



Our strategic priorities

Net zero and environmental gains



Executive summary

Our business plan is the right plan for right now and it delivers against our customers' top priorities, as well as meeting statutory requirements and setting us up to deliver safe and reliable water supplies into the long term.

We have set out an ambitious set of plans to reach net zero and deliver environmental gains. This significant investment will lower the carbon emissions of our operations and contribute to nature recovery as we face into the impacts of the twin climate and ecological crisis.

Our business plan includes measures to contribute to net zero, reduce the levels of nutrients contained in the wastewater effluent returned to the environment, recover energy from sewage sludge, introduce first time sewerage on the Isles of Scilly and a programme of nature recovery.

We start K8 having ended K7 in a solid place.

- For K7 we are delivering over and above business plan targets for catchment management
- We have made progress on GHG emission reductions, increased our renewables generation and exceeded our tree planting target
- RNAGs have improved from 19% to 12%

For K8 we are targeting

- **Decarbonisation** – reducing our emissions of nitrous oxide and repurposing methane, trialing new techniques to recover energy from bioresources and supporting our supply chain to adopt low carbon materials and processes
- **River water quality improvements** – upgrading our water treatment works to remove harmful contaminants and nutrients from treated discharges to improve river health
- **Bioresources** – developing state of the art new centralised sludge treatment facilities to protect rivers from the risk of pollution, whilst increasing the value to the circular economy of recycling more waste than ever.
- **Nature recovery and catchment work** – expanding our Upstream Thinking programme into new drinking water catchments, planting 300,000 more trees, re-naturalising our waterways for wildlife,

controlling non-native species and launching a new nature recovery fund.

- **Isles of Scilly** – installing waste treatment for the first time to customers on Bryer, St Agnes and St Martins, as well as extending the wastewater network on St Marys to enable more properties using private systems to connect to the network.

We note Ofwat's Draft Determination has recognised the areas we need to provide additional evidence to support. We have provided this evidence and we believe our costs should be recognised.

Our plan totals £540m enhancement expenditure, against which Ofwat has allowed £398m (pre frontier shift). We are making representations providing the evidence needed to enable Ofwat to reinstate the required investment to £514m.

Alongside the planned enhancement expenditure, we also planned to invest base expenditure to boost our carbon reduction and nature recovery plans, including electrifying our fleet, maintaining investment in the drinking water catchments we have been operating in since 2010 with new tree-planting targets and a pond creation scheme, alongside the launch of a new Nature Recovery Fund to support local implementation of the new Local Nature Recovery Strategies.

We are pleased that the need for the investment under this priority has been recognised by Ofwat, but the cost allowances have been severely impacted and will threaten delivery in these important areas.

We recognise that we need to ensure there is evidence for our investment proposals, and our representations will cover those aspects, but we are requesting recognition of our base business plan allowances.

Our plan included ambitious improvements to performance commitments, including significant reductions in phosphorus contained in wastewater effluent, the introduction of new common Performance Commitments, such as for Biodiversity and Operational Greenhouse Gas Emissions, and two new bespoke Performance Commitments for Embodied Greenhouse Gas Emissions and Catchment Management.

Ofwat's Draft Determination agreed upon the intent of our plans. However, Ofwat has introduced stretching adjustments to our expenditure allowances for nutrient reduction, bioresources, nature recovery, and our investments in the Isles of Scilly. In fact nearly all of our allowance reductions feel in the environmental gains priority.

We believe that these adjustments would benefit from further consideration by the regulator, as they risk delivery in this area.

We also observe that Ofwat has made adjustments to a number of performance commitments. These Performance Improvements are unfunded. As part of our balanced overall plan, we recommend that Ofwat return to the outcomes we said we would deliver in our Business Plan.

Areas of alignment

- Support for our plans to lower carbon emissions from our wastewater and drinking water services

 - Support for our bespoke performance commitment for embodied greenhouse gas emissions

 - Support for our plans to reduce the levels of phosphorus to improve river water quality. Totex allowances have however been heavily challenged.

 - Acknowledgement of our long-term plans to move to Advanced Anaerobic Digestion to increase energy efficiency and recovery from bioresources, noting a transition is required from the current use of the landbank. With totex allowances being heavily challenged, these will require reinstatement.

 - Recognition of the need for varying cost sharing rates for the different elements of bioresources, including between enhancement and base expenditure.

 - Recognition that the risk of closure of the bioresources land bank is a notified item

 - Support for the need for our programme of nature recovery, including catchment management in drinking water protected areas, control of Invasive Non Native Species, re-naturalising waterways using Fish/Eel screens and passes, WINEP investigations and biodiversity enhancements at specific sites. Totex allowances have however been heavily challenged.

 - Support for our plans to deliver measurable environmental improvements under the new Biodiversity Performance Commitment.

 - Rejection of the need for new first time sewerage infrastructure to be installed at key sites on the Isles of Scilly. Totex allowances have however been heavily challenged.
-

Areas for further consideration





Ofwat intervention

Representation

-
- | | |
|---|---|
| <p>1. Net Zero: Ofwat has approved the bespoke Performance Commitment for Embodied Greenhouse Gas emissions but specified an unreasonable trajectory for achieving the targets.</p> | <p>We invite Ofwat to reinstate the performance glidepath set out in our plan and consider SWB's two alternative ODI design proposals. We also ask Ofwat to accept the SWB and BRL performance commitment levels for the Operational Greenhouse Gas emissions common performance commitments as submitted in our Business Plan.</p> <p>→ Further info: Outcomes</p> |
| <hr/> | |
| <p>2. Nutrient reduction and river water quality: Ofwat has introduced complex Price Control Deliverables and a lower allowance which, together, will limit our ability to use nature-based solutions, deliver wider public and environmental benefits and our ability to embrace new technology and lower carbon techniques to improve River Water Quality.</p> | <p>We demonstrate the reasons why we believe the full allowance requested in our PR24 Business Plan should be reinstated, in particular in relation to nature-based solutions.</p> <p>→ Further info: Cost and Efficiency</p> |
| <hr/> | |
| <p>3. Bioresources: Ofwat has challenged the costs of our plans which we consider should be re-evaluated.</p> | <p>In order to ensure South West Water can meet the needs of customers and protect the natural environment, Ofwat should re-visit their adjustments to expenditure allowances, allow our base cost adjustment claim for liming and introduce an uncertainty mechanism for Appropriate Measures requirements.</p> <p>→ Further info: Cost and Efficiency</p> |
| <hr/> | |
| <p>4. Nature Recovery: Ofwat has challenged the need, best option for customers, and cost efficiency of our WINEP Drinking Water Protected Area plans, our WINEP Invasive Non Native Species plans, our WINEP Eel/Fish screens and passes and our biodiversity conservation WINEP projects.</p> | <p>We demonstrate the reasons why we believe the full allowance requested in our PR24 Business Plan should be reinstated.</p> <p>→ Further info: Outcomes</p> |
| <hr/> | |
| <p>5. Rejection of our bespoke performance commitment for Catchment Management.</p> | <p>We provide further evidence to support this bespoke PC.</p> <p>→ Further info: Outcomes</p> |
-

Overview

To develop our business plan for 2025-2030, we worked with c.30,000 customers to create and test our plans, as well as a diverse range of stakeholders through our stakeholder forum. Our customers have told us that preventing pollution and protecting bathing water are high priorities

Strategic priorities	Customer top 10 priorities
 Net zero and environmental gains	5 Boost nature & wildlife
	8 Protect rivers
 Addressing affordability and delivering for customers	10 Excellent customer service & responsiveness
 Water quality and resilience	1 Clean, safe water supply
	6 Reduce leakage
	7 Resilience to extreme weather
 Storm overflows and pollutions	2 Prevent pollution
	3 Protect bathing waters
	4 Prevent sewer flooding
	9 Less reliance on storm overflows

In our PR24 Business Plan, the Net Zero and Environmental Gains priority set out an ambitious package of enhancement investment which will lower the carbon footprint of our operations and contribute to nature’s recovery.

We are committed to ensuring that our operational activities – where we take water from the natural environment and return when it is safe to do so – support the natural environment, helping our wildlife and habitats to survive and thrive and reduce our carbon emissions, all of which helps to provide resilience to our changing climate.

The other priorities of the business plan together will ensure, if appropriately funded through the price control process by Ofwat, that South West Water can continue to deliver its core wastewater and drinking water services in ways that are affordable for customers, within environmental legislation and therefore not subject to financial penalties or prosecutions. The critical activities contained within this priority will ensure that, at the same time, South West Water is also lowering its carbon footprint to support efforts to tackle the climate crisis, and contributing to the ecological crisis by taking steps to deliver measurable gains in biodiversity and reducing environmental impacts.

We have worked with our environmental regulators to build a programme of environmental compliance and we are increasing our actions to improve river health across the region, with most of our investment focussing on reducing the levels of phosphorus discharged to rivers.

Our plans were costed based on industry best practice and validated by third parties. We applied a 17% efficiency challenge to our enhancement costs and a 11% challenge to base costs ahead of submission.

The remainder of this document sets out the five key areas of the Net Zero and Environmental Gains priority of our business plan. We highlight the impact of the DD on our ability to deliver against customer priorities and our ask of Ofwat for the final determination.

Summary of the impact of the draft determination

Base costs

For base bioresources funding, Ofwat has adjusted our expenditure allowances from **£189m** (Business Plan) to **£155m** (Draft determination). However, the adjustment includes a modelled allowance for Growth in bioresources. In our business plan we identified **£19m** enhancement funding for Growth in bioresources, so the adjusted base allowance is actually a much larger net reduction than it appears - particularly when our limiting CAC is considered. Our representations return our Growth in bioresources funding request to the enhancement plan for the value originally identified, **£19m**, as submitted in our business plan. We also reinstated our special cost adjustments for the higher cost of lime stabilisation for bioresources (£48m).

Enhancement costs

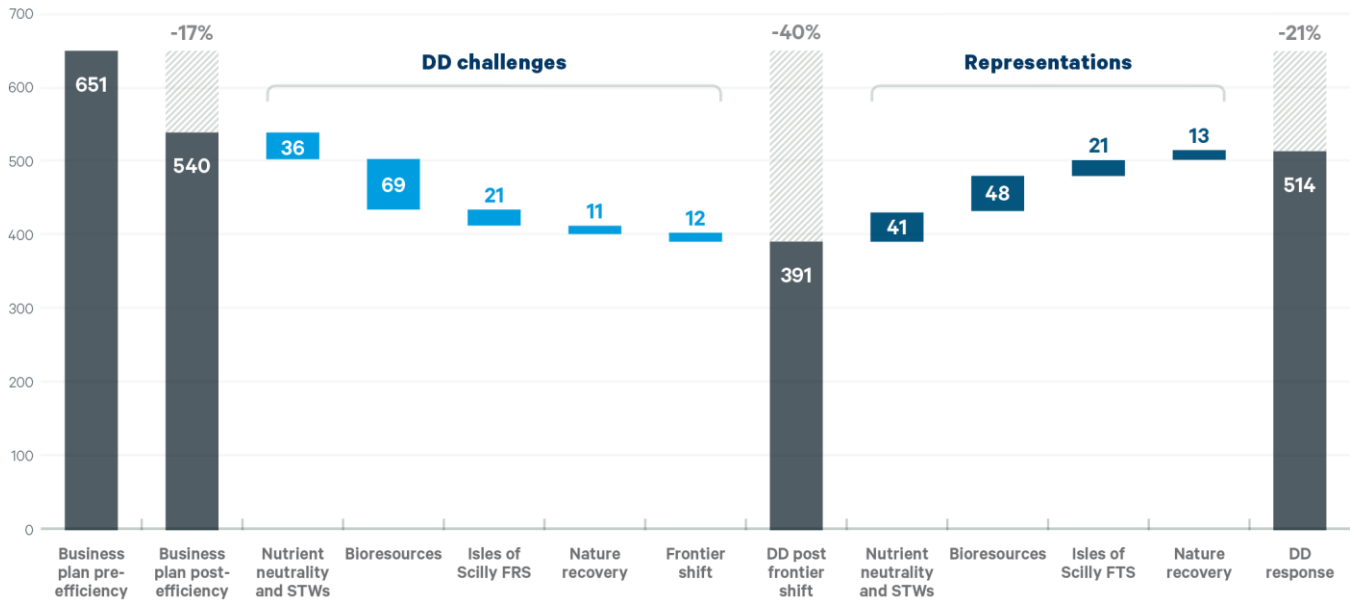
Our business plan identified **£651m** of enhancement totex to deliver our net zero and environmental gains priority. We then applied a 17% efficiency challenge, which gave a totex target value of **£540m** post efficiency. The draft determination has removed a further **£142m** (26%), allowing **£398m**. This equates to £253m reduction (39%) against our pre-efficiency plan. A frontier shift of c.£12m was then applied, which takes this total challenge to £265m or 41% against our pre efficiency plan. An overview of this is provided below.

Output	Totex BP pre eff*	Totex BP post eff*	Totex DD*	% change vs BP post eff	DD Response*
Nutrient neutrality and STWs <ul style="list-style-type: none"> Reduce phosphorus at 34 treatment works Reduce algae risk in special areas of conservation 	375	311	270	-13%	316
Bioresources <ul style="list-style-type: none"> Maintain and comply our bio-resources facilities to align with new legislative requirements 	154	128	59	-54%	107
Isles of Scilly FTS <ul style="list-style-type: none"> 32 km sewage pipes, 25 pumping station 3 treatment plants 	40	34	12	-64%	34
Nature recovery <ul style="list-style-type: none"> Extend upstream thinking programme Re-naturalise waterways 300,000 trees, 1,000 smart ponds Control presence of invasive species 	81	67	57	-16%	70
Total	651	540	398	-26%	526
Total post Frontier Shift	651	540	386	-28%**	514

* Includes Accelerated delivery

** -41% variance from business pre-efficiency

Enhancement totex – Net zero and environmental gains



Performance commitments

We provide additional evidence to support

- Our bespoke catchment management PC
- Restoring our GHG emission targets
- Restoring our glidepath targets for our bespoke embodied carbon PC

Net zero priority

Our Plan

We are committed to lowering our operational greenhouse gas emissions and we have refreshed the priorities within our Promise to the Planet net zero commitment for the next five years.

The three pillars of the Promise to the Planet commitment are:

Sustainable living

reducing our carbon footprint and process emissions and increasing our energy efficiency

Championing renewables

building a portfolio of renewable schemes which increase our energy security and resilience

Reversing carbon emissions

working in partnership to sequester more carbon through tree planting and peatland restoration

The Draft Determination

Key outputs to 2030 and levels of support in the DD, ranked from High (✓✓✓) to Low (✓)



Decarbonise our operations by reducing our emissions of Nitrous Oxide and repurposing Methane



Work with our contractors and our value chain to move away from traditional hard engineered solutions towards more carbon efficient projects, processes, and materials

Overview of our main concerns

Ofwat expects all companies to contribute to long-term targets set by government, such as achieving UK Government's interim and final net zero emission targets by 2050. Accordingly, Ofwat has introduced a new Performance Commitment Level relating to greenhouse gas operational emissions associated with water and wastewater.

For the Bristol area (water only), Ofwat expects South West Water to reduce operational greenhouse gas emissions by 6% on top of our original emissions PR24 forecasts.

For the South West area, Ofwat has recognised that significant construction is associated with both the wastewater and water programme and have allowed slight increases overall (1% associated with water and 5% associated with wastewater).

Ofwat has also made an adjustment to base cost to provide flexibility to deliver climate change adjustments, such as electric vehicle charging points and installation of heat pumps, which we will forgo at this stage in order to go back to our business plan which our customers supported.

Performance commitment levels

The Draft Determination provides clear carbon emission targets associated with emissions from water and wastewater operations and confirms acceptance of the bespoke Embodied Carbon Performance Commitment. Ofwat has however intervened and set more stretching targets for all of the carbon emission targets (including for our Embodied Carbon Performance Commitment, as Ofwat sets expectations of the delivery of a 10% reduction in 2025/26).

Adjustments required in the final determination

We welcome Ofwat's support of our proposed bespoke Embodied Green House Gas Emissions Performance Commitment, as we believe this could be a highly effective tool for reducing greenhouse gas emissions associated with our supply chain and capital investment programme. Although supportive, we believe the proposed changes (namely achieving a 10% reduction in year 1) are, however, overly onerous and would not be achievable on the basis set out. We have proposed two alternative design approaches which are set out in **our Outcomes representation**.

The processes and tools to achieve this performance are currently being embedded, such that we are confident by the end of the AMP they will be in a more mature state

and our original target of a 10% reduction can be achieved. Further challenges to isolating the benefits of market decarbonisation are not warranted, as the majority of our reductions will come from project optioneering instead.

We do not accept Ofwat's base adjustment of 2.5% to enable adaptation to climate change. We are challenging ourselves to achieve net zero operational emissions from base investment, and to carry the costs for electrifying our vehicle fleet. We recognise that these decisions are within management control, and in the case of net zero costs could be recovered in future years. For this reason, we do not cite these investments as efficiencies.

Following receipt and consideration of this evidence we ask Ofwat to:

Area	Adjustment / why	£m
Symmetrical CACs	Net Zero Symmetrical Cost Adjustment Claim	-2
		-2

PC	Adjustment / why	From (29/30)	To (29/30)
(SWB) Operational greenhouse gas emissions water	Our operational greenhouse gas emissions for SWB and BRL forecasted emissions growth between 2022/23 and 2029/30. The predicted growth in operational emissions is largely a result of additional energy consumption from new treatment processes and infrastructure planned to be deployed during K8 towards ensuring a resilient and regulatory compliant service.	68,197	70,045
(SWB) Operational greenhouse gas emissions waste		87,019	89,562
(BRL) Operational greenhouse gas emissions water		27,216	29,689
(SWB) Embodied greenhouse emissions	Re-instate the glidepath for SWB's two alternative ODI proposals for this bespoke performance commitment	347	347

River Water Quality Priority

Our Plan

We are increasing our actions to improve river health across the region, with most of our investment focussing on reducing the levels of phosphorus discharged to rivers at 34 wastewater treatment works.

At many of these sites, we will be driving discharge levels down to the Technically Achievable Limit (known as TAL), greatly reducing the impact that we have on the environment. Phosphorus is an essential element, and is a fundamental component of sewage, coming from our diets as well as many commonly used domestic and industrial products.

In the most sensitive catchments, we plan to invest over £40million at seven key sites to significantly reduce phosphorus levels. This will also help to contribute to unlocking development potential within these catchments which is currently blocked by the government's Nutrient Neutrality restrictions.

The catchments of the River Camel in Cornwall and the River Axe in Devon, as Special Areas of Conservation (SAC's) have further been assessed as at risk of eutrophication from algae.

These are some of the most ecologically sensitive and precious areas within our region. In these catchments we are investing an additional £23million into our smaller treatment facilities to further support the work that we are doing in these areas.

This forms part of more than £140million investment in improving the removal of phosphorus across the South West Water region.

The Environment Act set out an ambitious target to reduce phosphorus loading to rivers nationally by 80%. Our plans represent a significant first step on our journey to achieving this target by 2038. More work is planned for 2030 and beyond to contribute to this target. We will have reduced our phosphorus loading to rivers by almost 30% by 2030, (compared to our performance in 2020). We will need to double this investment between 2030 and 2038 in order to achieve our contribution to the national target.

The Draft Determination

Key outputs to 2030 and levels of support in the DD, ranked from High (✓✓✓) to Low (✓)

-
- ✓✓ Reduce phosphorus levels at 34 wastewater treatment works
 - ✓✓ Reduce risk of eutrophication in Special Areas of Conservation
-

Areas for further consideration

Our plans for Phosphorus reduction have been split into two assessments by Ofwat. One for our 'grey' solutions (chemical dosing or mechanical improvements), and a second assessment on the combined 'green' solutions for nature-based investments for either phosphorus or for sanitary improvements.

Ofwat said our plans were slightly inefficient when compared to other companies' plans. They propose to reduce the funding allowed for our Phosphorus reduction schemes by 9% for conventional treatment, and by 30% for those to be delivered by nature-based solutions.

We welcome and appreciate the need for the Price Control Deliverables regarding the different aspects of Phosphorus removal and, in our representation on the full range of Price Control Deliverables, we flag a number of specific areas for further consideration which would maximise our ability to deliver the best solutions to meet needs now and into the future.

Base totex

Within our base allowances Ofwat has applied a symmetrical cost adjustment claim for Phosphorus of +£6.34m. Our view is that our base business plan submission accounted for this investment area and therefore we are rejecting these increased allowances.

On balance we believe our business plan was stretching and efficient and we are seeking our Final Determination to align to this.

Enhancement totex

In our Business Plan submission we assessed a cost of £119m to deliver our conventional solutions at 39 sites. Ofwat has modelled our allowance for this activity at £109m, based upon a comparison of costs for historical schemes, and against models for future schemes. Our nutrient reduction programme is facing tighter and more difficult targets, and we believe that Ofwat's assessment does not take these into account sufficiently. We have submitted a representation challenging these

assumptions within the model, and made suggestions to improve it in light of the expansion of the nutrient reduction programme across the country.

For our nature-based solutions programme at 20 sites, Ofwat adjusted our business plan allowance from £42m to £29m, based upon an assessment of the best value for customers and an appraisal of our cost efficiency proposals. We believe that Ofwat should reappraise their assessment of our plan in light of further evidence, which should give confidence in both the cost efficiency of these plans and the support from our customers for this approach.

For Sanitary Parameters, Ofwat adjusted our business plan allowance from £40m to £23m, on the basis of econometric modelling. We provide evidence to demonstrate why the modelling approach should be amended, justifying the return of the full allowance in our business plan.

An overview of this is provided below.

	Output	Totex BP	Totex DD
Grey Phosphorus Scheme	39 conventional solutions to reduce nutrients	119	109
Nature Based Solutions	20 nature based solution schemes to reduce nutrients and sanitary parameters	42	29
Sanitary Parameters	Improvements to the quality of treated effluent	40	23
Total		203	161

Adjustments required in the final determination

We are making representations to reinstate funding for conventional and nature based nutrient treatment. We provide evidence that improvements to Ofwat's cost modelling approach justifies an uplift above the value set out in our business plan. We ask Ofwat to reconsider our plan for investment into Nature Based Solutions, providing evidence of their cost-effectiveness and reinforcing the clear message from our customers that these solutions play an important part in the future of wastewater infrastructure. Full detail of the representation is available in R02 Cost and Efficiency. Following receipt and consideration of this evidence we ask Ofwat to:

Area	Adjustment / why	£m
Phosphorus Removal	Adjust modelling approach	+10
Nature Based Solutions	Overtake deep dive assessment	+12
Sanitary Parameters	Adjust modelling approach	+18
		+40

Bioresources Priority

Our Plan

Our business plan sets out our intention to transform how we treat and dispose of waste from sewage treatment works (bioresources) in the South West. Our plans will see us reduce the environmental impact of bioresources, and reduce the carbon footprint of treatment processes.

Currently, the majority of bioresources produced by water and sewerage companies is recycled to agricultural land, a process regulated under the Farming Rules for Water and the Biosolids Assurance Scheme.

A significant benefit of bioresources is the opportunity for energy recovery from this organic material. We already extract energy from around 20% of our bioresources with the biomethane produced in this process being used to generate green energy – electricity – that we use on our operational sites.

Our preferred strategy for 2025-2030 was to build on this position by moving to a new treatment process - Advanced Anaerobic Digestion (AAD). We could utilise this process for 100% of our bioresources, maximising the potential energy recovery, with a reduction in carbon emissions (11,905 tCO₂ e) achieved by our transition to AAD with its greater biomethane yields.

Further benefits of AAD included the breakdown of the volatile matter in the bioresources which generates more biomethane and significantly reduces the volume of bioresources product left at the end of the process, which

in turn reduces the transportation needed to recycle to agriculture.

The AAD process changes the nature of bioresources making a higher quality, more manageable, more consistent, stackable product that can be used for a wider range of crops than our existing treatment processes.

We were cautious around placing the full strategy in our business plan as some of the costs associated with Farming Rules for Water and Appropriate Measures were not clear at the time of the business plan, neither was it clear around the overlap between enhancement and capital maintenance investment.

Due to a number of uncertainties associated with bioresources, our plan contained core costs for a “maintain and comply” approach to managing bioresources, to be updated once the uncertainties had been resolved.

Our business plan sought £271m of this cost in our maintain and comply strategy covering maintenance costs, growth and enhancement associated with IED and WINEP storage+ options.

The Draft Determination

Key outputs to 2030 and levels of support in the DD, ranked from High (🟢🟢🟢) to Low (🟢)

-
- 🟢🟢 Maintain our asset base to manage increasing demand associated with population growth

 - 🟢🟢 Improve and maintain compliance with new legislation

 - 🟢 Build two state of the art treatment facilities to reduce our impact on the environment

Areas for further consideration

Ofwat has stated in their industry wide approach that AAD would not be supported from Enhancement within the PR24 methodology. The DD also states that there is a sharing mechanism for Bioresources so where companies spend exceeds their allowance that this can be recovered back from customers on a 50/50 basis.

Challenges have been made to our plan based upon the following;

- No funding has been allowed for Landbank mitigation and ATC trials (£-36m)
- IED costs at Hayle and Countess Wear have been reduced (-£13m)
- Growth costs have been removed from Enhancement and modelled alongside maintenance (net £-7m)
- Our Cost adjustment claim for Liming has not been funded (£-48m)
- Our enhancement business case has been reduced by -£56m.

Adjustments required in the final determination

We are making representations to reinstate the allowances that we requested in order to be able to continue to deliver the bio-resources price control and to finance our function.

In particular we will be presenting new information and representation on the following points;

IED costs at Hayle and Countess Wear have been reduced (-£13m) – we consider that the cost assessment for Countess Wear does not take into account the site specifics and in particular the proximity to a SSSI which requires substantial engineering activity to comply with IED and appropriate measures. The current cost modelling does not adequately account for these site specifics and Environmental requirements which would be required to be delivered as an Environmental statutory requirement.

Growth costs have been removed from Enhancement and modelled alongside maintenance (net £-7m). The cost modelling undertaken for growth does not adequately recognise the forecast growth from companies in the K8 period and we believe this should be reviewed. The current modelling provides funding for companies who do not project future growth and has not funded companies that are seeking growth funding. The modelling output is therefore unrepresentative to the inputs sought by companies and should be re-evaluated.

Our Cost adjustment claim for Lime stabilisation has not been funded (£-48m) we have provided additional evidence to support this claim. The Cost modelling undertaken by Ofwat is based upon an AD/AAD process delivery which achieves volume reduction and energy savings whilst lime stabilisation increases volumes to the landbank. We do not consider that the Ofwat modelling fairly or appropriately reflects the use of lime stabilisation as a treatment process.

We welcome Ofwat's approach to cost sharing rates, including on different elements of bioresources (standard 50%, IED 25%), and on the differential rates between enhancement (40%) and base expenditure (50%).

We also welcome the proposal for a mechanism on risks to the bioresources land bank as a notified item. We make a specific proposal to add to this notified item, through a "pay on delivery" reverse PCD to cover specific risks from the Environment Agency in relation to appropriate measures for non-IED sites. Full detail is set out in our

Cost and Efficiency Representation.

Following receipt and consideration of this evidence we ask Ofwat to:

Adjustments to base expenditure

Area	Adjustment / why	£m
Liming Cost Adjustment Claim	Recognise the higher cost of sludge treatment in our region	+48
		+48

Adjustments to enhancement expenditure

Area	Adjustment / why	£m
Industrial Emissions Directive	Recognise outlier costs for Countess Wear and secondary containment costs for Hayle.	+13
Growth	Address shortcomings in the treatment of growth funding	+19
Sludge Treatment	Recognise additional costs associated with sludge thickening and dewatering and Sludge storage/Cake Pads	+15
		+47

Nature Recovery Priority

Our Plan

The natural environment of the South West is under threat from climate change, development, intensive agriculture and other human pressures. The UK Government has introduced a range of legally binding targets to reverse the decline of biodiversity and tightened environmental legislation. South West Water have worked closely with the environmental regulators to develop a programme of nature recovery.

Our plan included a package of investigations and implementation schemes totalling **£44m** to improve water quality through catchment management schemes, deliver measurable environmental enhancements through the new Biodiversity Performance Commitment, control the spread of Invasive Non Native Species and a range of measures to re-naturalise our waterways. It also included a proposal for a bespoke Performance Commitment for catchment management.

Our PR24 plan recognised the need for urgent action to tackle the climate and ecological crises and made commitments to additional linked activities which the company will fund using group resources, alongside WINEP investigations and implementation schemes.

The Draft Determination

Key outputs to 2030 and levels of support in the DD, ranked from High (✓✓✓) to Low (✓)

- ✓ Delivering a programme of nature recovery: planting 300,000 trees, creating ponds and restoring natural habitats
- ✓ Expanding our Upstream Thinking catchment management programme, delivering an additional 12,500 hectares, to improve water quality and boost nature
- ✓ Maintaining our wildlife-rich sites and delivering a measurable biodiversity gain from our operations, our land and beyond
- ✓ Re-naturalising our waterways to enable fish, eels and beavers to move without obstruction
- ✓ Collaborating with partners across the region, aligning resources and launching a new Nature Recovery Fund
- ✓ Raising awareness and controlling the presence and spread of invasive non-native species
- ✓ Enhancing access and educational opportunities for our 40 lakes and reservoirs and opening access to special sites.

Areas for further consideration

We ask Ofwat to review the level of totex challenge applied across our programme, and the changes made to performance commitments.

- The allowance for catchment management activities required under the DWPA WINEP programme was reduced by an additional 10% (over and above the company wide challenge of 20%) on the basis of optioneering and an alleged mismatch of ACTION ID numbers across documents/submissions.
- The allowance for the Invasive Non-Native Species WINEP programme was also challenged by an additional 20% (also over and above the company wide challenge of 20%): 10% on the grounds of need and 10% on optioneering.
- Our request for a bespoke Performance Commitment for Catchment Management was rejected by Ofwat.

Enhancement totex

Ofwat made a number of adjustments to the nature recovery programme – whilst we had requested **£44m**, an allowance of **£38m** was allocated, a reduction of **£6.5m**.

The allowances allocated by Ofwat will not be sufficient to deliver the WINEP outcomes developed with the environmental regulators, informed by independent assurance, as set out in the Action Specification Forms.

For Eel Screens and Fish Passes, there will be limited scope to vary solutions which have to be designed and delivered in ways which meet specific requirements of the environmental regulator.

For Upstream Thinking (DWPA WINEP) the cost assessment and optioneering process undertaken pointed to best value delivery through local environmental charities who live and work close to the areas we are focussing on, as opposed to delivering in-house or through external consultancy. With a lower budget we won't be able to maximise the additional Biodiversity Performance Commitment benefits and collaborate with environmental delivery partners on wider catchment management solutions (such as natural flood management benefits and nature-based solutions)

For Invasive Non Native Species, the optioneering process showed that it is the proposed combination of activities and interventions which will keep the invasives in check. The programme of testing and trialling new ways to control their presence and their potential to spread will be less rigorous and with reduced academic peer review, which will limit the ability of other water companies to replicate these techniques across the country.

For the Biodiversity and Conservation schemes, these are unique projects (e.g. removal of a sluice) in environmentally sensitive habitats and reduced budget may mean that the projects cannot proceed as, without the right level of investment, taking action following the right construction methods and procedures could damage those sensitive habitats, putting SWW as potential risk of prosecution.

Performance Commitments

Ofwat has introduced a new Biodiversity Performance Commitment, which South West Water plan to deliver in an integrated and cost-efficient way, as a by-product of other WINEP enhancement activities. Namely, the catchment management interventions funded through WINEP Drinking Water Protected Areas (Upstream Thinking).

Ofwat's industry-wide median Performance Commitment Level for the Biodiversity Performance Commitment as revised on 2nd August 2024 is welcomed. However, the reduced allowance for WINEP DWPA (Upstream Thinking Catchment Management) will impact on our ability to deliver biodiversity enhancement units at the ambition level originally forecast.

We do not accept that Ofwat has rejected the bespoke Performance Commitment for catchment management. Ofwat say the metric is output-focused but the regulator is inconsistent in its draft determination by accepting output-focused metrics from other companies. Ofwat's feedback also noted that the metric overlaps with other common performance commitments, notably biodiversity. Whilst our work on Upstream Thinking contributes to biodiversity improvements, the biodiversity units are a by-product of this work. The metric was also supported by our customers and the Watershare+ Customer Advisory Panel.

Adjustments required in the final determination

We stand by our original plan, which we believe to be the right plan to meet the challenges of today and to deliver the first stepping stone of our strategic 25-year plans.

Ofwat has applied a 20% company-specific efficiency challenge to all water enhancement investment assessed using a shallow dive. Our view is that the shallow dive was modelled on a restrictive list of calculation inputs which were not relative to the interventions required for biodiversity and protected species.

We also provide evidence in response to Ofwat's deep dive assessments. Further details of our representations in this area can be found in our **Cost and Efficiency Representation** document.

We are making representations requesting that the allowances for WINEP Invasive Non-Native Species, WINEP DWPA catchment management, WINEP Eel/fish screens and passes and WINEP Biodiversity and Conservation are reinstated, in part to ensure that we are able to deliver the Biodiversity Performance Commitment on a rolling annual basis beyond the first year of K8 at the level forecast in the data tables. The full justification for the reinstatement, along with supplementary evidence, is included in **our Cost and Efficiency representation**.

Ofwat has not acknowledged that for SWB the majority of the new Biodiversity performance commitment outcomes will be delivered from the DWPA schemes (which have received a 30% reduction overall), rather than from separate specific biodiversity investments (the approach taken by other companies). Our approach delivers inherent efficiencies and avoids double funding by ensuring both water quality and biodiversity outcomes from the same investment.

The full justification for our recommendations is included in **our Outcomes representation**.

Area	Adjustment / why	£m
Invasive Non-Native Species	Additional evidence to demonstrate need, optioneering and cost efficiency	+4
Drinking Water Protected Areas	Additional evidence to demonstrate optioneering and cost efficiency	+4
Eel/Fish Screens and Passes	Additional evidence to demonstrate cost efficiency	+3
Water Framework Directive	Reject company-specific efficiency challenge	+2
Biodiversity and Conservation	Additional evidence to demonstrate cost efficiency	+1

PC	Adjustment / why	From (29/30)	To (29/30)
Catchment Management (hectares improved)	Re-instate Catchment Management performance commitment	0	146,500

Isles of Scilly Priority

Our Plan

Our business plan set out our intention to deliver a new wastewater network to the Isles of Scilly. Our investment will protect ecosystems on and off the island and secure the future of tourism on the islands.

We plan to invest £34 million to better protect the natural environment of the Isles of Scilly on the off-islands of Bryher, St Agnes and St Martins. These islands do not currently have public wastewater networks, instead relying on local private systems and septic tanks. We will also extend the wastewater network on St Mary's to enable more properties using private systems to connect to the network.

We will lay a network of 31.5 km of sewerage pipes, required to connect over 185 households on four islands; deliver 25 new sewage pumping stations and 3 new Sewage Treatment plants, and we will build a kilometre of effluent pipes and 3 outfalls.

The impact of the discharges from current septic tanks are localised, but the groundwater supplies in the Isles of Scilly are vulnerable and limited, and there is an

acknowledged need to invest to improve resilience and environmental protection. We have already seen contamination of private boreholes on the islands as a result of poorly managed septic tank systems.

To protect groundwaters it will be necessary to remove the septic tank discharges to ground and replace them with discharges to the ocean therefore, First Time Sewerage schemes will be required.

There is considerable demand to connect to a public sewerage system and an acknowledged need for wastewater treatment on these islands. The Duchy of Cornwall, supported by the Council of the Isles of Scilly has already made an application for first time sewerage for all properties on Bryher, St Agnes and St Martins. The Duchy have done this in their capacity as Landlord for all properties on the islands.

The Draft Determination

Key outputs to 2030 and levels of support in the DD, ranked from High (✓✓✓) to Low (✓)

✓	31.5km of sewerage pipes
✓	25 new pumping stations
✓	3 new treatment plants

Areas for further consideration

Owat has challenged the need for investment, whether it is the best option for customers and whether costs are efficient. Owat also made a comparison with first time sewerage costs included in all Water Companies plans for the past 10 years, which are all on the mainland.

Owat allowed only **£12m** of the company's proposed **£34m** allowance.

The allowance will not be sufficient to fund the infrastructure improvement and installation required to all properties to which first time sewerage applications have been made.

Adjustments required in the final determination

We are making representations to reinstate the allowance that we requested in order to deliver first time sewerage services on Bryher, St Martins, St Agnes and, if required, the northern part of St Marys.

In terms of need, we have provided additional evidence including letters from the Duchy confirming the request for all properties on Bryher, St Martins, St Agnes and the Northern Part of St Marys. The Duchy is the Landlord and owner of all properties on these islands. We consider that this provides sufficient evidence to alleviate Ofwat's concerns about uptake from existing properties.

Our representation also challenges the modelled approach used by Ofwat, which has not taken into account the difficulties in delivering to offshore islands, nor the complexities involved in working in more difficult terrain and the very thin soils on the islands. Costs of construction and materials on the islands are very different to the mainland as materials need to be transported first to St Marys and then onwards to the off islands. This can lead to costs of typically double the unit costs on the mainland. We consider that Ofwat has not recognised the specific cost challenges of working on the islands as had previously been recognised at the time of transfer in 2020 and for the PR19 price determination.

An example of the cost differences on the islands, is the ongoing project to lay 1360m of a dual trench, for 50mm and 110mm diameter potable water pipe between Middle Town and Higher Town on St. Martins. The cost for the scheme is £1.3m, which equates to £987.67 per metre, which has been tendered across three of our framework delivery partners. The equivalent cost for the same scheme on the mainland would be £0.701m, which is equivalent to £515.57 per metre. The cost differential on the islands therefore, being a 92% increase on mainland costs.

These costs have increased as a result of the need for separate accommodation, travel to the islands, transport of materials to the island, increase in fuel costs as well as the need to hire landing craft to the off islands from Penzance.

Additional costs are also incurred on the islands with regards to land entry. On the mainland we can utilise our statutory powers for land entry, but these powers are not available on the islands which can lead to further time and cost delays beyond what would be seen on the mainland.

We are concerned that the precedents already agreed at PR19 and the 10 year improvement programme to 2030 is not recognised appropriately in the draft determination.

Further detail of our representation can be found in our **Cost and Efficiency representation document**.