

Green Recovery Initiative

new
deal



Green Recovery Initiative

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Introduction

The South West's economy has been one of the hardest hit by Covid-19, and as a responsible business in the region, South West Water is focused on opportunities to make an even bigger and more societal contribution.

The Green Recovery Initiative provides much needed investment that will support the creation of up to 500 additional jobs across our regions over the next four years and provide further opportunities for South West Water's existing workforce to gain new green skills.

Our proposals will increase South West Water's environmental investment to 2025 by £92 million – a c.10% increase to South West Water's existing £1 billion investment programme – with six projects focused on improving public health, protecting the environment and addressing climate change.

Our Initiative has been tested with customers and has the support of South West Water's independent WaterShare+ Advisory Panel. Whilst we need to raise finance for the investment to 2025, importantly we are proposing no increase to customers' bills over that period, with the impact post 2025 equating to around 1p a day.

With a strong start to delivering our existing plans which include our biggest environmental programme for 15 years, we are well placed to deliver more when it's needed most.

Following submission of the Green Recovery Initiative today, South West Water looks forward to working with Defra and our regulators over the coming weeks to put our plans into action.

We are confident South West Water can step up to the challenge, deliver for all, and play our part in the Green Recovery.

Susan Davy
Chief Executive Officer

Bringing water to life – supporting the lives of people and the places they love for generations to come



Trusted



Collaborative



Responsible



Progressive

Executive Summary

Changing lives

The pandemic is changing the lives of everyone, whatever their personal circumstances, now and for the longer term. As a large regional employer and provider of vital public services we take our role in the community very seriously.

The South West is experiencing some of the highest rates of furlough across England and Wales. The economic impact differs substantially by sector, with accommodation, hospitality and recreation hardest hit – industries that the South West heavily relies on.

At South West Water, our resilience in these tough times, our ability to deliver sustained on-going performance, together with the reshaping of the Pennon Group with a focus on UK water, means we are well positioned to step up and play our part with our new proposed Green Recovery Initiative.

Our Green Recovery Initiative will provide much needed investment supports the creation of up to 500 regional jobs over the period to 2025, benefits the wider supply chain and provides opportunities for South West Water's existing workforce to gain new green skills.

We intend to do this by bringing forward investment, accelerating delivery of current plans, and developing new and innovative solutions to the issues facing us today and in the future.

Our Green Recovery Initiative – six key proposals

- 1 Knapp Mill water treatment works advancement** – completion of a new water treatment works for Bournemouth customers, 18 months ahead of current schedule, benefiting c.160,000 customers with a more reliable, high-quality water supply.
- 2 Water resources grid enablement** – protecting water resources for future generations for c.250,000 customers, addressing supply risks in North Devon, and supporting resilience in other parts of the country, notably Southern England.
- 3 Quality water for all** – using our expertise in water treatment and supply to pilot new ways to bring safe, clean, drinking water to properties who currently have private supplies.
- 4 Smarter, healthier homes** – empowering customers to save water, save money and have even safer and more resilient supplies to their homes, through new pilot initiatives.
- 5 Transforming river quality** – addressing storm overflows and piloting approaches to achieving river bathing water quality for the benefit of all those who use them.
- 6 Catchment management** – an extension to our award winning land regeneration schemes which improve water quality, alleviate flooding, enhance biodiversity and significantly reduce the South West's carbon footprint on the road to achieving Net Zero.



up to
500
regional
jobs
created

£92m
investment proposed



Roadford reservoir

Executive Summary continued

All the proposals have been specifically developed to keep bills affordable for customers and ensure that we can finance our programme.

They have been assessed using robust cost-benefit analysis, approached in the same methodical way that we did for our fast-tracked New Deal business plan, engaging customers, stakeholders and regulators throughout the process all supported by a thorough review and assurance framework.

Financing our plan

Our initiatives represent an investment of £92m over the period to 2025 and we will have access to sufficient financing available through our Sustainable Financing Framework.

Whilst there is a cost of financing this initiative we advocate that any impact on customer bills is paused until 2025 and our unique WaterShare mechanism can help us achieve that. Post 2025, the average bill impacts of these proposals is estimated to be around 1p per customer per day. This is well below what customers have already indicated they would be willing to pay for these Green Recovery investments.

To further minimise any impact on future customer bills we continue to explore and assess the eligibility to obtain green recovery funding from other sources.

Customer support for our Green Recovery Initiative is high

We would like to thank our customers – many of whom have taken the time to share their personal experiences during the pandemic, and whose views have shaped our proposals throughout. South West Water's independent WaterShare+ Advisory Panel supports our proposals.

At a customer level, as more people have been confined to their homes and immediate environment, access to safe clean drinking water, and outside spaces, has become more of a priority, for physical health as well as emotional health and well being.

Our customers are telling us today, that they believe increased water usage will become a main stay of life tomorrow, beyond the pandemic, and long after the initial impacts have declined. In this context, our proposal around smarter, healthier homes has never been more important. We will be piloting new initiatives to empower customers to save water and save money.

It's in response to customer views, as part of focus groups and quantitative feedback, that we are confident that our proposals are the right ones for our regions.

In summary:

- Customers are clear that the South West and Bournemouth regions need to benefit from any investment – given the economic and social impacts. Their view is that Government cannot do this alone and that responsible businesses such as ours should step up and help build back greener and support jobs in our regions
- Any investment should make a difference to all customers across the region, ensuring that the benefits are felt as widely as possible
- Enhancing the local environment to support biodiversity and improve public health, as well as generating new jobs and better jobs are important goals.



Our 2025 commitments – a strong start to a New Deal

At its core our current business plan is all about building a New Deal. A new relationship with customers, delivering a step change in environmental performance and creating a great place to work for our loyal and dedicated employees. Its origin was also in the largest ever consultation exercise we have undertaken with customers.

We have made a strong start to delivering our New Deal plan and we are confident that we can deliver more, over and above our existing commitments.

Operationally, we have already accelerated delivery of c.£42m of investment, ahead of plan, with c.£20m of expenditure advanced into 2019/20 and c.£22m advanced into 2020/21 demonstrating flexibility and agility when it's needed.

Engagement with Government and our regulators is essential

All our plans and proposals are being reviewed and have been shared with our key stakeholders including Defra, Drinking Water Inspectorate (DWI), the Environment Agency (EA), CCW and Ofwat. This has included engagement through the Storm Overflow Taskforce, ongoing discussions with the DWI for our 'Quality water for all' investment and in particular their positive engagement in respect of private water supplies. CCW has been instrumental in ensuring our customer engagement approach meets their criteria, and in ensuring that the quantitative survey approach is robust.

Holding us to account

We recognise that with additional investment comes additional expectations and a need to ensure the benefits are delivered for our customers, communities and the environment. Therefore, alongside efficient and challenging cost targets we are proposing specific measurable commitments.

We also have looked to ensure that our Green Recovery Initiative maintains the right balance of risk and reward, reflecting customer views and priorities. Our unique WaterShare+ Advisory Panel will also play an important role in ensuring that we deliver for our customers.

“ The WaterShare+ Advisory Panel is all about ensuring South West Water delivers on commitments to customers. These plans for further enhancing the environment, public health, creating new and better jobs are welcomed, especially as customers' bills won't be impacted. ”

Lord Matthew Taylor

Chair of the WaterShare+ Advisory Panel



WaterShare+



Our region

We support our communities, delivering water and wastewater services across Cornwall, Devon and parts of Dorset and Somerset. We also provide water services to Bournemouth Water customers in parts of Dorset, Hampshire and Wiltshire. More recently, with support from our existing customers and agreement with Government, we have taken on the responsibility for water and wastewater services on the Isles of Scilly.

2.2million

resident population equivalent (over 1 million customers) and **10million** visitors to our area each year

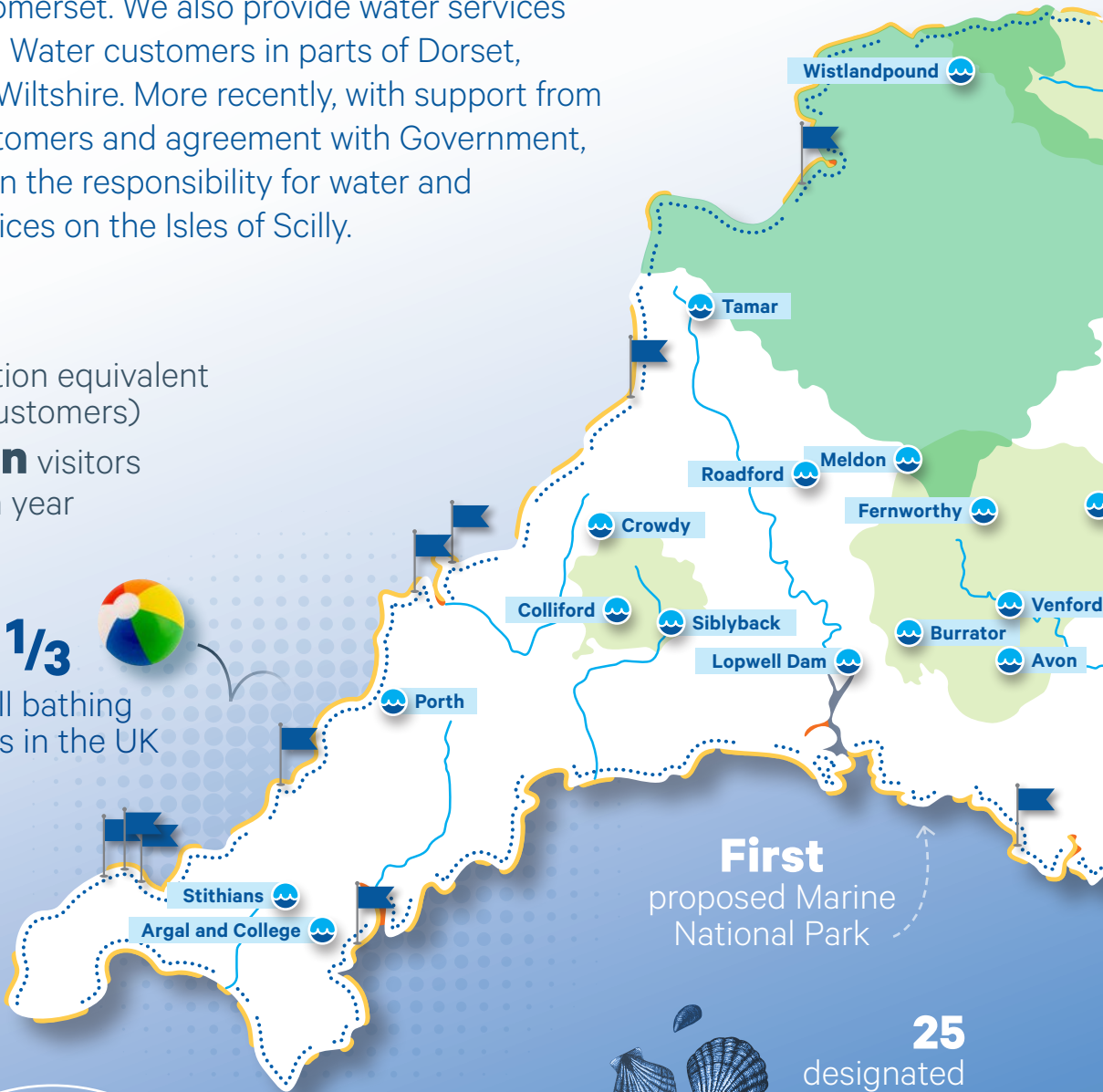
1/3 of all bathing waters in the UK



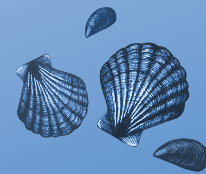
Isles of Scilly



St Mary's

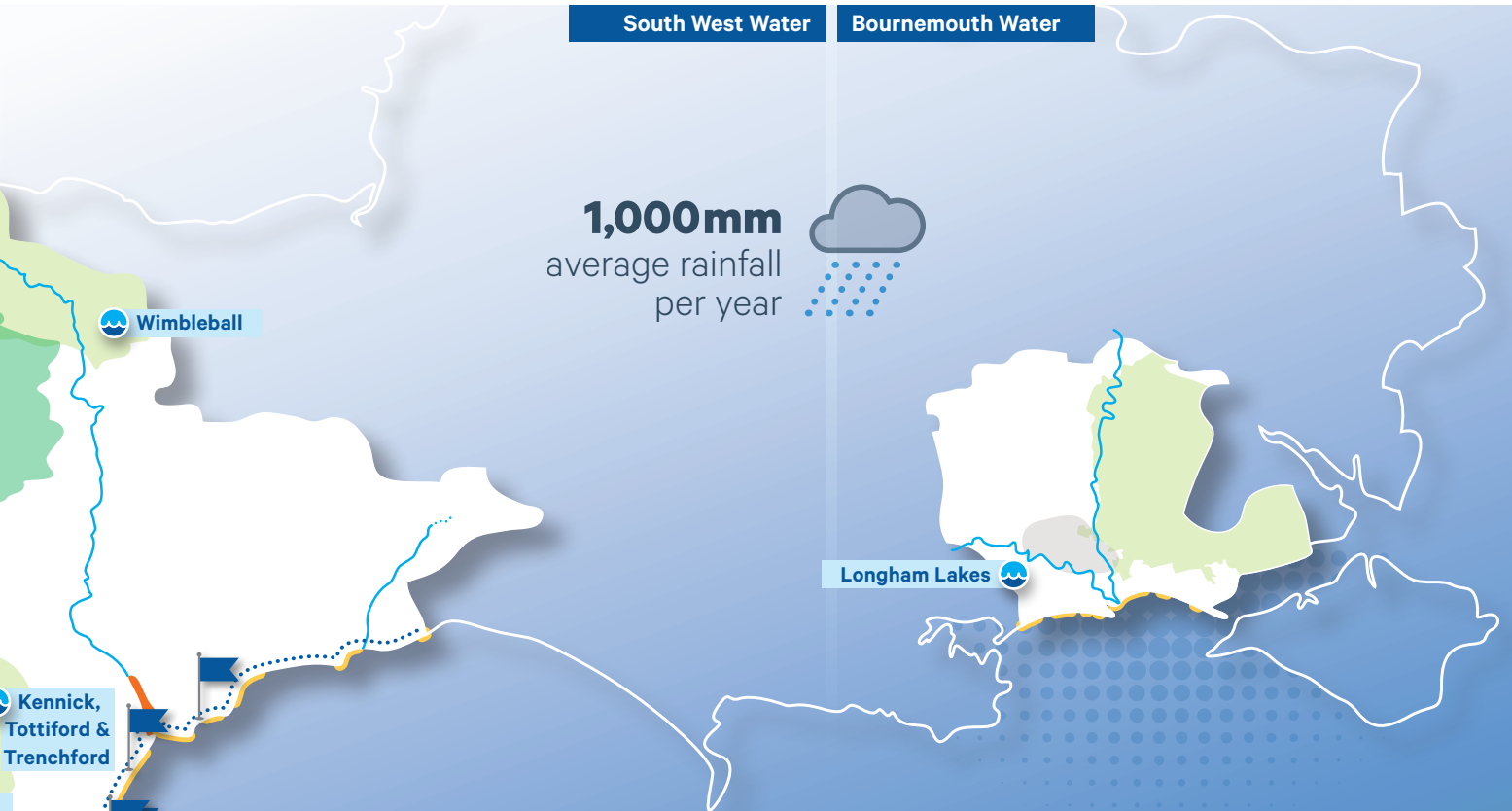


First proposed Marine National Park



25 designated Shellfish Waters

We manage nearly **400,000** hectares of land and water bodies



2million
visitors a year at our sites

3
National Parks

1
UNESCO Biosphere Reserve

22
Lakes providing enhanced recreational activities including paddle boarding, kayaking, sailing, fishing, climbing, outdoor play, walking and cycling

38
Special Areas of Conservation

9
Areas of Outstanding Natural Beauty

- Biosphere reserve
- National parks
- Shellfish Waters
- Bathing Waters
- Lakes
- Rivers
- South West Coast Path
- Blue Flag beaches



Current plans

Centred around the New Deal

Empowering customers

their **say**
their **community**
their **plan**

+
their
stake

**new
deal**



88%
customer
acceptance
of our plan

92%
customer
acceptance
of our plan



Largest
environmental
programme for
15 years

£1bn
investment
in our region

Enhancing
the communities
and environment
we serve

Investing in
**two new water
treatment
works** in the
Bournemouth region

Extending our area of
operation to include
the Isles of Scilly

15%
leakage reduction

100%
wastewater compliance

Reduce
pollution incidents

Drive efficiency
and cost control

Target
**zero water
poverty**

Increase
customer support

Improving
more than 80%
of our catchments

Our response to Covid-19

	Customers	Communities	Environment
2020-25 existing plans	<ul style="list-style-type: none"> • Targeting zero water poverty • Giving customers a stake and a say through WaterShare+ • Improving resilience and service standards • Delivering drinking water quality enhancements 	<ul style="list-style-type: none"> • Supporting tourism through improving bathing waters • Investing in people, skills and personal development • Using our regional supply chain to support local economic growth 	<ul style="list-style-type: none"> • Environmental leaders • Largest environmental programme in 15 years • Enhancing biodiversity
↓	↓	↓	↓
Covid-19 impacts	<ul style="list-style-type: none"> • Affordability as a result of challenges: <ul style="list-style-type: none"> • Increased water usage from home working • Redundancy or reduced income from furlough • Mental health pressures increasing 	<ul style="list-style-type: none"> • Challenging regional economy: <ul style="list-style-type: none"> • Business closures and other pressures • Constrained community support networks 	<ul style="list-style-type: none"> • Outdoor recreation and leisure resources in high demand: <ul style="list-style-type: none"> • ‘staycations’ putting local resources under pressure • changed water demand profiles • focus on reducing environmental impact
↓	↓	↓	↓
Green Recovery Initiative	<ul style="list-style-type: none"> • Investment without impacting customer bills • Smarter healthier homes – empowering customers and improving water quality and water efficiency • Improving private water supplies • Strong customer support for investment 	<ul style="list-style-type: none"> • Supporting regional economy with up to 500 additional jobs created • Developing skills and training through Kickstart and apprenticeship schemes • Investments key to regional economy – targeting enhancing tourism and leisure 	<ul style="list-style-type: none"> • Pilot focused on reducing storm overflows • 10,000 hectares of catchment management • Advancing existing bathing water improvements • Pilot for river bathing waters

Our proposals

1 Knapp Mill water treatment works advancement

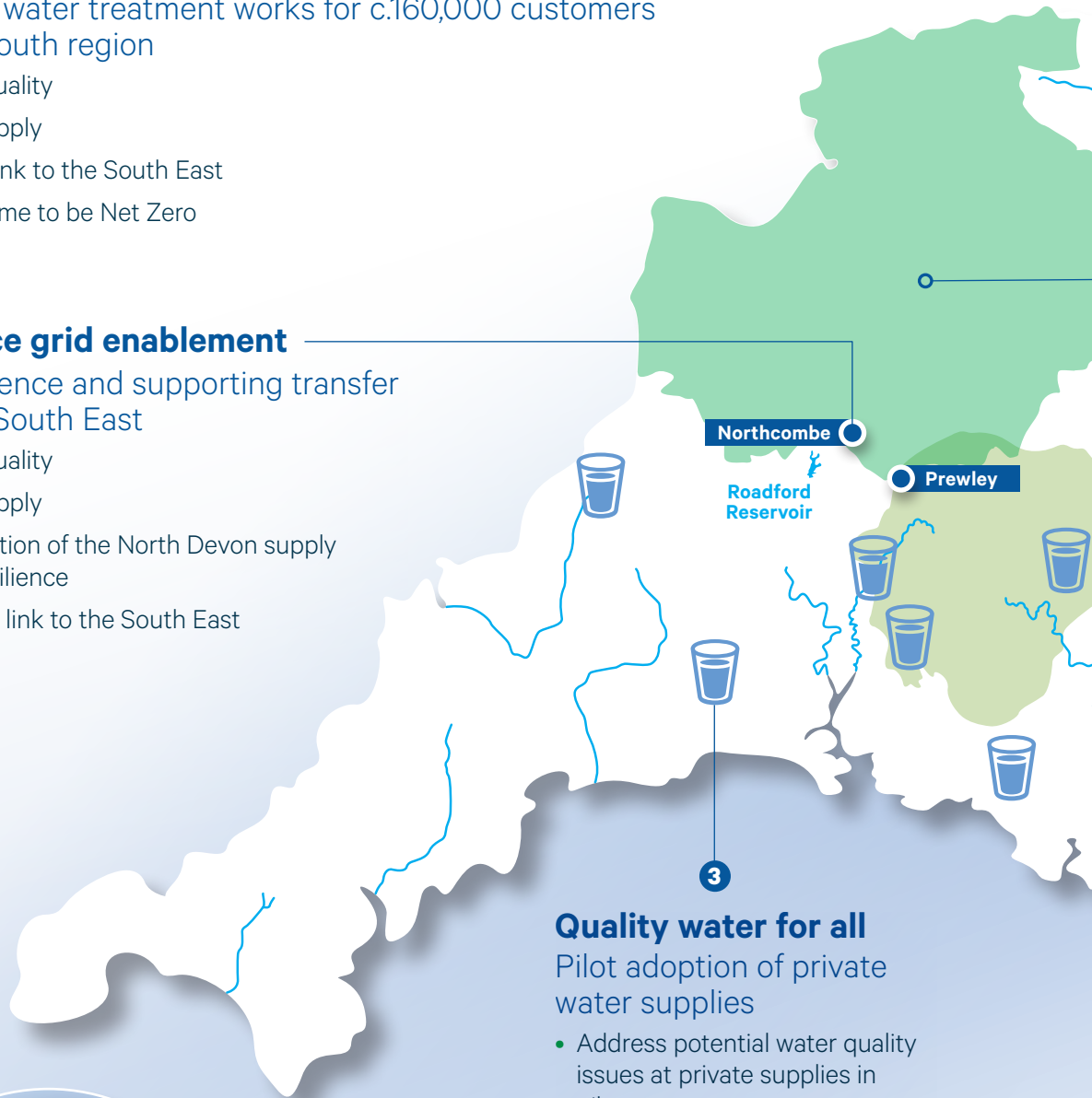
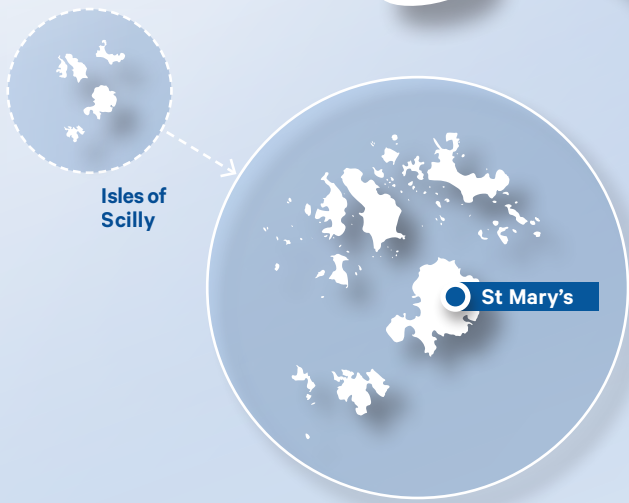
Advancing new water treatment works for c.160,000 customers in the Bournemouth region

- Improved water quality
- Resilient water supply
- Enables resilient link to the South East
- Ambition for scheme to be Net Zero

2 Water resource grid enablement

Increasing resilience and supporting transfer of water to the South East

- Improved water quality
- Resilient water supply
- Sustainable operation of the North Devon supply area improved resilience
- Enables resilience link to the South East



3 Quality water for all

Pilot adoption of private water supplies

- Address potential water quality issues at private supplies in pilot area
- Learning for potential future investment
- Reducing environmental impacts – bursts, leaks and pollutions



Potential private supply clusters

Up to 500

jobs created in the regional economy

£92m

Green Recovery investment

Knapp Mill

4

Smarter, healthier homes

Proactive and integrated approach including customer supply pipe replacement (including lead), smart metering and water efficiency

- Significant step towards eliminating lead supply pipes
- Relieving the financial worry of supply pipe failures
- Customer management of water consumption
- Reducing road travel for meter reading
- Reducing carbon emissions – on the road to Net Zero

5

Transforming river quality

Addressing storm overflows and piloting river bathing water

- Improved inland bathing water quality
- Event and duration monitor (EDM) performance data
- Reduction in spills from storm overflows

6

Catchment management

Expanding current schemes including a further 10,000 hectare improvements on Dartmoor

- Improved biodiversity in the places people love
- Improved water quality
- Protected abstraction volumes, reducing flood risk
- Net Zero – carbon sequestration

Our proposals continued

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Knapp Mill water treatment works advancement

Water quality improvements for c.160,000 customers

Completion of new water treatment works in Bournemouth by September 2025 – **18 months ahead of schedule**

Reliable, high quality water supply **for c.160,000 customers**

Foundation for national water resilience – **enabler for the transfer of water across regions**

Best practice design and delivery **reducing carbon impact** and providing **scope for expansion**

Up to 170 jobs created – supporting the regional economy

93% customer support

Proposal

The c.£135m replacement of our two strategic water treatment works (WTW) in the Bournemouth region was approved as part of our 2020-25 business plan – work at Alderney is underway and scheduled to complete by March 2025.

Bringing forward the construction of the new Knapp Mill WTW improves the resilience of our supply across the Bournemouth area and accelerates our capability to support the transfer of water to Southern Water.

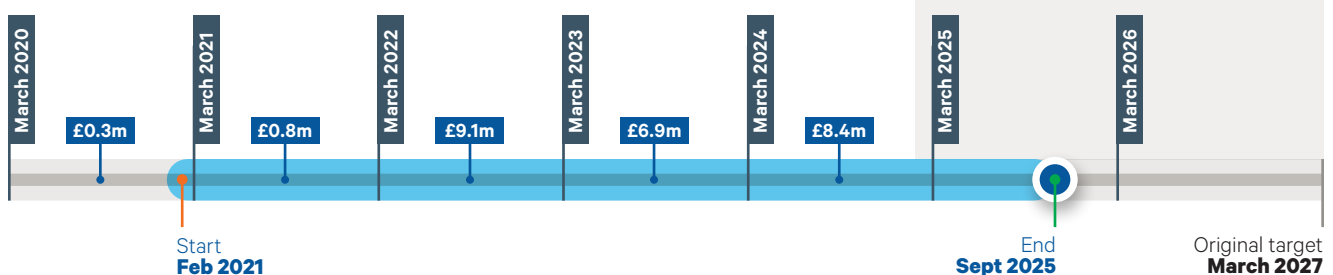
The technologies used will provide a robust barrier eliminating the risk of cryptosporidium within the treated water supply. Our innovative modular design will support future capacity expansion for further transfer of water to other regions experiencing ‘water stress’.

We are confident that we can deliver the scheme earlier given our experience of successfully implementing these new technologies in our industry leading water treatment works serving Plymouth (Mayflower) and our early engagement with our supply chain partners.



Knapp Mill WTW

Investment	
Total project	c.£71m
Advanced from K8	c.£25m



Our commitment is:

→ **For water to be in supply from the new water treatment works by March 2026**

Customers

Safe, clean drinking water is the number one priority for our customers, and the advancement of Knapp Mill brings forward water quality benefits for c.160,000 domestic customers and businesses.

Our research shows 93% of customers surveyed support the investment.

Environment

Using innovative treatment processes and technology, the new treatment works will reduce the need to abstract water and minimise waste streams associated with the processes – reducing our impact on the environment.

We are targeting a Net Zero carbon impact for the construction and operation of the new treatment works and will be an model for future sites.

Community and economy

Our planned investments for two new water treatments works will double the investment in the Bournemouth region over the last 10 years.

The advancement of Knapp Mill will create up to an estimated 170 full time equivalent regional jobs through to 2025 – earlier than planned.

Our plans for Knapp Mill include facilities to support education and outreach within our communities, educating them about the importance of water efficiency and the water cycle. We will also support training and innovation across the water sector through sharing our experience of the innovative treatment processes.

Water quality improvements for
c.160,000
customers

up to **170**
regional
jobs
created

Our proposals continued

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Water resource grid enablement

Protecting water resources for future generations

Reducing the risk of future water restrictions for c.250,000 customers – improving our drought resilience

Advancing our long-term water quality strategy for the area

Sustainable management of water resources and protecting the environment – aligned with our Water Resources Management Plan

Up to 250 jobs created – supporting the regional economy

93%

customer support

Proposal

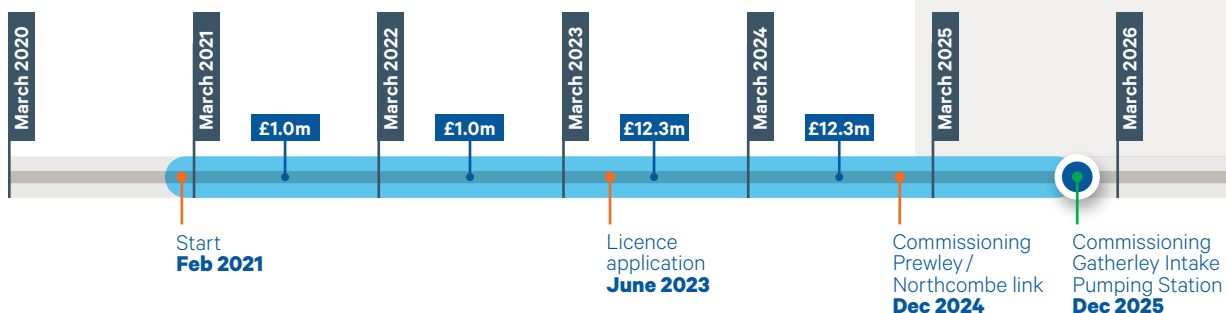
Our proposal accelerates plans to address supply risks affecting our Roadford supply area and advances our long-term water quality strategy for the North Devon area.

The investment includes:

- **A new intake pumping station** – on the River Tamar to transfer raw water to Roadford reservoir
- **New raw and treated water transfers** – between Prewley and Northcombe water treatment works providing a new strategic link between two key sources in the area.

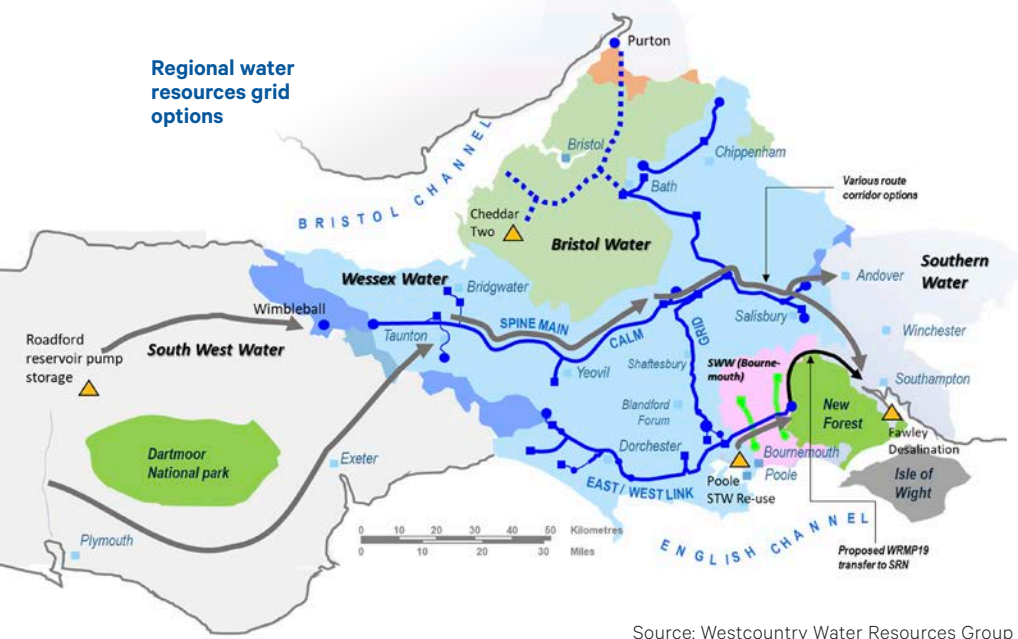
The proposals will help address the growing pressure on both water resource availability and quality and support the transfer of water to areas in supply deficit across Southern England.

Investment	
Total project	c.£27m
Advanced from K8	c.£15m



Our commitment is:

→ **To complete both elements of this proposal by 31 March 2026**



Source: Westcountry Water Resources Group

Reducing the risk of future water restrictions for c.250,000 customers

Customers

Ensuring a robust supply of water to our customers is a high priority and this initiative reduces the risk of future restrictions for c.250,000 customers.

Our plans also allow us to bring forward our long-term water quality strategy for the area, helping to ensure we continue to maintain safe drinking water supplies – our customers' number one priority.

Our research shows 93% of customers surveyed support this investment.

Environment

This investment enhances our environment and preserves our natural resources by making use of water when it is plentiful (i.e. during winter months) to lessen the impacts from abstraction in drier periods, benefiting our local rivers and their ecology.

We will offset the carbon impacts of the investment by installing hydro-generation.

Community and economy

We know that improving resilience within the North Devon region will support our regional economy and in particular our two most significant industries: tourism and agriculture.

These investments will create up to an estimated 250 full time equivalent jobs through to 2025, in the region.



up to **250**
regional
jobs
created

Our proposals continued

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Quality water for all

Piloting ways to bring our safe, clean drinking water to all properties

Using our expertise to address public health risks faced by our local communities using private water supplies

Community groups and the owners of public buildings will benefit from improved water quality – reducing failure rates and health risks

£2m pilot informing the industry debate on private supply adoption and long-term investment strategies

Proposal

We already use our expertise to support supply owners and local authorities who have private water supplies which often fail to meet the required water quality standards.

Recognising the concerns of the Drinking Water Inspectorate (DWI) and local authorities, we are proposing a pilot to address the issues and risks faced from private supplies, taking a first step in developing a long-term strategy for improvement.

This pilot is expected to connect 8 clusters (c.160 properties) currently connected to a private supply to our network. This will inform understanding of the costs and legislative changes associated with the transfer process.

81%

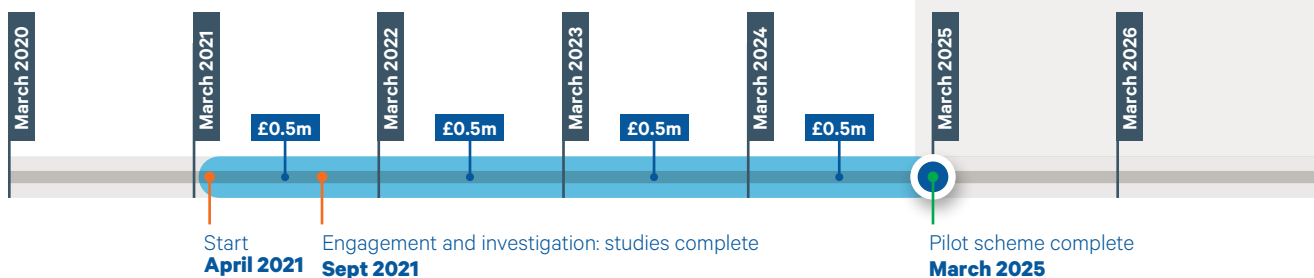
customer support

34% of all private supplies in England are in the South West

Investment

Total project

c.£2m



Our commitment is:

→ **To deliver the pilot project to improve water supplies**



Customers

New customers, who connect to our network, will benefit from the surety of supply as well as improved water quality. This includes those supplies serving public buildings.

Our research shows 81% of customers surveyed support this investment.

Environment

This investment reduces the risk of unpermitted abstractions causing environmental harm and removes the uncertainty of relying on groundwater supplies which are at increased risk from climate change due to our regional location and geology.

Gaining insight now from this pilot scale study will help to inform long-term investment to ensure supply and environmental resilience.

Community and economy

Approximately 75% of the known problematic private supplies are classified as 'large' or serving public buildings, and addressing these risks will deliver benefits for the wider community as well as supply owners.

Our analysis has shown that this investment will create up to an estimated five regional full time equivalent jobs through to 2025.

up to **5**
regional
jobs
created

Our proposals continued

1 2 3 4 5 6

Smarter, healthier homes

Integrated regional pilot to **manage water efficiency, water quality and affordability issues together**

Empowering customers to manage their usage by upgrading over 68,000 domestic and 8,000 commercial meters

Targeting quicker customer supply pipe leakage repair times, through faster identification of leaks as well as **providing a rapid response and restoration service**

Targeting the removal of lead pipes in North Devon, with an estimated replacement of over 5,000 lead pipes

Proposal

Increased water usage and unexpected repair bills from leaking service pipes can result in acute financial pressures for individual customers and particularly for those who are financially vulnerable. Smarter, healthier homes focuses on investment that directly benefits our customers.

We plan to complete a large scale pilot programme across our North Devon supply area. We will invest in three activities in an integrated manner:

- **Installation of smart meters** – enhancing customer engagement to help them manage their water use and bills more easily
- **Supply pipe ‘adoption’ trial** – relieve the worry of sudden unplanned financial demands arising from leaking and/or failed service pipes
- **Proactive lead pipe replacements** – take a significant step towards eliminating lead supplies across our region.

Helping customers to save water, save money and have safer supplies to their homes

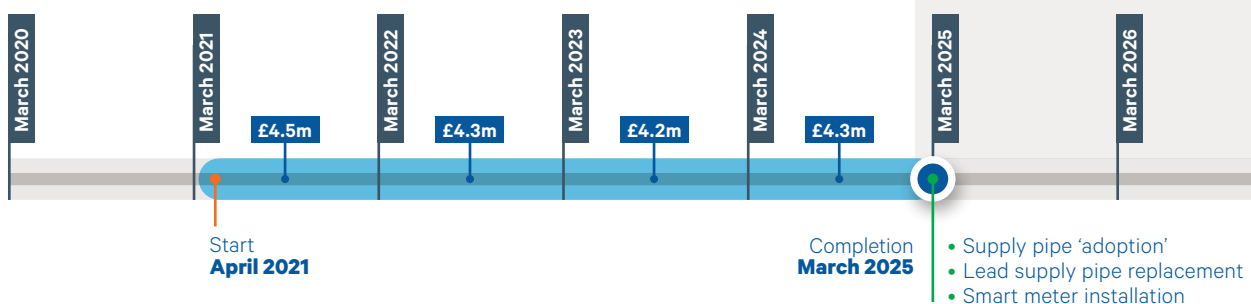
87%

customer support

Investment

Total project

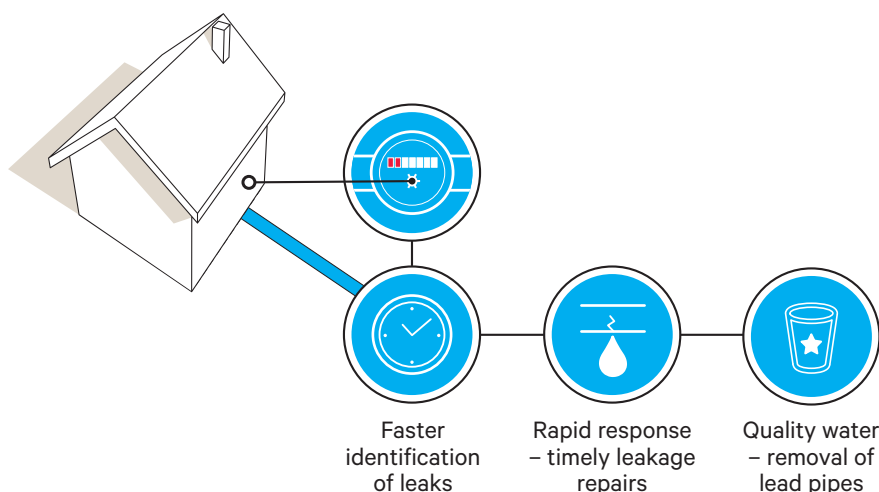
c.£17m



Our commitment is:

- To replace 36,500 existing meters with new Smart meters
- Reflect leakage benefits within our existing ODIs
- Replace over 5,000 lead pipes reducing the risk to supplies

Smart meter benefits



Customers

Customers in our pilot area will benefit from us taking responsibility for their supply pipes. Around 85,000 homes will be offered repairs or replacements.

Customers will also become enabled to manage their own demand through the insight provided from smart meter technology – providing real benefits for our most vulnerable customers in particular.

Our research shows 87% of customers surveyed support this investment.

Environment

This initiative will deliver reductions in leakage and water consumption, enabling less abstraction from the environment.

Further environmental benefits will be delivered by reducing our carbon footprint through the reduction in the number of meter reading journeys required.

Community and economy

Development opportunities will be provided by the upskilling of our meter reading roles to technical analysts and leakage technicians.

The installation and repair work itself will create up to an estimated 20 full time equivalent regional jobs through to 2025.

up to **20**
regional
jobs
created

Upskilling
our workforce

Our proposals continued

- 1
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Storm overflows

Transforming river water quality

Improve management, performance and understanding of storm overflows to reduce spills

Increase monitoring of our network – deploying Event Duration Monitors (EDMs) on all remaining storm overflows

Additional WINEP¹ investigations – increase the number of investigations to inform future WINEP programmes

Inland river bathing water pilot – implement a pilot on the Dart and Tavy rivers investigating water quality drivers

Proposal

The demands and expectations on wastewater infrastructure, of the public nationally and regionally, has increased.

We are proposing three complementary projects which will inform our future strategy and business plans:

- **Extend our overflow monitoring and investigations programme** – install up to a further 414 EDMs and complete 100 additional investigations
- **Develop an inland river bathing water pilot** – to test the the implications, costs, and benefits of achieving bathing water designation and deliver specific asset enhancements
- **Trialling surface water separation** – assessing the sustainability of this activity to reduce storm overflows during heavy rainfall.

96%²

customer support

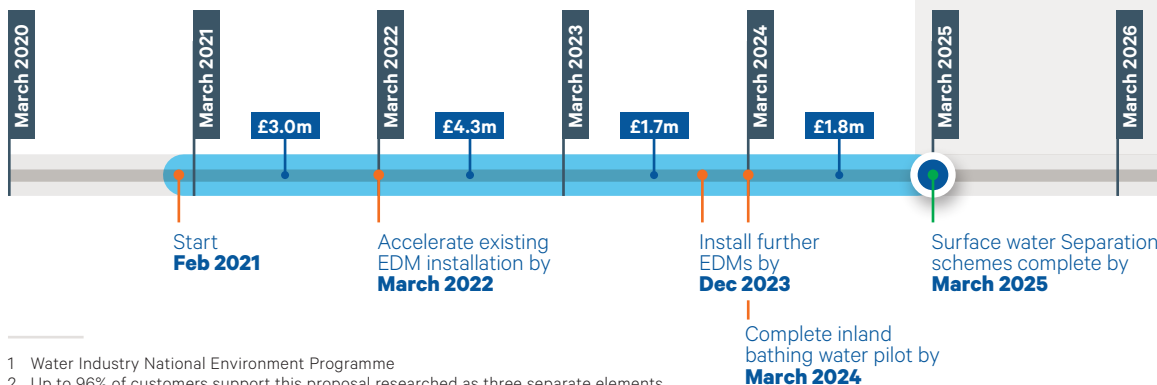
Enhancing our rivers for generations to come



Investment

Total project

c.£11m



1 Water Industry National Environment Programme

2 Up to 96% of customers support this proposal researched as three separate elements

Our commitment is:

→ **To efficiently deliver river water quality investigations and improvements by 31 March 2025**



Customers

Our research shows up to 96% of customers surveyed support this investment.

Environment

The investigations into the reduction of the number and impact of spills from storm overflows will inform future investments and improvements into the long-term.

Open and transparent publication of EDM performance data (developing our approach from coastal bathing waters) will allow customers and stakeholders to make informed decisions when using the rivers in our region.

Community and economy

Tourism is key to the economy of our region and our communities value the natural environment that we benefit from in the South West. This pilot will inform the potential long-term strategy of aligning rivers with the approach taken for designating coastal bathing waters.

This will support growth in the economy as recreation on our rivers (particularly wild swimming and paddle boarding) becomes increasingly popular.

This investment will create up to an estimated 35 full time equivalent regional jobs through to 2025.

up to
35
regional
jobs
created

Our proposals continued

1 2 3 4 5 6

Catchment management

Nature based solutions to improve long-term water availability and quality

Expanding our ambitious and innovative natural capital based approach to **investment in resilience** – Upstream Thinking

Improving and protecting raw water quality and availability

Delivering 10,000 hectares of additional activity – including restoration on Dartmoor National Park

Working with existing partners, farmers and landowners to deliver **holistic nature based solutions** maximising the benefits to the environment and value for money

Increasing biodiversity and enhancing natural habitats

Proposal

Since 2010, we have been working with our partners, farmers and landowners to deliver our innovative and award winning land restoration programme Upstream Thinking.

Our Green Recovery proposal provides us with an opportunity to further expand this programme across Dartmoor National Park. We will undertake 10,000 hectares of catchment management activities including:

- **Peatland restoration** – on areas with some of the most severe damage and degradation on Dartmoor
- **Working for landowners and farmers** – to protect raw quality and availability
- **Natural flood management and nature recovery** – improving biodiversity and enhancing natural habitats.

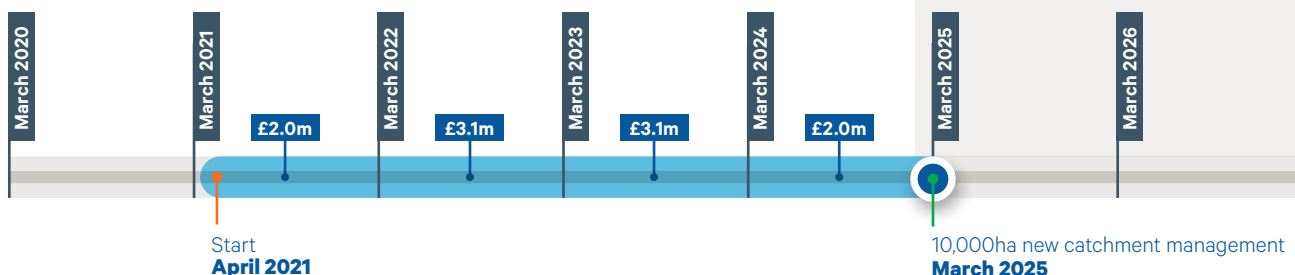
90% customer support



Investment

Advanced from K8

c.£10m



Our commitment is:

→ **To deliver 10,000 hectares of nature based solutions within the designated catchments**



Customers

The investment will protect the quality and sufficiency of our natural water resources.

Our research shows 90% of customers surveyed support the investment.

Environment

Overall nature based solutions within the catchments improve water quality and quantity flow in our waterways and this project will improve the water sources (headwaters) of Dartmoor. Stopping peat erosion and associated carbon emissions enables longer term carbon sequestration.

Additional benefits include the reduction in flood risk and increasing biodiversity, plant life and habitats.

Community and economy

Working in partnership with environmental charities, government agencies and national parks our delivery model promotes local employment and local businesses.

Our analysis shows this investment will create up to an estimated 20 full time equivalent regional jobs through to 2025.



**Cornwall
Wildlife Trust**



**Devon
Wildlife Trust**



up to
20
regional
jobs
created

Outcomes

We recognise the importance of delivering for our customers. Our proposed performance commitments and incentives underpin our commitment to support and deliver a green recovery in the South West.

As part of the green recovery, we have considered the benefits of additional investment and reviewed our performance commitments to ascertain where we needed to make some changes to ensure strong incentives for us to deliver.

Our approach has been to amend existing performance commitments and incentives where we are clear our Green Recovery Initiative impacts on them, and to introduce new performance commitments and incentives where required.

Our proposal does not impact customer bills before 2025. As such we have considered introducing financial commitments only where this is appropriate, recognising the risk and reward balance should not change for South West Water in this period to 2025.

The projects include pilots and scheme delivery and given the nature of these, appropriate commitments both financial and reputational have been applied.

This careful and structured approach is in line with the processes developed in PR19 ensuring costs are efficient, and targets are stretching and in line with customer and stakeholder views.

Adjustments to the existing framework

We reviewed all of our existing 44 performance commitments to understand whether they are impacted by our Green Recovery Initiative and we have concluded that five performance commitments and incentives should be adjusted.

Business case	Performance commitment adjusted	Summary
Knapp Mill WTW advancement	Efficient delivery of the new Knapp Mill WTW (PR19SWB_PC A6)	Updated to reflect the proposed investment at Knapp Mill WTW
Smarter, healthier homes	Replacement of dumb meters with AMR (PR19SWB_PC G1)	Adjusted the performance commitment level (PCL) to reflect the additional investment in meters
	Leakage (PR19SWB_PC C2)	Introduced an outperformance deadband around our existing PCL, which reflects there are likely to be leakage benefits from the investment, but this is uncertain (and informed by the investment)
Catchment management	Biodiversity Enhancement (PR19SWB_PC F5)	PCL, thresholds and caps / collars are amended by the level of performance in the Green Recovery initiative
Quality water for all	Water quality compliance (CRI) (PR19SWB_PC A1)	Introduce exclusion on private water supplies until investment completed and successfully adopted by 2025

-  Clean, safe and reliable supply of drinking water
-  Reliable wastewater service
-  Available and sufficient resources
-  Resilience
-  Responsive to customers
-  Protecting the environment
-  Benefiting the community
-  Fair charging and affordable bills for all

Holding us to account

New measures and incentives

We have introduced six new performance commitments and incentives, to allow the monitoring of the delivery of scheme outcomes being proposed under our Green Recovery Initiative.

Delivery against these measures will be assessed a part of the true-up mechanism for PR24, reflecting that no revenue will have been recognised ahead of 2025.

These proposed commitments are directly linked to the scale of planned investments.

Business case	New performance commitment	Summary
Water resource grid enablement	Water resource grid enablement	We have developed a new performance commitment and underperformance payment that ensures we deliver efficiently and on time for our customers.
Quality water for all	Private water supplies	We have developed a new performance commitment and reputational incentive for the delivery of this pilot, enabling investment.
Smarter, healthier homes	Lead replacement	We have developed a new performance commitment and reputational incentive to ensure that we replace lead supply pipes as part of supporting 'Smarter, healthier homes'. Where the company is not able to replace lead supply pipes by 2025, a true-up adjustment is recognised.
Storm overflows	Inland bathing water	We have developed a new performance commitment and under / outperformance payment incentive that ensures we deliver efficiently for our customers action plans agreed with the EA, and provides the mechanism for the findings of the pilot to be applied to other rivers in our catchments where beneficial for our customers.
	Installation of EDMs	We have developed a new performance commitment and under / outperformance payment incentive to ensure we install EDMs on all remaining unmonitored storm overflow sites, in addition to the 167 EDMs agreed within the existing plan.
Our existing business plan + Green Recovery Initiative	Operational carbon	We have developed a new reputational performance commitment to monitor company delivery of plans around operational carbon as part of its Net Zero strategy. Introducing this performance commitment recognises the concerns that we and our customers have around climate change; and shows our ambition to make a positive contribution to steps to build our environment back better.

Collectively these changes ensure that all accelerated and new investment identified in our Green Recovery Initiative can be effectively monitored, with appropriate incentives in place to ensure customers are protected against any non-delivery.

6 new performance commitments

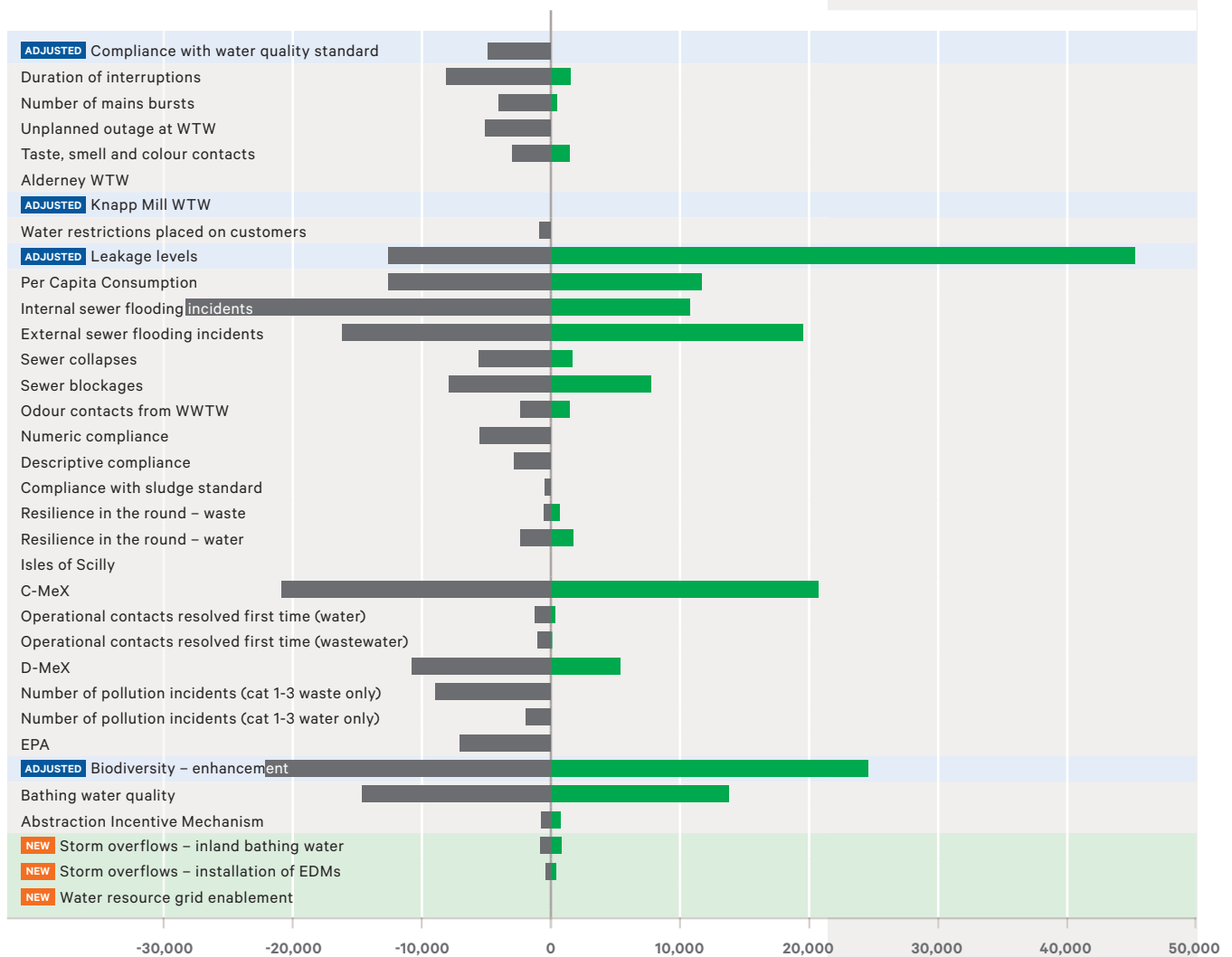
Supporting our **Net Zero target**

Risk and reward package

Our overall outcomes framework for 2020-25 represents the right balance of risk and reward reflecting customers views and priorities. Our Green Recovery Initiative maintains this balance for our customers.

Incentives only work for customers if they drive us to perform on those aspects of service that are important to them. We have built our outcome delivery incentives bottom up following the same process and data sources as for our 2020-25 business plan. We have used estimates of customer valuations and marginal costs to ensure the incentives are fair and proportionate.

The graph below shows how each financial incentive is balanced between out and underperformance payments, and how this contributes to the overall range of performance over the five year period:





Covid-19

Impact on customers and communities

The coronavirus pandemic sent shock waves around the world in 2020.

Covid-19 has had a big impact on all of our lives, our jobs, businesses and is taking an understandable toll on our mental health.

Our people – many of whom are designated key workers – have been working hard to ensure services to customers and communities are maintained despite these challenging circumstances and that our customers continue to receive the level of service that they rightly expect from us. Their health, safety and wellbeing is our top priority.

Understanding the impact of Covid-19 on everyday water use

Water use has increased during the Covid-19 pandemic. In May 2020 we recorded days when an additional 50 million litres of water was used by households, enough water for two cities the size of Exeter.

Understanding the economic impact of Covid-19 in our region

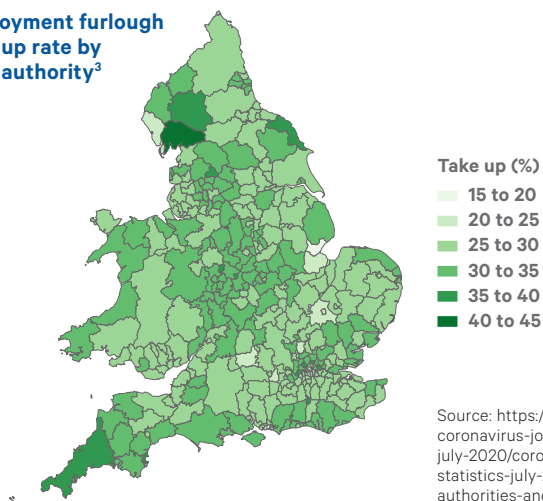
The South West has had some of the highest rates of furlough across England and Wales.

We have considered the potential impact of Covid-19 on household incomes under a range of economic scenarios (covering growth, inflation, productivity, and unemployment). In all scenarios, the impact of Covid-19 on the local economy, and in turn South West Water is marked.

Across the south west we are observing increased unemployment above the national average. In addition, our affordability research shows that for 1 in 10 customers the impact of Covid-19 on their ability to pay their water and sewerage bills is significantly impacted – representing a mix of concern for higher bills and concerns about future salaries and incomes.

The economic impact differs substantial by sector. Sectors such as accommodation, hospitality, recreation and construction have been hardest hit with highest furlough rates. Enhancing the environment and improving visitor experiences in our region can provide a real boost to these sectors.

Employment furlough take-up rate by local authority³



Source: <https://www.gov.uk/government/publications/coronavirus-job-retention-scheme-statistics-july-2020/coronavirus-job-retention-scheme-statistics-july-2020#geography--local-authorities-and-parliamentary-constituencies>

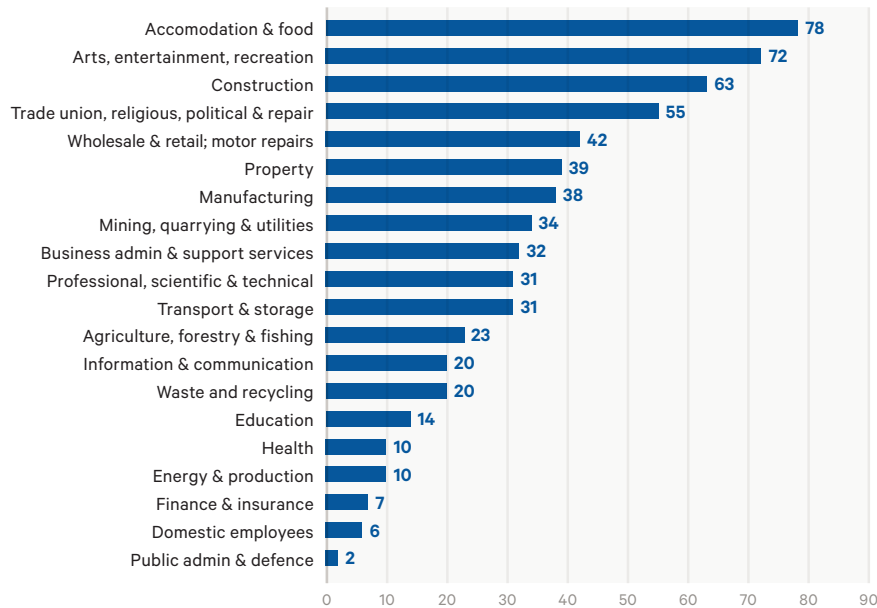
Our services underpin
public health & wellbeing

“This pandemic is completely a curve ball – we have all had to adapt.”

SWW customer, Male,
Mixed SEG, Mixed Ages

Covid-19: Impact on customers and communities continued

Furlough take up rates – August 2020 (%)



Source: Coronavirus Job Retention Scheme statistics, HM Revenue and Customs

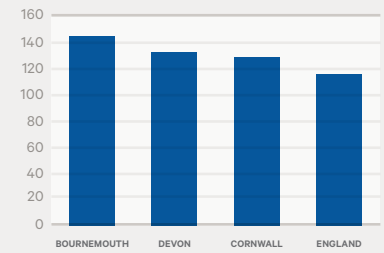
Our proposals will ensure affordability is not further impacted, with no increase to bills as a result of these investments. Importantly the creation of up to 500 regional jobs will benefit the communities we serve.

Some of the important ways we have been helping our customers

During September we launched our WaterShare+ scheme where customers could chose to receive their £20 benefit of outperformance to 2020 as a credit to their bill – reducing their affordability concerns at these difficult times. Additionally we have:

- Reached out and offered support to potentially financially vulnerable customers
- Contacted over 330,000 customers by email to provide reassurance that their safety and support was our top priority
- Anticipated more customers would be seeking short term help we asked customers to contact us online offering support over these most difficult times
- We have automatically renewed those customers on social tariffs between April and July and offered higher discounts to those customers who need it the most
- Offered payment support and converted cash payers to other methods.

Growth in unemployment benefit – March to August 2020 (%)



Source: <https://local.communityinsight.org/>



Green Recovery

What we are doing

Our initiative responds to the ‘build back better’ challenge and is aligned with our purpose of supporting the lives of people and the places they love for generations to come.

The ‘build back better’ opportunity

We believe there is a real opportunity for South West Water to support the economic and social challenges that the country faces as we seek to build back better from the Covid-19 pandemic, while delivering real and lasting improvements to the environment for current and future generations.

We have a clear and focused plan to 2025 already well underway. We have already accelerated c.£42m of expenditure from our existing five year programme (including £20m in 2019/20).

Our Green Recovery Initiative has been tested with customers and is supported by our independent WaterShare+ Advisory Panel.

We are proposing to:

- Accelerate our agreed 2020-25 plans and environmental priorities and consider the enhanced use of nature-based solutions to deliver them
- Bring forward ‘enhancement investment’ proposals from 2025 and beyond
- Implement specific new innovative ideas, which would benefit future generations and current customers.

Our initiative considers how we can support the economy over the period when it is needed most, whilst carefully considering the current and future affordability impacts on customers. As a result we are proposing to deliver c.£92m of investments with no impact on customer bills to 2025 (K7).

Opportunity	Our response	Challenge, evidence and support
“...support the green economic recovery... by creating or retaining jobs...and providing local investment.”	<ul style="list-style-type: none"> • Proposed advancement of construction schemes with direct and indirect job creation <ul style="list-style-type: none"> – Plan estimated to create up to 500 jobs in the region through to 2025 • Scheme supports the local economy 	<ul style="list-style-type: none"> • Job estimates based on proposed investment spend • Our job forecasts have been developed using the most appropriate model for each investment, in the CITB Labour Forecasting Tool (LFT). Our forecasts are therefore project and regional specific, using data from the Office for National Statistics
“improving the environment”	<ul style="list-style-type: none"> • Nature-based and green infrastructure schemes in important regional locations • Working towards Net Zero • Improve water resilience and help address climate change issues 	<ul style="list-style-type: none"> • Extension of peatland restoration supported by Dartmoor National Park, Duchy of Cornwall, MOD and others • Member of the Storm Overflows Taskforce



No impact for customer bills in K7

up to
500 regional jobs created

Opportunity	Our response	Challenge, evidence and support
<p>“Accelerate existing plans and environmental priorities within the agreed 2020-25 plans”</p>	<p>£42m of K7 expenditure accelerated:</p> <ul style="list-style-type: none"> – £20m delivered in 2019/20 – £22m already brought forward into 2020/21 <ul style="list-style-type: none"> • 4 bathing water quality schemes on track to deliver in 2021 • 45% of K7 targeted EDMs installed • Networks resilience • Leakage acceleration • Pollutions Incident Reduction Plan investments <p>Further plan to accelerate £9m of K7 investments</p> <ul style="list-style-type: none"> • Completing 7 of 8 bathing water enhancements by 2022 • Installing further EDMs by 2022 ahead of the WINEP targets 	<ul style="list-style-type: none"> • Ahead of target on K7 investment programme • Early EDM delivery supporting environmental ambitions • Robust delivery programme in place to achieve early outputs • Changing the profile of investment
<p>“Bring forward ‘enhancement investment’ proposals from 2025 and beyond”</p>	<p>£50m advanced from our K8 and long-term investment plans</p> <ul style="list-style-type: none"> • Knapp Mill water treatment works • Water resource grid enablement • Expansion of our catchment management scheme 	<ul style="list-style-type: none"> • Improve water quality • Improve water resilience • Target natural solutions to investments across key catchments
<p>“Implement specific new innovative ideas”</p>	<p>£42m of investment pilots that support future long-term strategy</p> <ul style="list-style-type: none"> • Water resource grid enablement • Quality water for all • Smarter, healthier homes • Storm overflows 	<ul style="list-style-type: none"> • Increase resilience in a key tourism region • Complement the RAPID schemes – developing the ‘water market’ • Inform future strategy • Increase data, knowledge and relationships to inform future investment

£42m
acceleration in progress

£92m
investment proposed

£50m
K8 advancement
£42m
new schemes

Developing our proposals

We have approached our Green Recovery Initiative in the same way we approached our fast-tracked 'New Deal' business plan.

Robust approach

The Initiative has been overseen by an Executive Steering Group who have challenged all aspects of these projects.

Proposals have been developed by a team of experts from across the business and alongside external advisors where needed. These have been reviewed and scrutinised by a multi-discipline project team focused on submitting strong business cases built on robust cost benefit analysis and significant customer support.

Identifying projects

Potential projects have been assessed for customer, environmental and economic benefits, balanced with affordability and delivery impacts.

Project suitability has been assessed against Green Recovery principles including:

- Planning for higher levels of resilience
- Achieving Net Zero
- Improving / addressing water quality
- Reducing environmental impact
- Capitalising on technology trends, such as big data, to improve our services to customers and the environment.

20 projects were selected for detailed scoping and quantification with the final stage of the process reducing the number of proposed projects based on strategic objectives and confidence in delivery. None of the proposals were previously included at PR19.

Robust cost-benefit analysis

Scheme costs have been developed with input from our third party cost consultants to ensure that costs are robust and reflective of both historic performance and efficient costs. In accordance with Ofwat's preferred methodology of cost efficiency assessment, we have provided industry comparative information demonstrating the efficiency of our costs in each business case, where required.

The development of our proposals has included robust cost-benefit appraisal of projects providing challenge to the scale and quantum of the benefits.

Criteria

Customer

Support	✓
Value for money	✓
Deliverable	✓
Manages affordability	✓

Environment

Enhances the environment	✓
Improves resilience	✓
Clean and plentiful water	✓
Benefits plants and wildlife	✓
Adapting to climate change	✓
Preserves natural resources	✓
Reduces ecological hazards	✓

Economy

Creates jobs	✓
Supports regional economy	✓

Ensuring value for money

For our short listed investments, detailed business cases were developed. These cases describe how each proposal offers the highest value for money for customers as well as aligning with the Green Recovery principles:

- **Strategic case:** includes credible evidence to support the investment need as well as outlining the benefits and performance improvements that will be delivered.
- **Assessment of options:** focuses on outlining all possible options to address the need before drilling down to a detailed cost benefit analysis for a handful of more viable solutions. Customer and stakeholder views are also considered.
- **Finance and affordability:** provides the details behind our costing process. This includes specific evidence behind the efficiency of the costing approach used in the development of the investment options. Where appropriate we provide evidence of our efficient costs for each investment option.

Regulatory engagement

We have worked with our regulators and stakeholders to test and develop our proposals.

Specifically, we engaged with the EA, Defra and WaterUK through the Storm Overflow Taskforce to help shape and inform this investment.

Similar discussions took place with the DWI around the advancement of Knapp Mill, our 'Smarter, healthier homes' proposal and the water resource grid enablement.

We have also consulted with the DWI for our 'Quality water for all' investment. In particular we discussed how we could work together to target investment at the most at risk private water supplies in our region.

CCW were a key stakeholder in ensuring that the quantitative survey provided the right insights, building on the findings of the qualitative engagement to test our proposals in line with their criteria.

Project identification

Long list of over 50 options



Project scoping

20 ideas taken forward for assessment



Business cases

2 x K7 acceleration and 6 x K8 advancement / new projects proposed

Engaging customers

Our engagement with our customers has been ongoing, two-way and transparent.

Maintaining a safe water supply and protecting public health consistently is the number one priority for our customers. It is also clear that the environment is equally important.

Our customers regularly use the water environment (beaches, rivers, lakes or reservoirs) for recreational purposes, and place a high value on the water environment and improvements in biodiversity.

Future customers see the environment as a priority in particular rivers and bathing waters.

Customers are concerned there is a growing risk of flooding and restrictions from changing weather patterns; they are increasingly intolerant of pollution and overflows; and are acutely aware of the impact our operations and services have on public health, recreation and tourism.

As expectations rise, customers demand more from our services.

We have engaged with our customers through a series of focus groups and a quantitative study with South West and Bournemouth Water customers.

Our Green Recovery Initiative directly builds on the needs and demands of our customers.

Support for a green recovery initiative is high

Customers are very supportive of the ambitions of a green recovery and are clear in their views that the South West and Bournemouth regions must benefit.

Improving the environment and generating up to 500 new regional jobs will help build back better and deliver green recovery.

Water companies have an important role to play

Customers believe we have a role to play in the green recovery, given the direct impact we have on the environment.

The overwhelming view was that government cannot do this on its own and other companies and organisations, such as ourselves, need to be involved and work together.

Investments need to make a difference

Any green recovery investment needs to be significant and make a difference to all customers across the region.



87%
of customers support our
Green Recovery Initiative



“We all want a greener world.”

SWW customer,
Female, SEG B,
Aged 56+

“There definitely needs to be more investment in the South West.”

SWW customer,
Female, SEG C1,
Aged 31-55+



Customer outcomes

Protecting the local environment, improving public health and addressing climate change are the most important goals for a green recovery plan. Across our different customer segments: *young and old, higher and lower socio-economic groups (SEG)*, these are important goals for a green recovery plan.

Improving public health involves ensuring tap water is the highest quality, but is also strongly related to ensuring there are no health issues due to poor quality river and coastal water.

Boosting the economy and jobs is also important, but this needs to be about creating more and better jobs.

Customers also recognise the impact of the pandemic on people’s mental health. Steps to improve water quality, provide green spaces and recreation facilities, boost amenity and nature, and ensure affordable bills plays a part in supporting our customers’ wellbeing.

Our plans have been built to reflect the outcomes customers want to see. We have mapped the proposed initiatives to these outcomes to ensure our plans are right.

Proposed initiatives	Support to include	Value for money ³	Acceptability ⁶
Knapp Mill WTW advancement	93%	Included in current plan	Included in current plan
Water resource grid enablement	93%	80%	80%
Quality water for all	81%	76%	77%
Smarter, healthier homes	87%	69%	71%
Storm overflows			
– Increase storm overflow monitoring	94%	82%	84%
– Sewer separation	96%	83%	85%
– River bathing water quality	87%	77%	79%
Catchment management	90%	80%	81%
Overall	87%	–	81%

All of our initiatives represent value for money

We have tested our Green Recovery Initiative proposals in a robust quantitative survey with customers.

We have asked customers to what extent they consider each initiative and associated bill impacts to be value for money.



Green recovery priorities

- 1 Protect the environment**
- 2 Improve public health**
- 3 Address climate change**



“Clean water is essential for a healthy population. Exercise and water sports are important for the health and mental health, and the benefit is increased if the water is unpolluted.”

SWW customer,
Female, SEG E,
Aged 60+

“Make sure that everyone has access to good clean water. Treat sewage well.”

SWW customer,
Female, SEG C2,
Aged 60+

³ Excluding ‘do not know’ responses

The proposals are affordable, and the timing of bill impacts is acceptable

On average customers are willing to pay on average £11.82 for our green recovery proposals. This ranges from £9.10 for customers in the lowest socio-economic group to £14.14 for those in the higher socio-economic groups, showing that across the region, customers recognise the value of investing to build back better.

Our proposals could add c.£5 to an average bill, but we are advocating no change to customer bills until 2025.

This is affordable for most of our customers

We understand that not all customers want to, or can afford to, pay for a green recovery.

One in ten of our customers told us that whilst they support the plans, the additional costs are unaffordable. These customers are predominantly families in the lowest socio-economic group DE and the squeezed socio-economic groups C1C2. Many report disabilities or long-term health problems in the household.

Other customers told us that although they do not worry about affordability, and welcome the benefits of building back better, they consider bills to be high enough; or believe other (public) organisations are better suited to fund the investment.

We are extending the support we offer to customers through our affordability toolkit. This will ensure our Green Recovery Initiative meets the needs of all of our customers, and supports our pledge around affordable bills for all.

High level of acceptability of the plan

Overall, there are high levels of acceptability for our plans, overall and for each initiative.

Younger customers have much higher levels of acceptability than other customer groups.

Customers in higher SEG also have higher levels of acceptability than those in lower SEG, showing how important it remains to help our customers with affordability overall.

Holding us to account

Our customers can see the value of the plans we propose. However, there needs to be confidence that we will deliver on our existing commitments alongside any new activities.

Customers recognise the checks and balances we have in place, given our status as a licensed water company. Our customers consider water companies to be transparent and well regulated, with direct links between investment and outcomes.

To continue to build trust and confidence with our customers, we believe that strong incentives to ensure we deliver our current commitments and those associated with the Green Recovery Initiative are essential.

Details of our specific outcomes and commitments are included on pages 26-28.

Average willingness to pay is

£11.82⁴

81%

customer acceptance of our Green Recovery Initiative

Our plans **benefit current & future customers**



“The ideas are fantastic and I am proud to see my local water supplier looking into the future.”

SWW customer, Male, SEG C1C2, Aged 18-29

⁴ Based on 2017/18 CPIH prices



Confidence to deliver

In developing our Green Recovery Initiative we have tested our capacity and capability to deliver.

We have developed robust business cases which identify clear delivery strategies for each project.

Through the development of our programme we have engaged with our delivery partners and supply chain to ensure these Green Recovery proposals can be progressed alongside our existing programmes. The proposed investments reflect a less than 10% increase in our overall 2020-25 capital programme and South West Water has a strong track record of delivering schemes efficiently.

We have confidence that we can deliver these schemes in a timely manner as South West Water has already successfully accelerated £42m of investment from later years into 2019/20 and 2020/21.

We anticipate being able to begin these projects immediately after approval with a robust delivery plan with:

- Strong supply chain in place
- Skills required are consistent with existing programme
- Scale of the programme is proportionate to current plans.

2020-25 delivery plan strategy

We continue to use a mix of suppliers each best placed to deliver efficiently their packages of work. We focus on a combination of great local, national partners with local presence and our own established internal teams in an 'End to End' process that starts from business need and ends with benefit realisation to ensure we are delivering for customers.

Our partners work with us in a collaborative way to drive efficiency, share best practice and ensure we are delivering the best solutions for customers, colleagues, and the environment. All large contracts are let on a 'Design and Build' basis for greater clarity, accountability and strong oversight.

Our Green Recovery Initiative maps directly across our existing delivery streams of Major Projects, MEICA⁵, Infrastructure, Network Support and Upstream Thinking, so the skills required to deliver are consistent with those skills already deployed on our existing programme.

Our current plan to accelerate bathing water improvements and EDM installation means we are generating resource headroom in the later years of the capital programme. Our Green Recovery proposals will maintain the scale of investment providing greater sustainability to our partners, workforce and allow them the opportunity for them to confidently recruit and train further resource in the increasingly important area of ICA (Instrumentation Control Automation).

The scale of programme is comparable with previous delivery periods, and we have had years where planned peak investment has been higher.

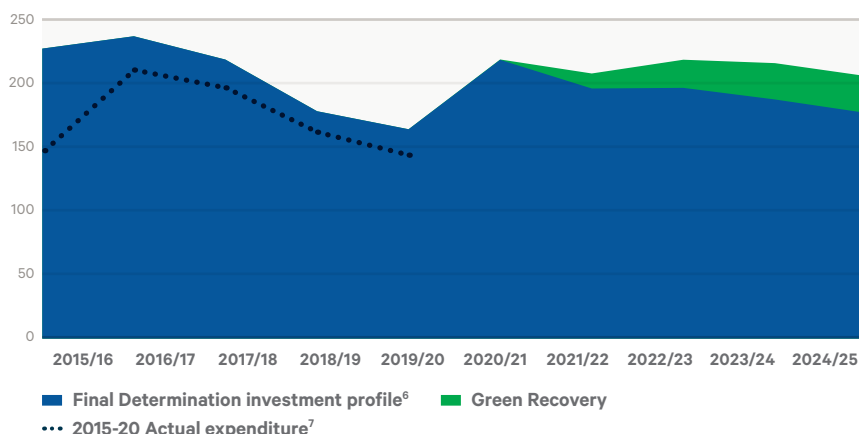
⁵ MEICA – Mechanical, Electrical and Instrumentation Control Automation

£34m
of totex efficiencies
delivered in H1 2020/21 –
run rate similar to K6

£42m
of K7 acceleration

Confidence to deliver continued

Investments (£m)



2020-25 delivery partners

Selection of our partners for 2020-25 commenced in 2016, ensuring that our entire programme (except the Isles of Scilly) was contracted before the start of the regulatory period. This early activity means that we have established partners, embedded in our way of working, successfully delivering our programme. Utilising partners with roots in the region mean we can secure the resource needed and keep the economic benefit of our programme in region as far as possible.

Investment focus	Delivery
Strategic consultant	Bringing technical expertise to support the delivery of our Business Plan: Stantec
Major projects	Large Capital investments predominantly in the non-infrastructure area, delivery of new and upgraded process plants: NMCN
MEICA projects	Projects in the range of up to £5m delivering mechanical and electrical installation of repairs and renewals on process plants NMCN, Tecker, Northavon, Kier
Planned infrastructure renewal	Renewal, by relaying or repair of both clean water and wastewater pipelines: Glanville Environmental, Kier, R&M
Reactive infrastructure	Carrying our reactive and emergency repairs to our clean and wastewater networks: Kier
Upstream Thinking	Carrying out catchment management work with local landowners to improve the environment: University of Exeter, Devon and Cornwall Wildlife Trusts, Westcountry Rivers Trust

6 2015-20 reflects PR14 Final Determination (repriced to 2017/18 CPIH deflated prices) and 2020-25 reflects PR19 Final Determination profile adjusted for investment advancements already underway.

7 2015-20 actual expenditure reflecting outperformance (repriced to 2017/18 CPIH deflated prices). Profile reflects the timing of specific large programmes in K6.



Northavon
Group



Centre for Resilience, Environment, Water and Waste (CREWW)



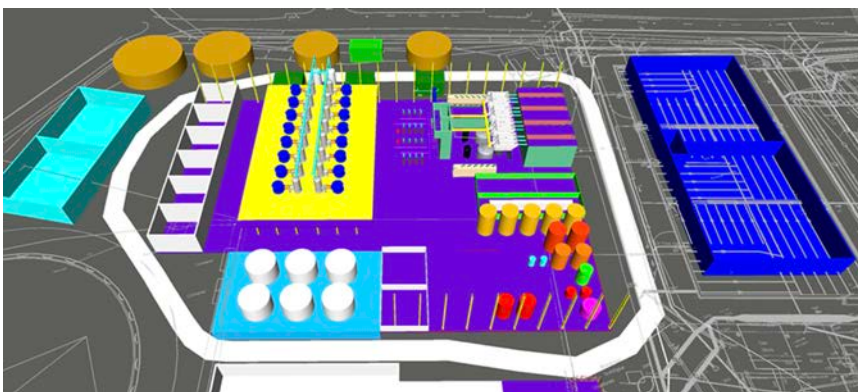
We have established an exciting partnership with the University of Exeter to undertake research into how we can manage our precious natural resources in ways which are sustainable and resilient in the face of climate change and population growth. It provides us with a great vehicle to drive innovation into our Green Recovery delivery.

Scale and nature of proposals

Our Green Recovery proposals build on principles of resilience of service, sustainability of delivery, environmental protection and improving public health contained within our existing plans. As such the individual proposals are consistent with much of the work already underway, e.g. Alderney water treatment works, EDMs, SOAF⁸ Investigations and Catchment Management. They are proportionate in that they add less than 10% to the overall programme. The headroom for some of which has already been created by our acceleration of plans into earlier years and our efficient delivery.

The largest single investment is the advancement of the Knapp Mill water treatment works. We are already delivering significant spend on the new water treatment works at Alderney and therefore it features within the plans and expectations of our Major Partners and wider supply chain.

We are currently engaged in the piloting, outline design and site preparation phase of the Alderney scheme and bringing Knapp Mill forward will allow the resources deployed by us and our supply chain to move directly onto this scheme, bringing their knowledge and experience with them. Alongside this our experience of successfully completing our new Mayflower water treatment works strengthens our confidence in delivering these investments.



Alderney WTW draft layout



Financing our proposals

The Green Recovery investment of £92m reflects a c.10% increase to our 2020-25 capital programme and given our delivery approach we are confident that we can deliver these investments alongside our existing K7 programme.

South West Water has considered the financial impacts of delivering this Green Recovery Initiative. Our proposals have been developed to keep bills affordable for customers and ensure that we can finance our plan.

We have set out how existing regulatory mechanisms and precedents can be used to mitigate any bill impacts to 2025 and beyond.

Investments

Our proposals are focused on enhancement expenditure and therefore 100% is included as additions to the Regulatory Capital Value (RCV). The profile of costs reflects the expected timing of planning projects through to completion. Those schemes that require greater planning, regulatory approvals and stakeholder engagement are profiled for delivery in years three to five.

Investments ⁹ £m	2020/21	2021/22	2022/23	2023/24	2024/25	K7 total	K8 advancement	New funding
Knapp Mill WTW advancement	0.3	0.8	9.1	6.9	8.4	25.5	(25.5)	0.0
Water resource grid enablement	0.0	1.0	1.0	12.3	12.3	26.6	(14.5)	12.1
Quality water for all	0.0	0.5	0.5	0.5	0.5	2.0	0.0	2.0
Smarter, healthier homes	0.0	4.5	4.3	4.2	4.3	17.3	0.0	17.3
Storm overflows	0.0	3.0	4.3	1.7	1.8	10.8	0.0	10.8
Catchment management	0.0	2.0	3.1	3.1	2.0	10.2	(10.2)	0.0
Total	0.3	11.8	22.3	28.7	29.3	92.4	(50.2)	42.2

£92m
investment proposed

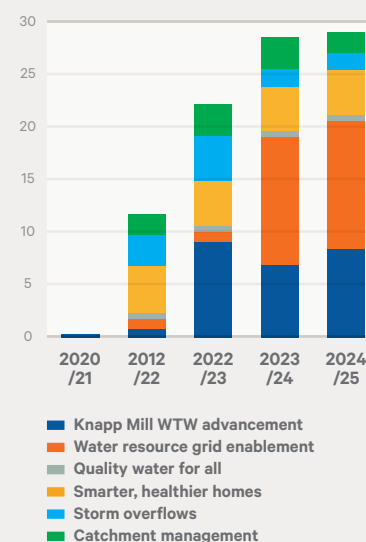
£50m
K8 advancement

£42m
new investment

£9m
further K7 acceleration

100%
RCV investment

Investment profile (£m)



9 2017/18 CPIH deflated price base consistent with PR19

Affordability and bill impacts

Bill impacts

Our aim is to support the Green Recovery and ‘build back better’ opportunity whilst balancing affordability and financeability.

We recognise that the uncertainty and impact on our wider economy of Covid-19 means that our customers may find increases in bills challenging.

Despite this we have received overwhelming support from our customers with 81% acceptability of our Green Recovery Initiative and accepting of bill increases of up to £11.82.

In response to this we have thought carefully about our proposals.

The nature of the investment – which is all considered enhancement – reduces the immediate impact on customers.

The overall revenue requirement for this investment to 2025 is £9.3m which equates to c.£5 for a customer within South West Water region and c.£3 within the Bournemouth Water region (reflecting the different nature of the investments).

Whilst the expected cost per customer is significantly below the levels of willingness to pay from customers we support the expectation that funding for Green Recovery should be delayed until the next price review (PR24) and affordability should be considered for both current and future regulatory periods.

In light of this, utilising existing regulatory schemes for in-period bill impacts we will offset revenue required up to 2025 (on an NPV neutral basis) with revenue recovered from 2025 onwards.

In addition, where the value within the established regulatory mechanisms in the period to 2025 is not sufficient, we propose to utilise our innovative WaterShare mechanism to offset any remaining revenue impact for customers.

Future bills

Beyond 2025 the revenue impact for the next five years to 2030 from the Green Recovery investment is c.£26.0m averaging at c.£5.2m per annum. This represents an estimated increase in bills of c.£5 for a customer within South West Water region and c.£3 within the Bournemouth Water region.

The efficiencies delivered to 2020 reduced revenue for customers by c.£12 per annum. We have estimated that if we delivered a similar level of outperformance in the current regulatory period this would reduce revenue from 2025 by c.£21 per annum per customer. This would more than finance the ongoing impacts of Green Recovery – ensuring our customers are getting the benefits of this investment now without any affordability or bill impacts into the long term.

10 Revenue Forecast Incentive

c.£10m
of revenue for K7
mitigated through
existing mechanisms

£9.10-14.14
Willingness To Pay

**No
impact**
for customer bills in K7

WaterShare+

	SWW	BW
Average bill	470	138
Green Recovery investment	5	3
K7 mechanism (RFI) ¹⁰	(3)	(2)
WaterShare+	(2)	(1)
	£470	£138

£34m
of totex efficiencies
delivered H1 2020/21 –
run rate similar to K6

Financial impact

We have assessed the revenue impact of the additional spend to 2025 based on the financial modelling approach for PR19. We have used assumptions consistent with the 2019 Final Determination (amended for the impacts of the Green Recovery Initiatives). We have amended the Pay-as-you-go (PAYG) ratio to reflect that all of this investment is added to the Regulatory Capital Value (RCV). We have also reflected tax impacts of these changes.

The modelling has been completed at a revenue control level with investment in water resources and water / wastewater Network +. No investment is proposed for Bioresources or Household Retail.

The profile of revenue calculated over the period to 2025 and the total impact for 2025-30 (K8) are included in the table below:

2017/18 CPIH deflated prices (£m)	2020/21	2021/22	2022/23	2023/24	2024/25	K7 total	K8 total
Revenue							
RCV Run-off	0.0	0.3	1.1	2.2	3.5	7.1	16.6
Return on RCV	0.0	0.2	0.7	1.4	2.1	4.3	11.2
Tax	(0.0)	(0.2)	(0.4)	(0.7)	(0.8)	(2.1)	(1.8)
Total building block revenue	0.0	0.3	1.3	2.9	4.7	9.3	26.0
Green Recovery Totex	0.3	11.9	22.3	28.8	29.2	92.4	
RCV							
Final Determination ¹¹	3,223.8	3,230.6	3,240.6	3,245.1	3,237.3		
Green Recovery	0.3	11.8	33.0	59.5	85.3		
Final Determination & Green Recovery	3,224.1	3,242.4	3,273.6	3,304.6	3,322.6		

PAYG has been amended to reflect that all investments are 100% RCV additions and do not have any element of PAYG revenue assumed:

Average K7 PAYG	PR19	Green Recovery
Water resources	78.31%	73.60%
Water Network +	58.77%	53.70%
Wastewater Network +	51.95%	51.25%
Bioresources	75.67%	75.67%

Green Recovery investment	£m
Water resources	4.8
Water Network +	76.8
Wastewater Network +	10.8
Bioresources	-
Total	92.4

¹¹ Includes IFRS 16 RCV as confirmed post FD publication

Financing our proposals continued

RCV run-off reflects the underlying profiles and asset lives from PR19 and have not been changed for the Green Recovery Modelling:

Average RCV run-off	PR19 and Green Recovery
Water resources	4.56%
Water Network +	4.67%
Wastewater Network +	5.06%
Bioresources	4.56%

Return on RCV utilises the industry cost of capital assumed for the Final Determination (on a CPIH real basis).

Return of RCV	PR19 CPIH
Gearing	60%
Cost of equity	4.19%
Cost of debt	2.14%
Appointee WACC	2.96%
Less retail margin	(0.04%)
Cost of capital	2.92%

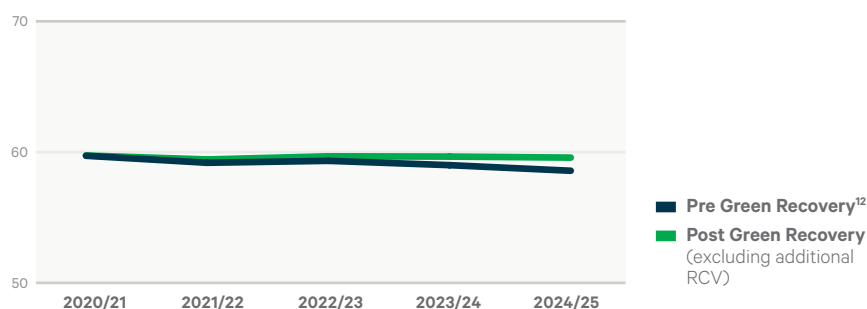
South West water received a 10bps increase to the cost of equity which would be included as part of the true-up at PR24.

Financeability

With a strong balance sheet in place and underlying gearing reducing over K7, South West Water has sufficient headroom to deliver this additional investment alongside our existing capital programme.

In addition, our focus on delivering outperformance and acceleration of K7 investments from future years (completed in 2019/20 and 2020/21) gives us confidence that we can deliver an efficient and effective programme.

Notional gearing (%)



South West Water has a strong track record of successfully obtaining funding to deliver our capital investment. We anticipate utilising our Sustainable Financing Framework (SFF) with 100% of our Green Recovery proposals meeting our SFF criteria.

Debt instruments providing significant pre-funding for K7 have been secured including £24.5m raised in 2019/20 ahead of K7 and £30m raised in H1 2020/21.

Gearing

maintained within range

¹² Assuming Green Recovery RCV were included for reporting purposes (consistent with previous approaches) and the revenue and costs were recovered within existing mechanisms, gearing would not be expected to be materially impacted from this investment.

Green recovery funding options

We have proposed that the Green Recovery Initiative will not have an impact on customer bills to 2025 with the future impacts estimated to be around only 1p per customer per day. We are proposing a true-up of our investment costs at PR24, however ahead of then we will seek continue to green recovery funding from other sources that may offset any future customer impacts. Additional green recovery funds could enable increased scale of proposed investment without impacting customer bills.

We have reviewed a number of potential grant funding streams and assessed the eligibility of our Green Recovery proposals against each specific criteria. Whilst the criteria and size of funding streams is limited we have identified funds where:

- Certain aspects of our Green Recovery proposals are eligible
- We could form partnerships to access funding
- We are not eligible for these funds.

Given we do not know the outcome of any applications for funding at this stage we have not assumed that any grant funding will be available.

All the schemes included in our Green Recovery Initiative meet the criteria to access funds using our Sustainable Financing Framework which delivers low cost, efficient financing through our existing banking relationships.

Eligible Funds

Fund	Eligibility	
Ofwat Innovation Fund: Innovation in Water Challenge – £2m fund	Open to water companies directly or in collaboration with other parties including those outside of the sector and charities aimed at encouraging innovation to transform water and wastewater services for the sector as a whole	Jan/Feb 2021
Ofwat Innovation Fund: Main Competition – £40m fund		From April 2021

We have identified Ofwat’s Innovation Fund – Main Competition as a potential source of funding for elements of three of our proposals; water resource grid enablement, catchment management and storm overflows. We will progress these submissions in due course.

South West Water has also developed a range of plans to submit for the ‘Innovation in Water Challenge,’ some of which if accepted would complement the Green Recovery proposals linked to river bathing water quality and storm overflows, but would not duplicate any Green Recovery output.

Partnership Funds

Fund	Eligibility	
Green Recovery Challenge Fund (Defra, Natural England, EA and Heritage Fund) – up to £5m per project	Environmental charities, not-for-profit organisations and partnerships with Utility companies accepted. Projects focused on restoring nature and tackling climate change.	Closed (Oct 2020)
Environment Agency flood and coastal resilience programme – £200m fund to 2025	Coastal Flood Authorities and Lead Local Flood Authorities are the lead applicants	Jan 2021



The Environment Agency flood and coastal resilience programme

Neither South West Water or our partners are eligible for funding our Green Recovery proposals.

We are however committed to working with our stakeholders and regulators to deliver investments across our region. We have previously co-funded a number of investments including flood resilience schemes and have agreed to work with partners on two projects funded by the EA which will complement some of our Green Recovery proposals – river bathing water quality and catchment management.

- **South West Property Flood Resilience Pathfinder Project** – working with the Environment Agency, Local Councils and Lead Flood Authorities to increase the awareness and property flood resilience in both residential and commercial properties. We have not included any proposals relating to flood alleviation in our Green Recovery Initiative.
- **Umber Catchment Consortium** – a consortium including Devon County Council, University of Exeter and the North Devon Biosphere Foundation to capitalise on links to our existing collaboration in the Umber catchment. This project is launching an innovative environmental intelligence program harnessing artificial intelligence (AI) with remote sensing and earth observation focusing on the inter-relationships between agricultural land-use, soil health / carbon, run-off, waterways, Natural Flood Management (NFM) and flood risks.

Ineligible funds

South West Water has reviewed other funds which are not currently eligible and we will continue to horizon scan for other opportunities.

Fund	Eligibility
Future Fund (Government) – up to £5m	Available for corporate entities but not listed companies
Heritage Fund (National Lottery) – up to £100,000	Available for heritage related organisations
Sustainable Innovation Fund (Government) – £200m fund	Available to companies who need urgent financial support to keep their cutting-edge projects and ideas alive
Horizon 2020 Funding (EU Funding available up to 2027)	Funding for research or innovation that's ground breaking, improves European research standards or responds to challenges like climate change or food security. Requires a consortium over 3 countries.



2020-25 (K7) Performance

Through our strong start to delivering K7 we are confident that we will be able to deliver more through the Green Recovery Initiative, over and above our existing commitments and capital programme.

We have already delivered c.£42m of investment ahead of plan, with £20m of expenditure advanced into 2019/20 and £22m advanced into 2020/21.

Through our efficient approach to delivering improvements, we have already delivered £34m of totex outperformance in the first half of 2020/21 – a similar rate to that delivered during 2015-20 (K6). We have delivered the savings through both operational cost reductions and capital expenditure efficiency.

Alongside our efficient delivery we are on track for our investment obligations and 80% of our performance commitments are on track.

29 Bespoke ODIs



12 Common ODIs



3 Comparative ODIs



- Performance on track / ahead of target
- Marginally below target
- Area of focus

For those areas that require improvement we have established action plans to bring performance back on track. We are committed to delivering on all our commitments to 2025.

Investment obligations

on track

£20m
expenditure advanced into 2019/20

£22m

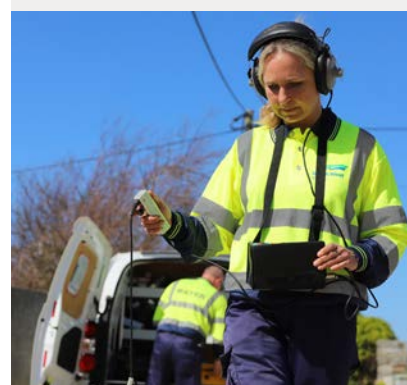
advanced into year 1

- 4 Bathing water quality schemes
- 45% of K7 EDMs completed
- Biodiversity enhancements – ahead of target

Delivering our commitments

2020/21 forecast ¹³	Bespoke ODIs	Common ODIs	Comparative ODIs
Performance on track / ahead of target	<ul style="list-style-type: none"> External sewer flooding Sewer blockages Wastewater resilience Bathing water quality Water resilience Water operational contacts Biodiversity Odour contacts Descriptive compliance Taste, smell & colour contacts Abstraction incentive mechanism Water restrictions Scheme delivery (3 ODIs) Customer value for money Customers on support tariffs Retail voids AMR meters Satisfaction in PSR services Inclusive service provision Biodiversity – compliance Biodiversity – preventing deterioration 	<ul style="list-style-type: none"> Sewer collapses Leakage Main repairs Water Quality Unplanned outage C-MeX D-MeX Priority Services Risk of severe drought Risk of sewer flooding 	<ul style="list-style-type: none"> Internal sewer flooding Supply interruptions
Marginally below target	<ul style="list-style-type: none"> Sludge compliance Wastewater operational contacts Water pollution incidents Total WWTW compliance Customers who find their bill affordable 	<ul style="list-style-type: none"> WWTW compliance 	
Area of focus	<ul style="list-style-type: none"> EPA score 	<ul style="list-style-type: none"> Per Capita Consumption 	<ul style="list-style-type: none"> Wastewater pollution incidents

80%
of existing performance commitments
on track



Investment programme – plans on track

Through our efficient approach to delivering improvements we have already delivered £34m of totex outperformance in the first half of 2020/21 and similar rate to that delivered during 2015-20 (K6).

We have delivered the savings through both operational cost reductions and capital expenditure efficiency:

- **Outcome-driven smart design** through better monitoring of networks and asset condition, proactively targeting hotspots and using flow monitoring and modelling to reduce the scale of investment required

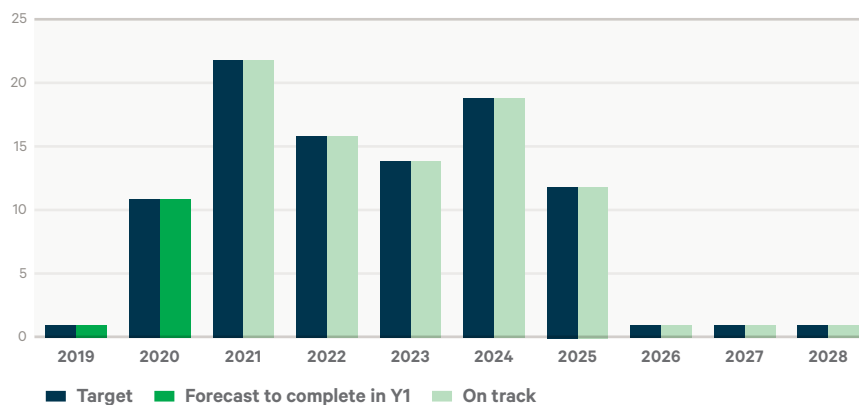
¹³ 2020/21 forecast performance commitments as assessed at 30 September 2020 (Half Year)

2020-25 (K7) Performance continued

- **Delivering investment efficiently** through packaging work for effective delivery, and use of offsite build technique
- **Innovation supporting delivery** including the use of artificial intelligence and machine learning alongside new technology such as automated CCTV in sewer inspections. South West Water is also trialling the use of I-Phyc’s algae-based treatment to sustainably remove phosphorus and micro-pollutants from sewerage. This nature-based approach is beneficial to the environment whilst reducing costs to operate with lower power and chemical consumption required
- **Right sourcing** achieving the optimal balance between internal and external resources to deliver the most flexible and cost-efficient delivery route. We have continued to build on our successful relationships with strategic suppliers and during this half year have extended the scope with our key network operational partner, covering both water and wastewater activity. This has increased flexibility and out of hours responsiveness to minimise adverse impacts for customers
- **Operational ways of working** will be refined across the business optimising activities and efficiency across our water and wastewater sites including centralised control centres and incident management, cross business teams to drive compliance and focusing on water and energy efficiency of our sites
- **Support and administration services** reviewing the most efficient level of support and administrative services.

We are also monitoring our delivery of key regulatory obligations.

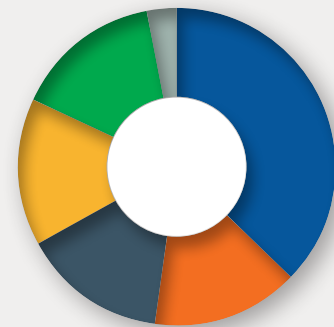
DWI (milestones)



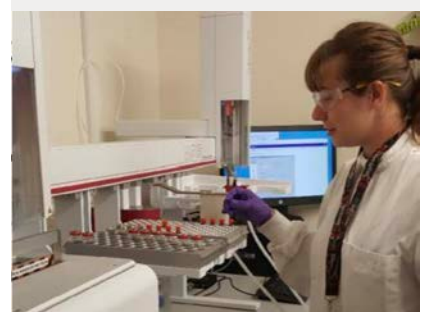
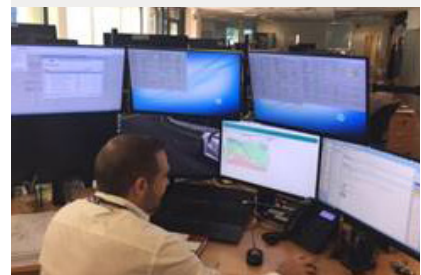
We have agreed 98 individual milestones with the DWI: nine that were due within K6, 83 in K7 and six completing in K8. These milestones will be used to monitor the delivery of our commitment to improving drinking water quality for our customers.

Our progress against these milestones is shown above, with milestones on track. All of our 2019 and 2020 milestones have been completed and we are on track for our 2021 commitments.

Maintaining momentum over K7

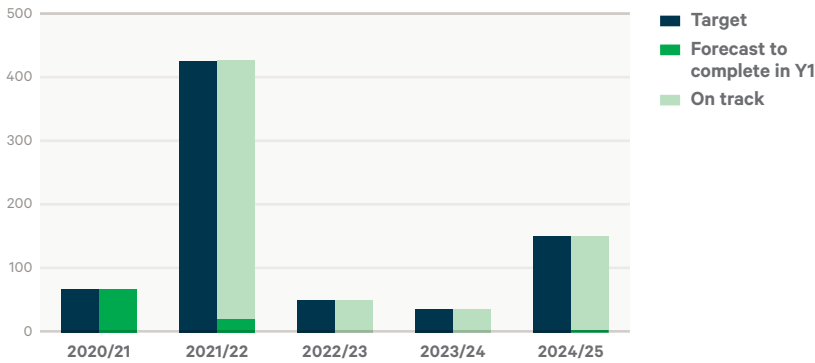


- Outcome driven smart design
- Delivering investment efficiently
- Innovation supporting delivery
- Right sourcing
- Operational ways of working
- Support & admin services



2020-25 (K7) Performance continued

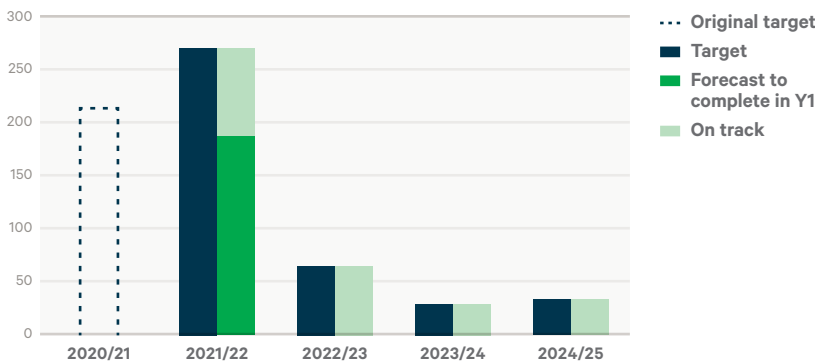
WINEP (schemes)



We are on track to deliver all of our Environment Agency deliverables for 2020/21, delivering 69 of the outputs with one being deferred until December 2022.

We are also on track to deliver an additional 22 flow monitors at wastewater treatment sites (scheduled for 2021/22) and four bathing water sites (scheduled for 2024/25). In total delivering 95 outputs in 2020/21 against a revised target of 69.

Event Duration Monitoring (unit installations)



Despite the delivery date for all 2020/21 EDMs being amended to September 2021 for all water companies in response to Covid-19, we are still targeting delivery of 189 by March 2021.

Beyond the Green Recovery

We have designed our Green Recovery Initiative to support the ‘build back better’ challenge whilst ensuring the proposals complement the sector’s long-term strategic aims of ensuring resilience, addressing climate change and targeting environmental improvements.

We have designed our Green Recovery Initiative to support the ‘build back better’ challenge, providing economic growth in our region in the years post-pandemic by bringing forward the delivery of water quality and environmental improvements. We have therefore included projects that increase understanding in key areas that support strategic investment decisions for the benefit of current and future customers.

Future challenges and opportunities

Our proposals are aligned with the long-term strategic aims and objectives of the wider water sector for generations to come.

- **Defra** – Future water: The government’s water strategy for England
- **Ofwat** – Time to act, together: Ofwat’s strategy
- **Drinking Water Inspectorate** – Vision and Strategic Objectives 2020-25
- **Environment Agency** – Meeting our Future Water Needs: a National Framework for Water Resources
- **CCW** – Forward Work Programme for England and Wales 2020-23.

Ofwat’s December 2020 document, ‘PR24 and beyond: Future challenges and opportunities in the water sector’¹⁴, highlights the essential role that water companies have in protecting and improving the environment in the context of climate change and how companies need to anticipate and adapt to uncertainty and change.

Our Green Recovery Initiative supports this future and will help to inform our business planning for 2025-30 and beyond.

Greater resilience

The advancement of the construction of the new water treatment works at Knapp Mill and the water transfer benefits of the ‘Water resource grid enablement’ investment will help to accelerate national water resilience working in partnership with other regions and regulators. Moving water to where it is needed is an important aspect of the EA’s National Framework for the long-term needs on a secure supply of water. These two investments are part of our existing long-term plans to improve water quality in the Bournemouth and North Devon regions for current and for future generations and are fully aligned with the DWI’s strategic objectives.



For more information, see **Business Plan 2020-25**

Water quality improvements

for now and the future

¹⁴ <https://www.ofwat.gov.uk/wp-content/uploads/2020/12/PR24-and-beyond-Future-challenges-and-opportunities-for-the-water-sector.pdf>

Greater understanding

As legislation and standards evolve, we will continue to work with our regulators and stakeholders to make the necessary improvements whilst safeguarding the investments already made.

The insight gained through our 'Quality water for all' pilot will help support the DWI's objective of promoting effective regulation of private water supplies, so that consumers enjoy the same level of protection as for public supplies.

'Smarter, healthier homes' will develop understanding of the impacts and benefits of customer supply pipe adoption, helping to inform possible future legislation and engagement.

Greater public value

We already provide significant public value as we carry out our core operations of delivering water and wastewater services for our customers and want to go further. That's why we believe our purpose is about 'supporting the lives of people and the places they love for generations to come'.

Our Upstream Thinking project is a multi-award-winning catchment management scheme which applies natural landscape-scale solutions to improve water quality and supply.

Since 2010, we have invested over £20m in the programme, changing the way we think about water and the landscape. Working with our partners we help to ensure a better future for farming, value for our customers, improved wildlife habitats, restoration of wetlands and future resilient water supplies.

Delivered through a unique range of partnerships between ourselves, Westcountry Rivers Trust and Devon and Cornwall Wildlife Trusts, government agencies, environmental experts, landowners and tenant farmers, with the evaluation of the change in water quality at catchment scale undertaken by the University of Exeter.

We are proposing to extend this successful scheme to include an additional 10,000 hectares of new catchment management across Dartmoor National Park.

Working with community groups and river users, the inland bathing water pilots on the Dart and Tavy rivers will help to protect and improve these important recreational rivers.

Collaboration and working in partnership on these nature-based solutions helps to better achieve outcomes for customers and the environment.

Insight

into private water supplies and customer supply pipe adoption



Cornwall Wildlife Trust



Devon Wildlife Trust



EXMOOR NATIONAL PARK



Assurance

The Board has supported the development of the Green Recovery Initiative and endorsed its submission.

The Board has satisfied itself that all the elements add up to a proposal that:

- Addresses the Green Recovery strategic aims
- Complements delivery alongside our existing programme
- Is founded in customer and stakeholder priorities.

The principles and approach to the assurance methodologies build on the existing South West Water business planning and performance reporting framework with an integrated risk and assurance approach.

The Initiative has been overseen by an Executive Steering Group who have challenged all aspects of these projects.

Proposals have been developed by a team of experts from across the business and alongside external advisors where needed. These have been reviewed and scrutinised by a multi-discipline project team focused on submitting strong business cases built on robust cost benefit analysis and significant customer support. We have also:

- Considered alternative funding options in respect of the proposals have been sufficiently considered.
- Completed customer research to confirm our investment proposals are supported by our customers and align with their priorities.
- Shared our plan with our Independent WaterShare+ Advisory Panel who are supportive of our proposals.

South West Water has in place a well-established and effective set of policies and processes covered by our robust Quality Management System. Policies and procedures are regularly updated and are developed in accordance with the company's quality assurance processes.

Assurance work performed is in line with our integrated assurance framework, which includes external review of business cases and ODI performance to date by our technical auditor and review of our financial modelling by an independent third party.

Jacobs assurance report

South West Water Limited commissioned Jacobs to provide third-line independent technical assurance on its Green Recovery Initiative submission.

The objective of the assurance activity was to provide an independent opinion on the robustness of a number of information sets.

The assurance covered the following elements of South West Water's submission:

Green Recovery Proposals

- **Business cases** – reviewing the proposed solution, different options considered, the robustness of benefits identified and the overall deliverability of the project

External
assurance
received

Jacobs

Assurance continued

- **Engineering estimating system / cost models** – review and challenge on the robustness and efficiency of the cost base
- **New and adjusted performance commitments** – reviewing the appropriateness of the proposed commitment and the supporting information behind the performance incentives.

Current performance

- **Status of the existing investment programme** – reviewed the key investment deadlines and milestones to ensure delivery is on track with all regulatory requirements
- **Status of the existing performance commitments** – reviewing all ODIs confirming half year performance and assessing the validity of the forecast position with a particular focus on the performance commitments requested by Ofwat and those where performance is below target.

The data tables submitted to Ofwat and supporting commentaries contain actual data for H1 2020/21 and forecast data for H2 2020/21. The data tables were assured by verifying consistency with reported H1 information, and by reviewing the appropriateness and application of the forecast methodologies where applicable.

The technical assurance team comprised technical and operational specialists led by the Assurance Director. Jacobs used risk-based samples to trace data to source.

No material issues were identified and Jacobs have specifically noted:

“A structured approach has been taken to developing the business cases and this contributed to obtaining consistency between them. Each business case sets out a defensible rationale for its promotion.”

“Where new performance commitments and / or revised targets for existing performance commitments are proposed the targets and the associated operational delivery incentives are relevant, proportionate to scheme costs and measurable.”

KPMG financial support

KPMG were engaged to review our approach to financial modelling of the Green Recovery Initiative.

The scope of the financial model review included:

- Identifying methodological or formulaic inconsistencies in the changes we made to Ofwat’s PR19 Final Determination Model
- Reviewing aspects of the model logic regarding the key changes
- Running a comparison of our amended model against the Ofwat model to confirm that only the intended changes had been made
- Checking that the outputs of the model had been correctly included in the submission documents.

No significant issues were raised during the review with minor recommendations updated accordingly.



Board assurance statement

Our Green Recovery Initiative confirms South West Water's commitment to contribute to the Green Recovery and the 'build back better' opportunity. Our proposals support jobs and the economy in the regions we serve and deliver real, lasting improvements to the environment for current and future generations.

The South West Water Board has determined that we can deliver more over and above the significant commitments already included in our price control settlement.

The Board recognise that despite significant progress already achieved in the first six months of the new period with the majority of our performance commitments on track or ahead of target, there are a small number of metrics which will not meet target this year. In particular our performance in respect of pollution incidents is not consistent with our commitments and we have established our robust Pollution Incident Reduction Plan (PIRP) which is now starting to make an impact to reduce pollution incidents.

We are on track to deliver all of our investment obligations for 2020/21 including our significant environmental programme.

The Board has proposed both investments to accelerate 2020-25 programmes, over and above the acceleration already in progress, as well as submitting fully developed proposals for projects that will deliver further benefits for the regions.

The proposals have been developed in line with established underlying procedures and noting:

- South West Water has robust processes in place to review proposed business cases for investments. The Initiative has been overseen by an Executive Steering Group who have challenged all aspects of the projects.
- Proposals have been developed by a team of experts from across the business and alongside external advisors where needed. These have been reviewed and scrutinised by a multi-discipline project team focused on submitting strong business cases built on robust cost benefit analysis and significant customer support.

Directors statement

Due to the strong governance and assurance processes applied during the development of the Green Recovery Initiative, the South West Water Board can confirm:

- In their opinion, the Initiative is consistent with the objectives of the Green Recovery programme to both ensure sustainable employment during the economic recovery from the Covid-19 pandemic and real, long lasting improvements are delivered for the regions we serve;
- Customer engagement is consistent with the 2020-25 Business Plan, updated with specific research for our Green Recovery Initiative;
- The proposals are financeable and do not significantly increase any short, medium or long term risk to the financeability of the South West Water; and
- Appropriate systems and processes are in place to ensure that the information contained within the submissions are accurate in all material aspects.

Assurance continued

The Board considers the process that South West Water has gone through in ensuring the proposals are in line with the objectives of the Green Recovery plan, are sufficient for it to provide this assurance statement and have resulted in an ambitious and achievable programme.

Name and position	Signed
Gill Rider Pennon Group and South West Water Chair	
Neil Cooper Pennon Group and South West Water Senior Independent Non-Executive Director	
Iain Evans Pennon Group and South West Water Independent Non-Executive Director	
Claire Ighodaro CBE Pennon Group and South West Water Independent Non-Executive Director	
Jon Butterworth MBE Pennon Group and South West Water Independent Non-Executive Director	
Susan Davy Pennon Group and South West Water Chief Executive	
Louise Rowe South West Water Finance Director	
Paul Boote Pennon Group Finance Director	

Green recovery assessments

Green recovery requirement	page
“delivering real and lasting improvements to the environment for current and future generations.”	4
“companies...consider that they can robustly deliver more, over and above the significant commitments already included in their price control settlement.”	40-42
“...submission of detailed and well-evidenced proposals for customer funding which will attract greater scrutiny’	Business cases 12-25
“...encourage companies to engage with the relevant regulators about their proposals...’	35
<p>“...how we assess what companies put forward will depend on the nature of the proposal:</p> <ul style="list-style-type: none"> ● Acceleration of existing AMP7 plans 	33
<ul style="list-style-type: none"> ● Bringing forward AMP8 enhancement proposals from 2025 and beyond ● Implementing specific new innovative ideas: <ul style="list-style-type: none"> ● Water resources ● Flood mitigation ● Net zero ● Water quality improvements 	12-25
<p>“...proposals to accelerate AMP8 schemes, should be linked to specific statutory drivers and include comprehensive supporting evidence.”</p> <ul style="list-style-type: none"> ● Customer research “...consider whether evidence remains relevant and requires revision” ● Environment Agency “...demonstrate that proposals meet existing regulatory expectations set out in the PR19 WISER and EPR guidance” ● Drinking water quality “...proposals should be in line with the industry long-term planning guidance around resilience, climate change adaption, and regulatory standards.” 	36 35 35
“...interested in company proposals that increase expenditure when the economy needs it most, that is over 2021-22 and 2022-23.”	43
“...how proposals support the green economic recovery, for example by creating or retaining jobs, improving the environment and providing local investment”	4
<p>“Companies should set out:</p> <ul style="list-style-type: none"> ● When their proposed schemes will be delivered ● How any proposals for additional customer funding fit with the acceleration and delivery of existing PR19 commitments ● How their proposals meet the principles.” 	12-25 50-53 32-33

Investment and performance commitment on track	page
<ul style="list-style-type: none"> • “at least six months’ performance data to demonstrate that their investment programmes are on track” • If a company is not in this position to provide this evidence, we expect it to be back on track shortly • The company will need to set out Board assurance on when its programme will be back on track; including steps it will take to get it back on track 	52-53 Data tables
<ul style="list-style-type: none"> • “at least six months’ performance data how that their key performance commitments are on course to be achieved...” • “...Board Assurance of on track delivery of performance commitments for the remainder of the financial year taking into account: <ul style="list-style-type: none"> • Outturn performance for the 2015-20 period • Outturn performance for the current year • Predicted performance over the remainder of the current year, based on current and historical performance and performance in the first and second halves of previous years” 	50-51 Data tables

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“...carefully considering the impact on customer bills...”	44
“...all proposals should have regard to their associated affordability impacts both in their design and scale as well as the timing of cost recovery from customers.”	44
“...any bill increases before 2025, the onus is on companies to demonstrate that any such increase is affordable and fair and recognises the impact of Covid-19 on customer circumstances.”	38
“...consider how to maximise the scope for green recovery investment and limit impacts on customer bills before 2025...”	48
“...how they can share the burden of additional costs with customers by making an appropriate contribution towards their green recovery schemes.”	44
“Companies should consider how any outperformance on PR19 cost allowances and incentives could be used to contribute to any additional costs of green recovery proposals.”	44
“...companies to put forward the proposals they consider are in the best interests of customers and that best meet the objectives of the green recovery.”	36
“...we do not consider it appropriate for companies to propose schemes that were not taken forward at PR19...”	34

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<p>Delivery of schemes</p> <p>“...provide assurance around the successful delivery of the schemes”</p>	40-42
“...demonstrate their ability to finance the proposed schemes while maintaining an appropriate level of financial resilience”	46
“...companies to consider the overall volume of expenditure and amount of activity planned for each year of the remainder of AMP7 compared to the level of efficient expenditure they achieved in the previous periods.”	41

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<p>Value for money</p>	
<p>“...provide clear, higher quality evidence of need, and the incremental improvement to be delivered”</p>	Detailed business cases
<p>“...must provide evidence that an appropriate range of options were considered and were subject to a robust cost-beneficial analysis including consideration of wider environmental, societal and economic impacts.”</p>	
<p>“...evidence that the proposed investments are not for activities included in our base cost allowances.”</p>	
<p>“...provide persuasive evidence that cost estimates are robust and efficient, including evidence of outturn costs similar or comparable projects and activity cost benchmarking”</p>	34
<p>“The cost estimates and the efficiency of the specific proposals are expected to have been through third party assurance process.”</p>	56-57
<p>“Where companies are bringing forward investments from AMP8, there should be no loss of efficiency or benefits...”</p>	35
<p>“Where appropriate, schemes should reflect efficiency cost estimates made at PR19.”</p>	35
<p>“...must explicitly quantify the customer and environmental benefits arising from the scheme and any potential impacts on agreed PR19 outcomes.”</p>	26-27
<p>Customer support</p>	
<p>“...demonstrate their proposals align with customer priorities and preferences by presenting robust customer evidence.”</p>	36-38
<p>“...companies should engage with CCW and Ofwat in advance of any research.”</p>	36
<p>Managing affordability pressures</p>	
<p>“...consider the potential bill impacts of increases in social tariffs provision resulting from the impact of Covid-19.”</p>	31
<p>“demonstrate that the investment would not adversely impact on affordability, or otherwise how they will manage any resulting affordability pressures for customers in the short and long-term.”</p>	44
<p>“...consider how mitigate the cost impact of new or brought forward schemes in customers” bills in the future by enhancing the assistance provided to financially vulnerable customers. This could include, for example, increasing the company-funded contribution to social tariffs.”</p>	44
<p>“...engagement with customers to explore their support...should show customers’ views on how acceptable and affordable the proposals are in terms of the bill impact.”</p>	37
<p>Exploring alternative funding</p>	
<p>“companies should...provide evidence of” exploring third party funding or government schemes</p>	47-48

