

Price Review 2024: Anglian Water's Business Plan for AMP8 (2025-2030) **Draft Determination Representations**



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Foreword from Mark Thurston, CEO, Anglian Water



I've been at Anglian Water for just over eight weeks now, and in this short amount of time, I have immersed myself in getting to grips with the sheer scale of this incredible and complex business.

We're the biggest water company by geographic area, serving seven million customers and covering nearly a quarter of the UK. Our region stretches from the Humber Bank in the north to the Thames Estuary in the south and is home to major energy infrastructure projects such as Sizewell C, and a growing hydrogen production sector. Importantly, 75% of the land in our area is used for agriculture, with our region often referred to as the breadbasket of the UK.

Home to four of the UK's fastest-growing cities, over 700,000 more people are expected to live in this region in 20 years' time. Couple that with being on the forefront of climate change – experiencing contrasting extremes of heat and rainfall in recent years – we have our challenges.

This is a pivotal time for our business as we gear up for the next five-year delivery period (2025-2030) and beyond. Coming from an engineering background, it's clear to me there is so much to deliver, in line with our long-term ambitions and our Purpose. But long-term delivery plans need secure investment and committed shareholders – something which needs much more consideration from Ofwat if our sector is to be seen as a serious and viable investment proposition.

My focus right now, is to make sure Anglian Water is well set up to deliver AMP8. Transformation plans are already in place and delivery of those plans will be swift and ongoing. But as well as making transformational change, we need to focus on getting the basics right, if we are to start AMP8 on a firm footing. This is especially important when it comes to pollution performance. We know our 2-star EPA rating is not good enough and we are marshalling resource and mindset to turnaround our performance, supported by our shareholders, who have agreed an extra £100 million to accelerate progress. All of the decisions we are making today – against a backdrop of climate change, customer expectations, new requirements and the Government's economic growth mission – will impact future customers. Planning for the long-term is key.

Our AMP8 plan is affordable and deliverable, and it represents the next stage of our long-term strategy. Worth around £10 billion, it will see us double our capital programme from the previous AMP. It reflects what we've learned from our [Thriving East research](#), which clearly demonstrates the need for a reliable, safe and secure supply of water to underpin economic, environmental and social prosperity. It's a plan built to meet the needs of our region: it accommodates a growing population, doubles investment in the environment and will create vital infrastructure to secure resilience and enable growth. This is particularly important given the level of water-intensive businesses in our region.

We have much to do over the next five years, but we are confident in the deliverability of our plan. We already have 86% of the required work agreed with our Alliance partners, who are critical to the delivery of major infrastructure projects, like our strategic interconnecting pipeline and two new reservoirs.

But to achieve the scale of work needed, our Final Determination, and indeed the sector as a whole, needs to be investable. As an incoming CEO, looking at this through a non-water sector lens, it's clear that in addressing the ongoing issue of appropriate returns the Draft Determination doesn't go far enough. We strongly urge Ofwat to re-think this point, and support the industry in attracting long term, quality investment to drive economic growth.

Also, while we welcome Ofwat's delivery focus and recognition of the quality and efficiency built into our AMP8 proposal, other key areas need to be reconsidered. These include a miscalibrated performance framework, a limiting approach

to delivering major infrastructure, and the overall balance of risk and return. To ensure the necessary funds, it's vital we secure a balance of investment, service improvement and a fair return across the industry.

We also urge Ofwat to look at areas where the Draft Determination focuses only on the short term. Without long-term thinking, there will be unintended consequences on customer bills, increased risk of service failures and we will inevitably have to play catch-up on climate-related impacts.

In this summary, we set out the targeted updates to our plan, including further investment linked to new environmental obligations, to ensure it is still deliverable and represents great value. By 2030, a household can expect to pay just £1.68 for their daily water and waste water needs (£1.35 in 2024), as we maintain our focus on affordability.

The country's last great sector infrastructure programme was Sir Joseph William Bazalgette's creation of the London sewer system, which is still in use today. It effectively wiped out cholera from the capital. As we prepare for the next AMP, our industry has a similar opportunity to drive social and economic growth and create a legacy for the future. In working together to address challenges, we must be careful not to unwittingly stymie our ability to create a future-focused, efficient and environmentally sound industry; one which attracts the right kind of shareholder, inspires confidence for customers, stays ahead of climate change and population growth, and ensures flowing taps and flourishing environments for generations to come.

View from the Board

As a Board, we have shaped the development of our ambitious AMP8 plan and our Long Term Delivery Strategy (LTDS) to ensure that we, Anglian Water, deliver across all statutory requirements. Our plans were created in line with our Purpose – to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop.

During the AMP8 business planning process, we rigorously challenged both the scope and cost of investment, to ensure our plan is efficient and delivers a service improvement. In preparing our Representations, we have applied the same level of scrutiny, as elements have changed in light of emerging regulatory requirements and Ofwat's views. Customers remain at the heart of our plan, as we will do this alongside keeping bill increases to a minimum. Our AMP8 plans include an unprecedented level of help to make bills affordable for those struggling to pay. We will support all customers at risk of water poverty and are introducing an industry-first, new Medical Needs Discount. This will not be funded by any proposed increase in other tariffs, instead the costs will be met by investment from our long-term shareholders.

The Board collectively agrees that there are limitations to the current Draft Determination, which will not only impact Anglian Water, but wider economic growth in Eastern England. Positively, Ofwat has recognised the quality and cost efficiency of our Plan. Our cost challenge of 4% is materially lower than the industry average (16%). However, overall, the cumulative risk presented by the Determinations will impact the sector's ability to attract long-term and secure investment, and to deliver now and in the future.

We have reviewed Anglian Water's Draft Determination Representation proposals and believe that, with support from Ofwat and other key stakeholders, we can secure a Final Determination which is fit for purpose, enables us to continue delivering our ambitious AMP8 plan and creates an essential platform to meet the needs set out in our LTDS.

Board assurance

The Anglian Water Board has owned and is accountable for the Draft Determination Representations. Board members have met on four occasions, to assess the implications of Ofwat's Draft Determinations and discuss our proposed Representations. Although the Board Assurance requirements for the Draft Determination Representations are narrow, compared to those required for the business plan, the Board has gone beyond and focused considerations on deliverability, Ofwat-related Performance Commitment Levels (PCL) and risk and return.

We remain committed to the highest standards of corporate governance. The Board has a well-established and effective set of policies and procedures covering corporate governance, internal control and risk management.

This has supported the assessment and response to the Draft Determination. As a result, we are confident in providing a Board Assurance Statement, in line with Ofwat requirements, which can be found here.

We recognise the importance of ensuring that our Representations, and the decisions taken by our Board, are based on robust and reliable data and information. PwC and Jacobs have undertaken targeted assurance of our representations, supported by robust internal assurance. Where we have engaged with third parties to inform our Representations, we have reviewed the analysis and ensured we are comfortable with the balance of customer and company interests.



The Anglian Water Board takes its accountability for the Draft Determination Representations to Ofwat extremely seriously and recognises the importance of getting the right outcomes for our customers, communities and the environment. Our submitted plan is built to deliver what our region needs now and in the longer term. Importantly too, it is a driver of social and economic growth in our region – directly in line with the Government's agenda. As one of the fastest growing regions, it's vital we are able to invest in building new assets and maintaining existing ones. We have robustly considered the implications of the Draft Determination and comprehensively reviewed insight, data and analysis by internal and third-party experts. As a result, we are confident in our assurance statement and look forward to working with our new CEO, Mark Thurston, as we prepare to deliver the next stage of our long-term plan.

Dr. Ros Rivaz
Chair



As a Board we have scrutinised the assurance process for our Draft Determination Representation. We have held sessions on the Representations with management and external advisors. This has enabled us to really challenge and understand the choices and assumptions that have been made. The positive feedback from our independent assurance providers gives our Board confidence that the PR24 governance and programme management framework has been effective in developing high-quality Representations that take into consideration new obligations, will enable us to deliver social and environmental value and reflect our customers' priorities.

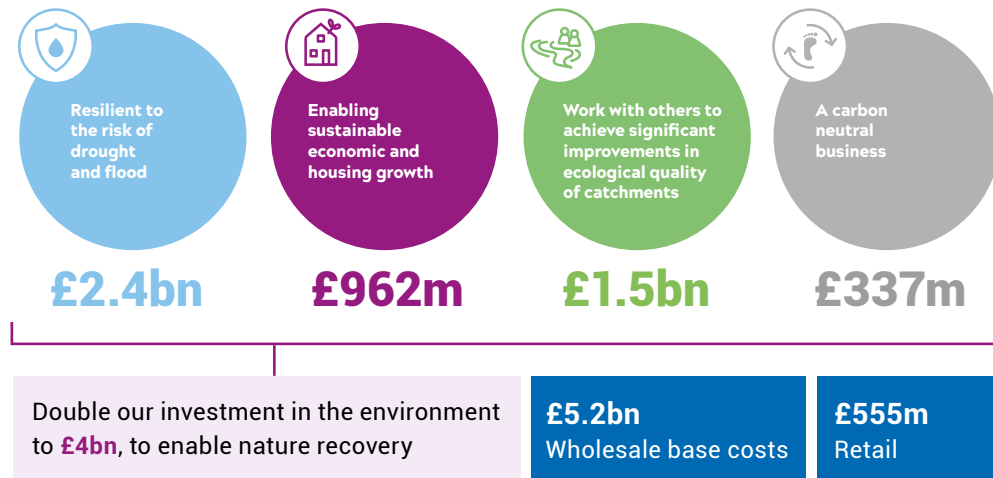
Zarin Patel
Chair of Audit and Risk Committee

Our asks of Ofwat

Anglian Water's customers, regulators and the Government are looking to us to deliver high-quality infrastructure and services that are resilient to a changing climate and capable of supporting housing and economic growth, without compromising the health of our natural environment.

With the new government agenda placing a greater emphasis on structured investment and water being at the centre of growth, we need to foster an environment that encourages long-term investment in a robust and resilient water sector. Reflecting the scale of this challenge, our AMP8 investment plan is double anything we have previously delivered.

What our AMP8 plan will deliver for Eastern England



We are pleased that Ofwat's Draft Determination has recognised the quality of our plan and the efficiency of our costs, resulting in one of the smallest Totex reductions in the sector and supporting our ambitions in crucial areas, such as storm overflows and growth. This reflects the strength of customer support for our proposals. Over two years, we carried out almost 35,000 in-depth engagements with our household customers and over 2,500 engagements with our non-household customers, specifically on our AMP8 plans.

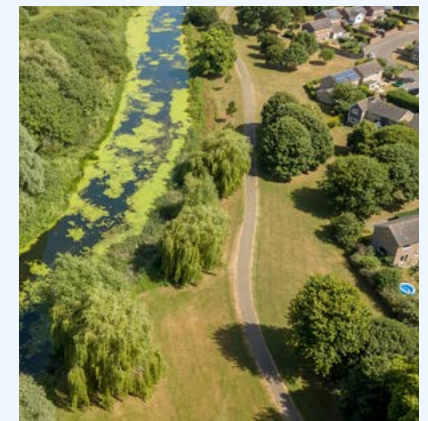
However, the Draft Determination falls short in a range of areas. A number of material changes are needed to deliver a viable Final Determination that enables us to deliver for our customers, wider stakeholders and our investors. We are particularly concerned that the Draft Determination does not represent a fair balance of risk in the short term and puts greater risk on future generations, with vital resilience investments being rejected or assumed to be delivered from the base expenditure of running the business. This is exacerbated by stretching assumptions of performance improvements that can be achieved without impact on customers' bills and material penalties for failure. This approach does not reflect previous improvements or the realities of the more extreme environmental challenges facing companies.

The next few months provide us an opportunity to finalise investment plans that put the water sector on a new trajectory. This is an opportunity we cannot afford to miss. Dialogue and collaboration will be critical if we are to work at the necessary pace and agree a Final Determination that meets the needs of all parties.

Challenges to address

Evolving our Draft Determination into an investable Final Determination will require the following issues to be addressed:

- Recalibrating what can and should be delivered by base expenditure and ensuring sufficient money to deliver.
- Setting a cost of capital that fully reflects real-world market data and the risks companies face.
- AMP8 performance targets should appropriately reflect AMP7 progress, alongside reconsidering the scale of penalty exposure.
- Development of a regulatory model for reservoir development that better aligns with precedents set by other major infrastructure.
- Redress the overall balance of risk and return.



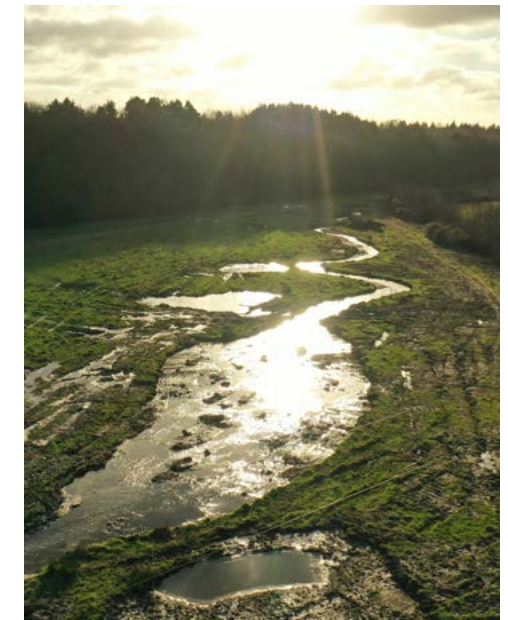
To address these challenges and ensure that PR24 works for customers, the environment, companies and investors, we ask that Ofwat:

- 1 Improves the focus on the longer term.** £250 million of our proposed resilience and climate change adaptation enhancement projects have been rejected or moved to base, replaced by an insufficient one-off £30 million allowance to tackle climate change impacts. Alongside this, hundreds of millions of pounds of unfunded investments have been loaded into already over-stretched base costs. The inevitable result is that essential work will be pushed into future AMPs, resulting in short term performance risks and requiring future customers to foot the bill for the consequences of work not being done now. Ofwat has recognised the need to intensify capital maintenance of water mains, but has not approved sufficient funding, while this narrow focus on one asset class creates risks across the wider asset base. Overall, the Draft Determination restricts our flexibility to respond appropriately to changing maintenance requirements during the course of the AMP.
- 2 Utilises the full evidence base available in setting the cost of capital.** It is crucial for the ongoing investability of the sector that Ofwat takes the opportunity to fully assess the level of return required to attract the scale of investment needed to deliver plans for PR24 and beyond. We encourage Ofwat to review the cross-regulatory evidence, use the sectors' cost of embedded debt analysis and wider CAPM cross checks as part of setting the WaCC for the Final Determination.
- 3 Reassesses the proposed AMP8 performance targets and incentive rates.** The asymmetry of the Draft Determination proposal shifts the outcomes regime away from its intended balance to incentivise and reward companies for delivering improvements for customers, whilst disincentivising poor performance. The imbalance of the proposed Draft Determination is exacerbated by not reflecting recently published 2023-2024 performance data which indicates companies will be some way off the 2024-2025 targets set by Ofwat during PR19. This assumption forms the starting point for AMP8 performance targets. This evidence, coupled with Ofwat's approach to setting incentive rates, has a material impact on the overall balance of risk, and companies are projecting to incur substantial penalties from the start of AMP8.
- 4 Collaborates to develop the approach to delivering major infrastructure projects.** Recognising this is a nascent area for water, we welcome Ofwat's willingness to work collaboratively, to continue to develop the overall approach to managing cost and risk that reflects the precedents from delivering major infrastructure such as the Thames Tideway Tunnel.
- 5 Redresses the overall balance of risk and return.** The median company is clearly exposed to significant downside risk which could largely eliminate the allowed equity returns. When setting the Final Determinations, Ofwat needs to review the collective impact of its decisions to fully balance the level of stretch and risk presented to companies. Enhanced risk analysis needs to be undertaken reflecting actual performance experienced over AMP7, ensuring the end result is a reasonable prospect of an appropriate return on investment. Timely recovery of costs during the AMP is essential to ensure effective investment, mitigate excessive demand on equity and support companies' financial resilience. A series of expenditure true-ups result in delayed cost recovery into AMP9, creating excessive risk exposure. Most significantly, we need the ability to recover appropriate costs from the substantial investment necessary to deliver the reprofiled strategic interconnecting pipeline. Further work is needed on the bioresources uncertainty mechanism, to reflect the varied risks that could trigger loss of access to the landbank. Ofwat has also applied the energy adjustment incorrectly, resulting in a shortfall of £175 million compared to our forecast energy bill for AMP8.

Our commitment to working with others to secure a fit-for-purpose Final Determination.

During the PR24 process, we made clear that success across the industry depends on a collaborative and long-term approach between companies, regulators and shareholders. The shape of companies' plans has continued to change, driven by a range of factors, including new obligations and changing guidance. The scale of our investment programme, the complexity of some of the major infrastructure we will be developing and the ongoing challenging sentiment around the sector mean that Final Determinations will need to be carefully calibrated to meet the needs of all parties.

Below we set out more detail about the constraints we see in our Draft Determination and changes we believe will be necessary, to ensure a workable Final Determination.



1 Improves the focus on the longer term

The expectation that base expenditure can fund significant elements of our proposed investment, in both maintaining the asset base and ensuring long-term resilience, is unrealistic.

Even though our Botex allowance was largely consistent with our Business Plan (excluding energy and business rates), the impact of Ofwat's Draft Determination expects c.£650 million of additional activity to be completed from this allowance, including £323 million of enhancement funding that has been disallowed and is expected to be funded from base. In addition to this c.£650 million of base pressure, £260 million will be spent in AMP8 but will not be recovered until after 2030. We built our AMP8 plan to be as efficient on costs as possible, which we are pleased Ofwat has recognised – reducing our proposed base costs by only 4% – but this means there is no headroom in our plan to absorb additional costs imposed through the Draft Determination.

Ofwat has rightly focused on the need to increase resilience but has not gone far enough on asset health. £250 million of key resilience and climate change adaptation enhancement projects have been rejected or moved to base, replaced by one-off £30 million funding to tackle climate change impacts. Alongside this, hundreds of millions of pounds of unfunded investments have been loaded into already over-stretched base costs. The inevitable result is that essential work will be pushed into future AMPs, resulting in short term risks and requiring future billpayers to foot the bill for consequences of work not being done now. As part of our Representations, we have voluntarily included an independently reviewed update to our [Asset Management Maturity Assessment](#), highlighting progress in a number of areas and planned improvements.

The majority of our assets are over 30 years old. The Price Review process invariably focuses on the new activities and assets required to meet new regulatory and legal obligations. Insufficient funding has been made available over multiple AMPs to manage maintenance pressures on existing assets. Loading all maintenance and service improvement into base is unreasonable and needs redressing as we face into the future.

To put this into context, the National Infrastructure Commission (NIC) calculates £12 billion of investment will be needed in water every year between 2025-2030, followed by maintenance at around £8 billion per year from 2030-2055.

The one-off resilience uplift is welcome; however, it will not enable us to meaningfully address pressing risks to our network.

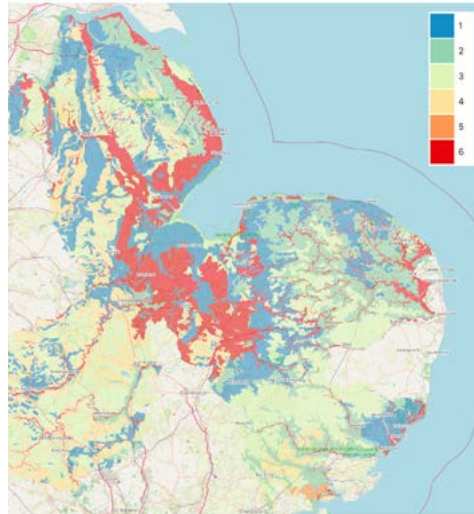
Anglian Water and three other water companies have commissioned new independent analysis, developing options for asset health metrics and funding approaches. This work is focused on PR29 but has identified a number of relevant insights that could be reflected in the current Price Review. This project has stimulated effective collaboration between Ofwat and industry (as well as NIC, Defra and DBT) that should be continued, to ensure more equitable treatment of capital maintenance in Final Determinations. This also overlooks the need for escalating capital maintenance investments in AMP9 and beyond. Locking asset health onto a single asset class (water mains) tied to a Price Control Deliverable (PCD) also risks building up problems in other parts of our network, such as storage points and pumps, which have not been similarly funded.

The Draft Determination overstates the level of mains renewal implied by Ofwat's historic cost allowances. Once corrected, this level is less than both our Business Plan proposal and significantly less than the long-term sustainable level, which for our region we calculate at 0.9% per annum. Our Representations address these issues, by committing to a reasonable increase in mains renewal from base and then seeking funding to take the first step in closing the gap on mains renewal, towards a long-term, sustainable level.



The risk of asset failure in the long-term

We have established the necessary scale of AMP8 asset maintenance and renewal investment, based on independent research, highlighting the risks and impacts of ageing water mains. Much of the land in our region is drained and rich in soils that are highly shrinkable, often chemically aggressive and structurally unstable. Extreme temperatures and heavy rain lead to shrinking and expanding of these soils, exacerbating ground movements that increase failures of ageing water distribution mains. Since 2014, we have partnered with Dr Timothy Farewell and Cranfield University, with research highlighting 8,241km of climate-vulnerable mains in the East of England. We intend to remove 75% of these mains by 2060, requiring investment of up to £1.64 billion. Our AMP8 programme proposed renewing 668km of these climate vulnerable mains – c.8% of the total. Pushing back concerted action beyond 2030 increases the risk of asset failure in the short term and builds-in delivery risk to future years.



Shrink-swell classification over the Anglian Water (water supply) area. Sources: Infrastructure data © Anglian Water. Soils data © Cranfield University and for the Controller of HMSO, 2019.

Decades of investment have helped us achieve our long-standing track record on leakage from our own pipework – we are a frontier performer across the industry.

In 2023/24, we achieved our lowest three-year rolling average, marking a 6.2% reduction from the 2017-2020 three-year baseline period. Going beyond our current position will require enhancement expenditure, a point explicitly acknowledged by the Competition and Markets Authority (CMA) in our PR19 redetermination. The CMA argued that “even if the spend may appear to relate to ‘business as usual’ activities, the sophistication of these is likely to be greater given the change to a significant leakage reduction now needed” and that this merited enhancement funding.

In addition, Ofwat’s energy adjustment has an error that must be corrected – which results in a £175 million shortfall in energy costs.

Summary of proposed changes to our Draft Determination

- Reinstate the investment targeting asset health including the replacement of climate vulnerable mains.
- Update base costs to reflect the level of energy costs anticipated in AMP8.
- Consistent with recent CMA decisions, allow leakage enhancement funding and also a Cost Adjustment Claim, to recognise the higher costs of maintaining leakage as a frontier performer.
- Reflect the forecast expenditure associated with boundary box failures linked to our legacy metering programme, which is distinct from Ofwat’s meter replacement adjustment.
- Allow recovery of costs, such as the increased level of AMP8 Environment Agency permit charges that are outside of management control.
- Adopt a more realistic expectation of productivity improvement that can be achieved in AMP8.



2 Utilises the full evidence base available in setting the cost of capital

The Weighted Average Cost of Capital (WaCC) doesn't fully reflect market developments and excludes certain data points. It does not go far enough in setting an allowed return that reflects the overall risk-reward package and the need to encourage material equity investment in both the short and long term.

At the proposed allowed WaCC, we firmly believe that neither Anglian Water, nor our sector as a whole, will be able to attract the necessary equity to fund our business plan. The spread between the Cost of New Debt and the Return on Equity continues to be a material concern, with some companies currently seeing their actual cost of debt higher than the allowed equity return.

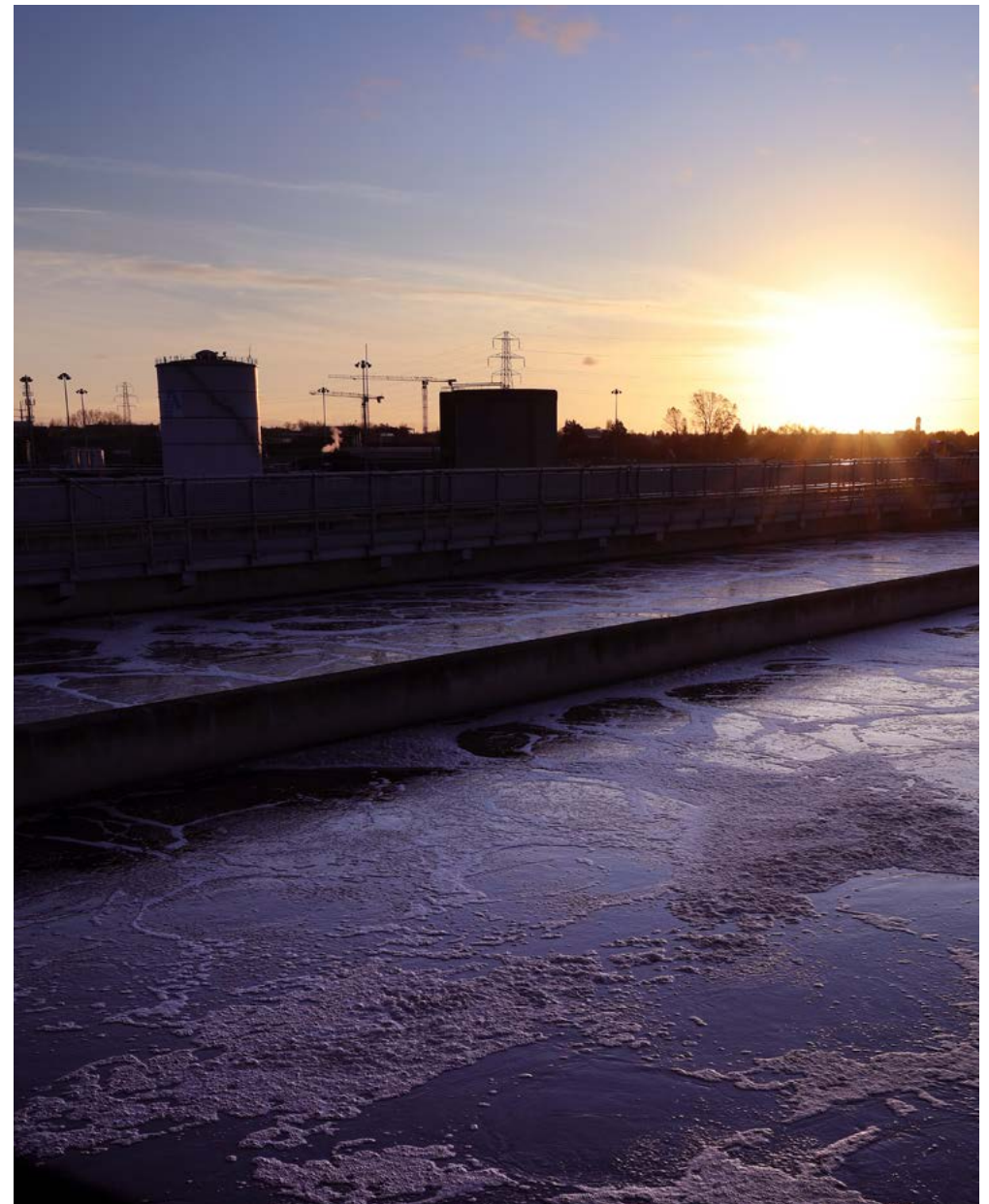
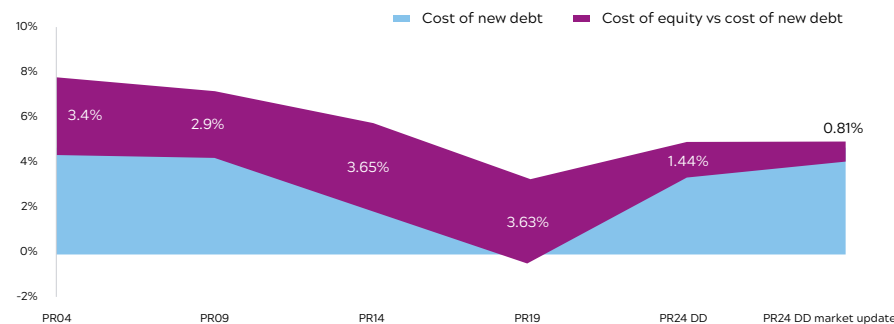
Our AMP8 plan proposed a risk-reward package under the return set out in the PR24 Final Methodology. At the time, we highlighted and evidenced concerns that the allowed return was too low. We also highlighted concerns on the asymmetry of upside and downside returns, concluding that an additional equity premium, or alternatively, removal of the skew in the underlying risk profile, would be necessary to ensure PR24 is a fair investment proposition.

While the Draft Determination has proposed an increase compared to Ofwat's early view, which we welcome, this is combined with Ofwat's view that there is no material downside risk for even the notional efficient company. This is based on the assumption that companies will achieve their AMP7 cost and output targets, which would subsequently translate into AMP8 performance – with little or no downside skew from Outcome Delivery Incentives (ODI) or Price Control Deliverables (PCD) penalties factored in. When risks are appropriately modelled, based on the latest market data, the substantial downside risk is clear.

Summary of proposed changes to our Draft Determination

- Update and incorporate the full suite of cross-regulatory evidence, use the sectors' cost of embedded debt analysis and wider Capital Asset Pricing Model (CAPM) cross checks as part of setting the WaCC for the Final Determination.
- Reflect the diminished spread between the cost of equity and cost of debt in setting the WaCC for the Final Determination.

The spread between cost of equity and cost of new debt allowances in Ofwat price determinations



3 Reassesses the proposed AMP8 performance improvements and proportionate incentives

Ofwat's AMP8 Draft Determination assumes that the sector will meet the Performance Commitment Levels set at PR19. However, the most recent performance data (2023/24) and future forecasts (2024/25) demonstrate that AMP7 performance targets are beyond what many companies expect to achieve.

What's more, the approach to reward and penalties materially increases companies' penalty exposure, relative to AMP7. This is backed up by a recent Moody's report, highlighting the Performance Commitment position as a key area of concern for investors, as it creates a financeability disconnect, read more [here](#).

This asymmetry will ultimately not deliver improved outcomes for customers. This will inevitably impact the investability and financeability of our AMP8 plans. While we realise the latest performance data was not available to Ofwat while drafting Draft Determinations, some incentive rates have changed materially since the Final Methodology. When risks are appropriately modelled, based on the latest data, expected performance is often below Ofwat's assumptions, with the risk and costs of underperformance exceeding the likelihood of outperformance. The consequence

is that investors cannot reasonably be expected to earn their allowed return. Moody's has assessed the impact of these changes as making most companies likely to be in net penalty over AMP8, amounting to c.£2bn across the sector.

It is essential that AMP8 learns the lessons of AMP7, where performance targets based on incomplete AMP6 performance data resulted in companies facing a "performance deficit" from the start of AMP7. Resetting AMP8 performance targets, using the latest AMP7 data, is essential to avoid baking-in this deficit over a second successive AMP and creating excessive financial risks.

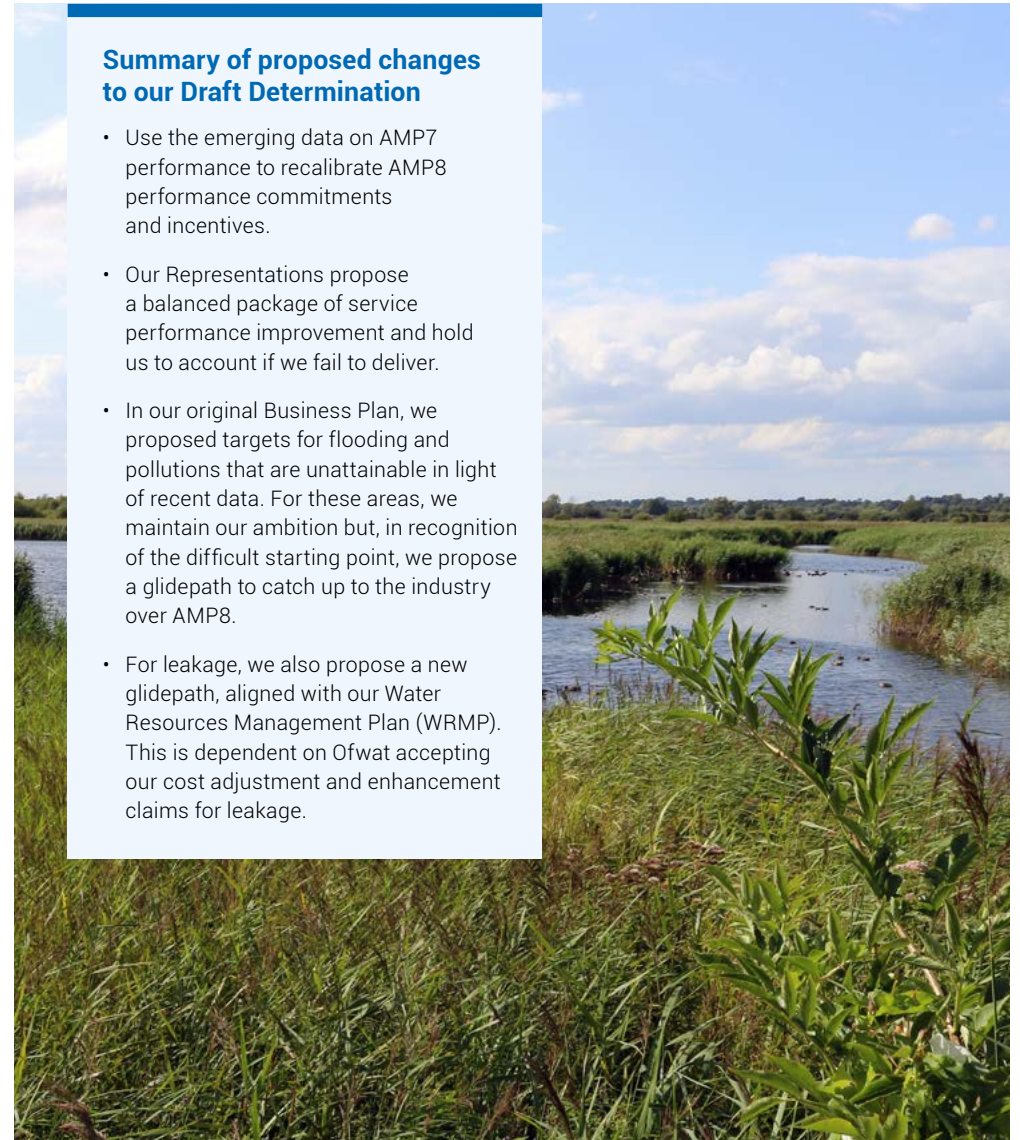
We recognise our responsibility to improve performance in some areas.

Our shareholders have agreed £100 million of additional support to accelerate performance improvements on spills and pollutions during 2024.

But even with additional investment, we require a more balanced starting position to stand a chance. We propose an industry reset of targets and challenge ourselves to catch-up with the wider industry. Our key areas of risk are pollutions, serious pollutions, internal and external flooding and leakage.

Summary of proposed changes to our Draft Determination

- Use the emerging data on AMP7 performance to recalibrate AMP8 performance commitments and incentives.
- Our Representations propose a balanced package of service performance improvement and hold us to account if we fail to deliver.
- In our original Business Plan, we proposed targets for flooding and pollutions that are unattainable in light of recent data. For these areas, we maintain our ambition but, in recognition of the difficult starting point, we propose a glidepath to catch up to the industry over AMP8.
- For leakage, we also propose a new glidepath, aligned with our Water Resources Management Plan (WRMP). This is dependent on Ofwat accepting our cost adjustment and enhancement claims for leakage.



4 Collaborates to develop the approach to delivering major infrastructure projects

We've always taken a long-term view to water resilience and have plans to build two new reservoirs – one in Cambridgeshire and another in Lincolnshire.

The Water Resources East regional plan identifies the new reservoirs as key to ensuring the region we serve has enough water in the future. Delivering the Fens Reservoir on schedule is critical for Cambridge and its growth agenda and is prioritised in our Water Resources Management Plan and revised submission. It is being delivered in partnership with Cambridge Water.

We are also working with over 70 stakeholders through our Future Fens: Integrated Adaptation (FFIA) strategic partnership programme, including Cambridgeshire and Peterborough Combined Authority, Environment Agency, Water Resources East, Lincolnshire County Council and other local and regional partners. This includes the development of locally owned investment plans, that will seek to deliver landscape-scale benefits (such as integrated water management, health equality, transport improvement), by securing private investment from financial institutions. The reservoirs will be key to this enhancement, by allowing an opportunity to further leverage investment being sought for their delivery and operation.

We recognise the good intent behind Ofwat's approach to funding and risk management for the Strategic Resource Options (SROs). Nevertheless, the Draft Determination creates unacceptable regulatory risk, given the uncertainty associated with the development of major infrastructure. This needs to be resolved in order to unlock investment for these major projects, which are critical for economic and

housing growth and to protect the long-term interests of the environment and customers.

When we submitted our PR24 business plan, our reservoir projects and cost estimates were at a relatively early stage of maturity. Development costs for infrastructure projects are inherently uncertain, with elements often outside of our control. Our experience with similar large Development Consent Order projects has shown how costs can change over time. Our Draft Determination reflects the £330 million proposed in our business plan. Since submission, we have continued to develop these forecasts. Our latest estimate, which has been independently assured, indicates that total costs are in fact likely to be in the region of c.£653 million in AMP8 (Fens: £460 million, Lincolnshire: £193 million). There remain major strategic decisions that still need to be discussed and agreed – e.g., land strategy and enabling works – and the estimate does not include risk allowance for events outside of Anglian Water's control. We look forward to collaborating with Ofwat to appropriately reflect this in the Final Determination.

We believe the Thames Tideway Tunnel (TTT) model provides a better dynamic approach for infrastructure than five year price reviews. Ofwat's current approach exposes us to uncontrollable risks, via proposed Totex sharing rates and the rejection of our proposed cost re-opener. Neither decision is consistent with key precedents such as TTT. Furthermore, a more flexible approach would deliver better value for money for customers, something Anglian Water and Ofwat are keen to ensure.

The overall concept of a fixed (e.g. % of capex) monetary allowance for Development Costs sits uncomfortably with the reality of project implementation, where situations can arise in which "spend in development" to "save multiples

in construction" can arise. The proposed incentive approach means that failure to achieve a gated milestone could potentially result in a) scheduled delay and associated cost overruns, b) remediation costs to fix the issue and c) Direct Procurement for Customers (DPC) penalties that weren't calibrated for Specified Infrastructure Projects (SIPR) schemes. We will continue to work closely with Ofwat to resolve these issues and ensure the Final Determination supports these investments and the economic growth dependent on this critical infrastructure.



The proposed new reservoir in Lincolnshire



The proposed new reservoir in the Fens

Summary of proposed changes to our Draft Determination

- Changes are needed to Ofwat's overall approach to major infrastructure delivery, such as utilising a separate price control process for Specified Infrastructure Projects and revisions to cost recovery and risk management, that are more appropriate for the investment scale and risk profiles of large scale infrastructure.
- Explore a more dynamic approach to setting cost allowances mid-AMP, to reflect major strategic decisions that are still to be made (e.g. phasing, land and enabling works) and adjust for factors outside of Anglian Water reasonable management control.
- Increased Ofwat involvement in strategic decisions on issues that arise during the ordinary course of the project to ensure that Ofwat and Anglian Water are aligned and progressive sign-off of costs.
- Incentivisation only where Anglian Water has control, no double jeopardy, and outcomes are demonstrably in customer interests – must be aligned with risk and reward.

5 Redresses the overall balance of risk and return

Many overlapping factors including base, WaCC, PCDs, uncertainty mechanisms, the performance framework and approach to SROs determine the overall balance of risk and return in the Draft Determination.

If the balance skews too much to the downside, it calls into question the investability and financeability of the entire plan. Draft Determinations also introduce a number of proposals with the potential to increase risk, including:

- Reducing Regulatory Capital Value (RCV) run-off rates, which reduces short term customer bills but takes longer to pay off the investment;
- A Delayed Delivery Cashflow Mechanism (DDCM) that would claw back a proportion of the revenue provided to date, and to remove any associated revenue within the allowed return and RCV run-off from future years, where there is material underspend of enhancement expenditure;
- Consulting on an additional mechanism that restricts dividend payments where companies' gearing exceeds 70%.

The risk profile of the water sector is changing as its underlying economics fundamentally shift. Water companies could previously be characterised as value stocks: they paid regular dividends, had RCVs that grew relatively modestly and required little or nothing by way of new equity. This played out as low, steady bills for customers, which in spite of industry challenges, have risen by little more than 10% excluding inflation in the 35 years since privatisation.

In the foreseeable future, water companies will be more like growth stocks: undertaking large investment programmes that result in a rapidly growing RCV, paying limited or no dividends and in most cases requiring injections of equity. These changes have important implications for how the sector should be regulated. In particular, this highlights the importance of a credible framework for attracting equity finance – this extends beyond PR24, with our LTDS setting out the need for substantial investment over multiple price control periods. The Draft Determinations contain a number of provisions that will disincentivise new equity investment at the necessary scale. The consequence is that future bills will need to increase by more than they otherwise would, in order to ensure long-term needs can be met.

5.1 Enabling effective delivery and risk management

The Draft Determinations also provides insufficient flexibility to enable companies to effectively manage the volatility that we face across a range of frontiers including weather, regulation and input costs.

Timely recovery of costs during the AMP is essential to ensure effective investment and mitigate excessive demand on equity and support companies' financial resilience. Expenditure true-ups (the process of reconciling estimated amounts with actual up-to-date figures) have been pushed back to AMP9, creating too much risk around the timing of recovering expenditure. Most material for Anglian Water, is the impact of the investment to deliver the reprofiled Strategic Interconnector programme. Our Draft Determination requires this remaining investment to be funded upfront by our investors, with partial recovery of these costs beyond 2030. The scale of investment required means this will need to change to

enable us to recover appropriate costs during AMP8. Ofwat has also applied the energy adjustment incorrectly, as outlined in the "Improves focus on the longer term" section.

We have also included uncertainty mechanisms in our plan to help mitigate the impacts of events outside our control. Ofwat's proposed bioresources Notified Item is welcome, but too narrowly framed, failing to provide adequate protection against loss of access to the landbank, for which there are many possible triggers beyond legislative change. We are also proposing a new uncertainty mechanism focused on PFAS and extension of the 25:75 cost sharing rate to a small number of additional programmes that meet the criteria.

Our business plan proposed 14 Price Control Deliverables (PCDs) that, if designed and applied appropriately, can support the delivery of positive outcomes for customers and the environment. PCDs return allowances to customers for both non-delivery and untimely delivery.

We largely accept Ofwat's PCD proposal but will propose targeted interventions to address specific constraints that undermine both our ability to deliver and a key deliverability risk mitigation, that of continual optimisation of plan. Delivery of our long-term environmental commitments is constrained by the construction of the performance framework. We developed our Water Industry National Environment Programme (WINEP) through extensive multi-phase consultation and engagement with our environmental regulator, partner organisations and other stakeholders. This produced defined outputs for AMP8 delivery based on environmental priorities, without introducing restrictive limitations on selected delivery solution. In contrast, the mechanism for measuring year-on-year company performance against traditional methods of delivery,

rather than environmental benefits, restricts opportunities for nature-based solutions and hybrid solutions, and reduces the overall long-term environmental improvement possibilities.

Despite improvements to Ofwat's approach in the Draft Determination, we have some concerns with the proposed framework. For example, we would like to see more provision dealing with uncertainty for areas outside of control, such as new quality obligations in AMP8 and greater flexibility, so we can react to changing circumstances. Areas of high risk include Farming Rules for Water and the implications for bioresources, and the evolving regulatory and legal climate around PFAS.



Summary of proposed changes to our Draft Determination

- Redress the most material concerns with base costs, including the correction of energy costs, the appropriate level of capital maintenance costs and the allowances for leakage improvement.
- Rebalance the overall reward and penalty package reflecting the latest information.
- The allowed return proposed in the Draft Determination is insufficient to enable us to attract the necessary debt and equity capital to fund our investment programme over AMP8.
- We welcome the treatment of the AMP7 Strategic Interconnector Outcome Delivery Incentive penalty. We ask Ofwat to go further and revise the timing of the cost recovery for completing the scheme during AMP8.
- We will propose an uncertainty mechanism, should further PFAS be identified.
- Bioresources uncertainty mechanism must change, so it comes into force upon loss of access to the landbank, rather than simply when legislation changes.
- We largely accept Ofwat's PCD proposals, but provide targeted representations focused on: greater flexibility, alternate approaches to front-loaded delivery profiles, a reprofiling for more realistic delivery and delay profiles, and where there is a material overlap, the separation of underperformance payments related to PCLs. Without change, Ofwat's DDCM and PCD non-delivery could overlap, resulting in double-counting of funding to return to customers.
- The rationale for the proposed 70% gearing mechanism is not based on sound economic principles and should be appropriately consulted on outside of the PR24 process.

In conclusion

Our commitment to working with others to secure a fit-for-purpose Final Determination

During the PR24 process, we made clear that success across the industry depends on a collaborative and long-term approach between companies, regulators and shareholders.

We welcome Ofwat's proposal to work collaboratively with us over the autumn on development of the Fens and Lincolnshire Reservoirs. However, we are still waiting for Environment Agency guidance to be finalised in a number of areas, such as ultra-violet disinfection, which will have a material impact on bills, alongside the Environmental Performance Assessment and a changing definition of pollutions categories. Our experience from submission to Draft Determination shows that regulatory change does not fit neatly within the price review window, so we need a sufficiently adaptable approach to new requirements.

There also remain areas where alignment is needed between different regulators, such as the bioresources uncertainty mechanism, where clarity is urgently needed over the scope of the bioresources driver in the Water Industry

National Environment Programme. This also includes guidance on PFAS, which we expect to continue to evolve as understanding of the challenges improves.

The scale of our investment programme, the complexity of some of the major infrastructure we will develop and the ongoing challenging sentiment around the sector, mean that Final Determinations will need to be carefully calibrated to meet the needs of all parties. This includes a fair return for long-term committed shareholders, across the entire sector not just at Anglian Water.

We remain committed to working collaboratively with regulators to identify opportunities to phase investments, with increased investment heavily driven by statutory drivers. This continued engagement remains vital in ensuring the affordability, deliverability and financeability of our plans and those of the wider industry.

We stand ready to work with Ofwat, Defra, the Environment Agency, Drinking Water Inspectorate, the Consumer Council for Water and others to ensure the next five years deliver the goals of a new Government and the long-term needs of our growing region.





Anglian Water Services Limited

Lancaster House

Lancaster Way

Ermine Business Park

Huntingdon

Cambridgeshire

PE29 6XU

anglianwater.co.uk