the meter as we will have legitimately incurred costs and overheads. We would prefer this to be dealt with as part of a broader consideration of factors impacting delivery outside of our control.

## The PCD measurement and reporting requirements expose companies to uncontrollable risk

We are concerned about the measurement and reporting requirements. While we understand Ofwat's intent to specify a level of reliability, we believe the proposed intervention adds unnecessary cost and complexity. A simpler requirement for the meter to be installed and operation (i.e. data being delivered). This would then leave on-going reliability being incentivised by a need to realise the benefits of blanket smart meter coverage, which diminish if data is not complete. It would also be incentivised by C-MeX with customers who expect to access smart data and not being able to reflecting this failing in their survey responses.

The two levels of connectivity set out in the measurement and reporting section of the PCD may be very difficult to achieve reliably given that our ability to do so is limited by the range of AMI technologies available to companies as the manufacturers themselves do not guarantee this level of connectivity and reliability. Ofwat's PCD proposals are higher than the level of success observed for energy smart meters. It is not appropriate or reasonable to return the full funding for individual meters that do not achieve this level of transmission but are still providing sufficient data to enable the desired outcome of provision of data to customers.

Further clarification is needed on how the transmission of data every 24 hours will be applied. It would be useful if it could include what data must be included in the transmission and for what time period. Given our experience rolling out smart meters in AMP7 we would be glad to discuss this further in collaboration with Ofwat to ensure an appropriate approach is adopted in the FD.

We proposed some amendments should be made to the wording in the PCD take into account the following technological constraints currently faced by companies.

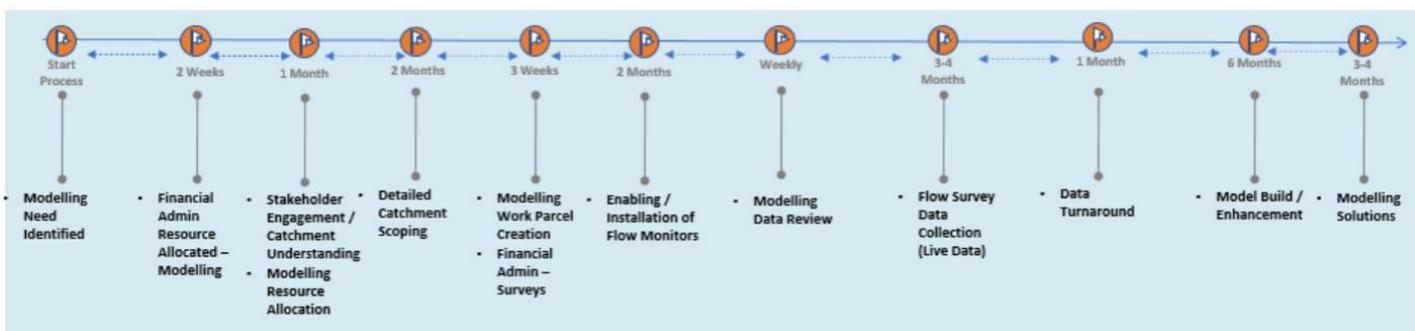
Most smart meter solutions transmit packets of hourly readings at set intervals during the day. Our own approach provides transmission 6 times a day from meters to network and each transmission includes (on average) the most recent 12 hourly reads. This gives us the appropriate balance between data completeness as quickly as possible whilst ensuring the 15 year life of the meter is not impacted. This solution means that not all the readings will be received in all cases within 24 hours but that full coverage of consumption information is available to us and customers.

# Storm overflows

## We propose amendments to the delivery profile reflecting the lead times for delivery

The delivery profile must match the obligation date of our scheme-by-scheme submission in the data tables. As noted previously, arbitrarily moving delivery profiles forward could result in inefficient delivery. There are significant lead times to delivering storm overflow schemes due to the requirement to accurately understand flow before developing and then delivering solutions. This typically takes ~20 months and the steps in the process are shown in the figure below.

Figure 3: flow survey activity timeline



We note that the PCD now includes the Accelerated Infrastructure Delivery schemes. Our view is that these schemes should be aligned to their obligation delivery dates as their delivery has been impacted by factors outside of our control. This includes:

- Inability to start sampling/order spends due to a lack of a designated laboratory for the new UV design guidance’s sampling/analysis requirements.
- Industry wide shortage of flow meters which are mandatory for high spiling CSO schemes in order to verify volumes required (hydraulic modelling) as well as feasibility of avoiding UV treatment on intermittent discharges (storm) as part of the new UV guidance.
- Industry resource constraints. Despite utilising all available framework contractors, the time required before being able to go to detail design has still been impacted. Additionally, this has been further compounded by the SMART solutions which in order to satisfy the new EA permit requirements for sign off, has to be incorporated back into the hydraulic models with very high confidence; this element has increased the complexity of the analysis and model build/verification beyond what was originally envisaged/allowed for.

At the earliest some schemes may be delivered in 2026/27 but overall the AID work is unlikely to provide any volumes/spill reduction benefits until close to the obligation dates and we have fed this position through our revised data tables.

## **The measure of the deliverable should reflect the number of schemes delivered**

We are concerned that the reliance on equivalent storage as the deliverable bakes significant uncertainty into cost allowances in AMP8. These volumes are subject to change as for most schemes the feasibility stage of scheme development has not been undertaken. All hydraulic models across the industry are still theoretical in nature and have pre-determined assumptions on growth, climate change, rate of urbanisation, frequency and volume of storms etc. We propose instead that the deliverable should be the number of schemes delivered and approved by the EA. This is the same deliverable as proposed for other WINEP PCDs.

If Ofwat does not adopt this approach then consideration to total volume delivered across schemes should be made when reconciling the PCD rather than individual schemes to account for this uncertainty.

## **We propose the PCD should be sufficiently flexible and allow appropriate substitution**

While we understand Ofwat's desire to see funded green schemes are delivered, we propose that there should be some flexibility of deliverables between type. This is because although the solution in our BP have a high degree of confidence of resolving the target risk, they are not a guarantee (a fact that can only be established after a project goes past feasibility to single solution).

There are many factors that can occur between now and delivery that may affect the proposed solution:

- 1) Inability to secure permissions/guarantees from landowners. STW have for example encountered the issue of being given permission to create rain gardens by the council, only to then have the council renege on this installation by demolishing it and transforming it into parking spaces (after customer backlash on the inefficient use of available road space). Ofwat would agree that AW has to operate on a guaranteed benefit to obtain an EA permit and to reduce spills and maintain that reduction we will require operational perpetuity to ensure this.
- 2) Time required for negotiation of point number 1. Delays from this may result in inability to complete the work before the obligation date. AW may be forced to seek other alternatives.
- 3) Further hydraulic model revisions may identify more cost beneficial solutions at feasibility (e.g. SMART) that may result in an even "greener" option as it would make use of existing assets potentially. Being locked into our solution will lower the incentive for these types of innovations.

We believe that Ofwat should consider whether companies have taken all reasonable steps to deliver a green solution and if it can be demonstrated that these have been exhausted and delivery of green solutions is outside of our control, then substitution should be allowed when the PCD is reconciled.

## Overlap with the storm overflows performance commitment

Interactions between ODIs and PCDs. While Ofwat has proposed to not take account of the interactions between ODI payments and PCD payments in the event of non-delivery, Ofwat's own analysis shows that there is the potential for duplication of penalties in some cases. At the same time, Ofwat has proposed to take account of the impact of funded enhancement activity when setting PCLs for ODIs. This means that unless Ofwat allows ODI payments to be netted off against PCD payments, companies face the prospect of double jeopardy and double penalties for non-delivery. This is another source of asymmetric downside risk. This PCD has an almost total overlap with the storm overflows performance commitment. We propose that Ofwat should account for underperformance payments from this performance commitment before reconciling the PCD.

## Further detailed comments on wider PCDs

### Growth at WRCs

In the 'PR24 draft determinations: Price control deliverables appendix' the deliverable refers to not allowing substitution in the case of previous non-compliance. However in the Q&A for the webinar Ofwat note:

*We confirm that the proposed PCD allows substitution of new capacity where appropriate. Therefore, there is no total exclusion. However, the proportion of new capacity installed to regain compliance with existing permits would not count towards delivery of growth at STWs schemes. Only the proportion of new capacity addressing growth at STWs (over and above addressing historical non-compliance) would count as delivery for the purpose of the PCD.*

This should be clarified in the FD definition for this PCD. We also propose that the FD should clarify what is considered a permanent solution.

### Continuous river water quality monitoring

We note there was an error in our data tables (and the PCD model) for the number of monitors installed. We have corrected this in our data tables and it should be reflected in Ofwat's PCD for AMP8.

### Supply interconnectors

This price control deliverable includes two deliverables, water available for use benefit (WAFU) and length of interconnector. We have reservations about the use of length of interconnector as a deliverable within the PCD. The key output is the WAFU benefit. As noted in the PCD webinar Q&A, there is a strong incentive for companies to submit efficient cost as part of the price review process, however significant uncertainty over the length of interconnector remains which will only be confirmed as design of individual schemes proceeds and conditions in the field are established.

Including the length of interconnector within the deliverable could create a perverse incentive for companies to build lengths of interconnector. Likewise the prospect of needing to construct more length of interconnectors that anticipated could leave companies short of funding if this risk materialises across the portfolio of schemes. We propose that similar to the water supply PCD, companies should be able to retain a proportion of any efficiencies that arise from shorter lengths being required to incentivise efficient delivery. We also propose that increased lengths of interconnector are accounted for in the reconciliation of the PCD and provision made to increase cost allowances if that is the output of the PCD model.

### Water supply schemes (excl interconnectors)

We note in the DD Ofwat reduce the cost allowance and expected benefit for LNE12 and RTS21. The DD also reduced the cost allowance for LNC30 but the PCD model does not reduce the benefit. We also note that the recirculation schemes (see table below) have received a reduced cost allowance but no adjustment has been made to the level of benefit. In the FD it is important that the level of benefit in the PCD is consistent with the level of funding provided.

**Table 5:** recirculation schemes with amended benefits

<b>WRMP Reference</b>	<b>Water resources zone</b>
EXC7	EssexCentral
EXS7	EssexSouth
FND26	Fenland
LNE3	LincolnshireEast
NAY4	NorfolkAylsham
NAY5	NorfolkAylsham
NBR9	NorfolkBradenham
NED3	NorfolkEastDereham
NHL7	NorfolkHarleston
NNC5	NorfolkNorthCoast
NNC6	NorfolkNorthCoast
SUE25	SuffolkEast
SUT6	SuffolkThetford

## Raw water deterioration and taste odour & colour

This PCD relies on satisfaction of statutory instruments by the DWI. While we understand the emphasis on us managing the relationship with the DWI, we would urge that non-delivery payments are not applied where we can demonstrate that the obligation has been delivered and we are awaiting confirmation from the DWI, which is not fully in our control.