

Chris Walters  
Senior Director, PR24  
OFWAT

By email

19 September 2023

Dear Chris,

### **Addressing PR24 cost uncertainty in business plans**

Thank you for joining us at our offices in Hanningfield on the 4<sup>th</sup> of September for an initial meeting. I really welcomed the opportunity to meet and discuss openly the shape of our emerging business plan and some of the challenges we have in front of us in what will most likely be one of the most difficult price reviews since privatization.

One of the issues we covered was the uncertainty that remains around some aspects of the business plan requirements given the continuing evolving position of new legislation and policy from both the UK Government and environmental regulators. Normally at this stage in a business planning process we would have a much higher degree of certainty than we currently do given the environment we are working in.

In particular I highlighted that the **Levelling Up and Regeneration Bill (LURB)** is still passing through parliament and so there remains some uncertainty around the final form of the legislation. This is made more uncertain by recent amendments to that Bill at report stage, which have passed successfully through the House of Lords. Those amendments would, for example, potentially provide more support for the adoption of the nature based solutions that we want to put forward in the Tees estuary.

In addition to the LURB situation I also wanted to further highlight that:

- Recent guidance received from the Environment Agency and UK Government in relation to the **Continuous Water Quality monitoring arrangements**, whilst very helpful, has arrived too late for it to be reflected in our final plans and passed through our assurance processes.
- We responded to a request from the Environment Agency in July suggesting changes to our environmental programme including the **delay of some septic tank investments** and other elements. Again the EA has responded to some of our suggestions helpfully but this confirmation has come too late to be able to reflect it in final plans.
- For some of the **monitoring requirements (UMON-6)** we are still awaiting final guidance from the EA, which is not expected to arrive before business plans need to be submitted on the 2<sup>nd</sup> of October.

I wanted to confirm in writing how we intend to address these issues in our submission and why we have taken that approach.

I spoke to Tim Griffiths at Ofwat last week about some of these issues and how best to deal with them in our business plan. The broad approach that we proposed in that discussion was to submit some additional data tables where we know cost figures are likely to change and can provide robust estimates of those changes now but recognizing that those tables may not be subject to our full assurance processes in time.

Below I summarise the specific approach for each issue. In broad terms taking a different approach to LURB would increase customer bills in the business plan but reflecting the other items will likely reduce them, so the impacts offset each other to a great extent.

### **LURB and Nutrient Neutrality (NN)**

Our plan will be based around our original nature-based solutions option to address the emerging NN requirements from the forthcoming legislation. We have recently had some very positive discussions with the EA and Natural England around these proposals and the amendments proposed in the LURB latterly that were accepted in the House of Lords would also, we consider, make our proposed solutions more likely to be acceptable.

This approach also recognizes the strength of our board's appetite to put forward these nature-based solutions which, whilst more risky, need to be implemented at scale if the sector is ever to move away from more traditional hard engineering alternatives.

We propose to complete some duplicate data tables to reflect our alternative solutions on NTAL (specifically tables CWW3, CWW19, CWW20, and CWW20a and related driver and cost tables). These will be submitted alongside our plan but will not have been through our assurance process which we will complete as quickly as possible after the deadline and update Ofwat of any changes that emerge from that.

### **Septic tank delays and updated Continuous Water Quality monitoring arrangements**

We similarly propose to complete some duplicate tables to reflect the updated guidance and position on septic tanks (specifically tables CWW3 and CWW20 and related driver and cost tables). These will be submitted alongside our plan on the 2<sup>nd</sup> of October but will also not have been through our assurance process which we will complete as quickly as possible afterwards.

### **Monitoring under UMON-6**

Since we do not have the final guidance from the EA and do not expect it until December we propose to submit the UMON-6 arrangements as per our current business plan. This will likely mean some updated information to reflect at the Draft Determination or earlier if Ofwat issues an information request once the guidance is issued, which we would support.

I hope this letter is helpful in explaining the approach we are taking which seeks to recognize the uncertainty whilst also giving Ofwat as much information as we can for it to undertake its assessment of our business plan. We expect this approach to follow the guidance we received from Ofwat earlier today.

I am copying this letter to your colleague Tim Griffiths, Amira Amzour at Defra and Anne Dacey at the Environment Agency.

Yours sincerely,

A handwritten signature in grey ink, appearing to read 'A Beaver', with a large, sweeping horizontal stroke above the name.

Andrew Beaver  
Regulation and Assurance Director

CC: Tim Griffiths, Amira Amzour and Anne Dacey.