



Accelerating Investment

Cost Change Submission 2026

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Chief Executive Officer's Foreword

Investment proposals that help us make progress on important areas now, smoothing delivery and bill impacts – rather than waiting.



In our 2025-30 business plans, we set out a record level of investment to tackle the challenges that matter most in our region. We submitted our plans back in 2023 in line with Ofwat's price review process. Since then, we have made good progress in setting up our business for this step change in investment and we are on track to deliver our current 2025-30 programme.

Over the last three years, new challenges have emerged including unexpected growth in customer demand in localised areas, a customer and stakeholder expectation for more investment in asset health challenges, and resilience requirements in areas such as cyber. We want to be proactive in addressing these new challenges. That's why we are submitting an investment case to Ofwat now, rather than waiting until the 2029 price review.

Investing now means that risks can be addressed much sooner. When we wrote our 2025-30 Business Plan, we signalled in our Long-Term Delivery Strategy that we are expecting a significant increase in investment requirements for the 2030-35 period. Investing now means that we can spread the work over a longer period – this makes delivery easier, more efficient, and helps us to smooth the bill impact on customers. Our customers have consistently told us they prefer stable bills and want to avoid large single-year increases.

We are proposing a series of schemes in this submission that we think represents a no regrets' investment package – with projects that deliver benefit to our customers now. We are currently considering making a further submission in 2027 on other emerging areas, to support economic growth and asset health. We have been careful to build this case in light of the further evidence on our investment priorities to make sure we are promoting the right investment at the right time. We welcome collaborative working with all our key stakeholders and regulators. We would like to invite Ofwat to come and visit the sites set out in this submission to assess the facts on the ground, and to hear from the key stakeholder groups affected by the assets in question.

We have developed our proposals in close dialogue with our customers and stakeholders, who acknowledge the need for timely intervention to address asset risk and future pressures. They also consistently emphasise the importance of affordability, bill smoothing, and clear justification for in-period funding. This document summarises the overall case with technical evidence in supporting documents.

The proposed investments cover the South West Water, Bournemouth Water, Bristol Water and SES Water areas.

Successful delivery of these investment schemes will require partnership and collaboration. We continue to support the lives of people who live and visit our region, and the places they love for generations to come.

Keith Haslett

Chief Executive Officer, Pennon Group

Chair's Statement



I am very pleased to introduce, on behalf of the Board, our 2026 Cost Change submission.

Pennon operates water and wastewater services across the South West and Isles of Scilly, Bristol and Sutton and East Surrey regions. Our business plans for these regions were developed over three years ago, and in light of new challenges which have emerged, the Board is supportive of the Group's request for additional investment in line with Ofwat's process.

Throughout the development of this submission, the Board has been engaged at all stages, receiving regular reports from the Executive, having been provided opportunity to challenge on the justification for the proposals and their deliverability. We are comfortable that the schemes proposed reflect efficient cost proposals with suitable

customer protection mechanisms, and that the customer engagement that underpins these proposals to be of high quality.

We consider that the Company's submission is financeable and is resilient to 2030. The Board is also satisfied that the company has appropriately evidenced that the investment proposed would not include work that customers have already funded. The company has considered the affordability of the proposals and our customers support the principle of in-period funding for the proposed investment, particularly where it supports smoothing out bill changes over time.

Having been provided an overview of the findings of the independent assurance process, and in light of the above, I am satisfied that this submission is focused on the correct priority areas for the business and represents the right plan for right now.

David Sproul

Chair, Pennon Group



Executive summary

We welcome Ofwat's cost change process. While the five-year review cycle has many benefits, one of the downsides is that it can reduce flexibility for companies to invest proactively to address emerging risks during the control period. Ofwat's new cost change process enables within-period investment cases to be submitted for consideration, and changes to be made to funding allowances so that work can progress immediately on new priority areas.

This submission relates to the cost change process for both South West Water (including Bournemouth Water and Bristol Water areas) and SES Water.

We are submitting investment cases relating to three areas:

- **Asset health** – We have identified several schemes where it would be beneficial to accelerate expenditure and improve the health of our assets now. These reflect several of the priority asset classes Ofwat identified for 2026 and includes investment in gravity sewers, wastewater treatment works, rapid gravity filters, and water network storage assets.
- **Growth** – The levels of growth experienced at Newquay have been unprecedented in recent years, through increasing levels of tourism and the growing popularity of summer festivals in the catchment, i.e., Boardmasters. Investment is needed at our sewage treatment works to respond to this demand change.
- **Cyber security** – The risk of cyberattacks is growing. Legislation is currently being developed which will mandate certain security measures being put in place for our wastewater assets. While the legislation has not yet been passed, the risk is real and regardless of the final nuance of the Act, we expect it to at least cover our main strategic wastewater treatment works. As such, we are looking to invest now, ahead of the legislation being finalised, to protect our key works.

We are seeking an in-period adjustment to allowed revenues to help enable the above investment. This will help smooth the impact on customer bills – as opposed to seeing a larger increase in 2030, and aligns to the principle of creating intergenerational equity – so that customers pay for investment over the full life of the asset rather than customers in certain periods effectively cross-subsidising customers in other periods.

Our customers have consistently told us that they value smooth and stable bills. As signalled in our Long-Term Delivery Strategies (and further confirmed through ongoing discussions with our regulators), there will be a material step up in expenditure levels in the 2030-35 period. Bringing some of that expenditure forward now will help smooth the bill rises, ease delivery, and realise benefits sooner than would otherwise be the case. We have engaged with our customers regarding this submission. Generally, customers acknowledge the need for timely intervention to address asset risk and future pressures, while also consistently emphasising the importance of affordability for all, bill smoothing, and clear justification for in-period funding.

We remain committed to an extensive affordability support framework valued at over £200 million across the period, aimed at helping those who need it most and advancing the ambition of eliminating water poverty. Innovative tariff development is another important strand, and we are progressing with our tariff trials to support affordability and encourage efficient usage. All of this will help manage the effects of bill impacts.

Our costing approach is both robust and efficient. We have applied the same robust cost estimation methodology that underpinned our PR24 Business Plan and that has been used consistently since PR14. In 2023, we commissioned Cumming



Group to benchmark the cost of 38 key activities against those of other water companies. Cumming Group found that our cost activities were materially cheaper than the average comparator by between 13% and 18%. Where possible, we have also benchmarked our costs against other companies' business plan data and other submissions to Ofwat. We are confident that our cost estimates are efficient and represent good value for money for our customers.

We have followed Ofwat's guidance and calculated 'implicit allowances' ('what base buys'). The analysis demonstrates that the funding we are seeking is incremental to existing allowances – i.e., there is no double-funding, all of our schemes have associated price control deliverables, whereby funding will be returned to customers in full if the schemes are not delivered. We have not proposed any time incentives as such a mechanism, intended to encourage timely delivery, is not necessary for projects that are required to be delivered within the next few years and most of our proposed schemes complete in 2030.

We have the ability to deliver this programme of works. Our 2025-30 expenditure is a deliberately flatter delivery profile than the traditional AMP approach. Overall, expenditure is in line with our forecasts (with some rebalancing between base and enhancement). We have engaged with delivery partners and specialist suppliers, to inform early views on feasibility, option development and deliverability, with established delivery routes – including alliance and delivery partner models – used across a number of schemes. We have a strong track record for delivering additional allowances made within period. Our 'Green Recovery' programme was an ambitious initiative of c.£80 million environmental schemes we proposed during the 2025-30 period. We progressed the delivery of those schemes at pace and outperformed our catchment management target – delivering over 14,000 hectares of improvement.

In-period recovery at an appropriate cost of capital will be important to ensure investor confidence. As a listed company, we received strong support from investors to strengthen our balance sheet through a rights issue in January 2025 which, at £490 million, was materially in line with that recommended by Ofwat for the notional company at the PR24 Final Determination. Our ability to retain an efficient financing structure over time relies on investor confidence that they will be able to achieve an appropriate and competitive return on incremental investments that matches the prevailing cost of capital. The Competition and Markets Authority's final determination provides a more recent and relevant benchmark as it has been updated for more recent market data. We are therefore seeking an in-period return at this level, adjusted so the new notional debt element is based on 100% at the new cost of debt rate. The cost of raising new equity is included using the PR24 methodology and 2.5% allowance rate. We do not seek in-period recovery for the 2026 growth scheme at Newquay, in line with Ofwat's guidance.

Our plans have been subject to external assurance and have been approved by our Boards. Deloitte has undertaken independent assurance of the key assumptions and inputs into our submission, and our approach is in line with Ofwat's regulatory requirements. Both the South West Water and SES Water Boards have scrutinised and challenged our plans to make sure they are robust and the company can deliver on its promises to the regulators, stakeholders and our customers.

Our total cost change submission is £251m for 2026 (in 2022/23 prices). We have explored implicit allowances and do not believe any adjustment to allow a net allowance is warranted by the evidence. This expenditure is phased over 2027/28 to 2029/30, and we propose an in-period allowance of £41m and RCV adjustment of £229m. This is an average bill increase of 1.4% p.a. out to 2030 in addition to that allowed at PR24.

Table 1: Cost change submission

2022/23 prices	Cost change investment £m	Revenue (2027-2030)	RCV adjustment (2030)	Avg. bill increase p.a. 2027-2030	Avg. bill impact in 2030, £
SWW – Water	70.7	9.6	66.5	0.9%	7
SWW – Wastewater	119.9*	22.6	106.5	1.7%	19
SES Water	11.6	1.0	11.1	0.4%	3
Bristol Water	48.6	7.4	45.3	2.8%	19
Total	250.9	40.7	229.4	1.4%	

* includes growth of £10.3m not included in revenue allowance but in end of period RCV adjustment

The structure of this submission

This document provides an overall summary of our cost change submission and gives an overview of the ongoing development of potential future submissions.

Beneath this Level 1 document sit three Level 2 documents; one for each key component of our 2026 cost change submission. These more detailed Level 2 documents respond to the specific evidence requirements set out by Ofwat in its cost change guidance, including our proposals for customer protections (the price control deliverables).

Beneath those documents sit a series of Level 3 technical appendices, including the supporting data tables, technical business cases for each scheme included in the submission, and further details on our costing methodology.

Table 2: Submission structure

	Submission
Level 1	• Customer summary • Investor summary • Cost change submission (<i>this document</i>)
Level 2	• Asset health • Growth • Cyber security
Level 3	• Data tables • Supporting technical business cases • Costing methodology • Customer Research • Independent Assurance Report

Overview of cost change requests

Our proposed investments are across our region and reflect investments in water and wastewater projects.

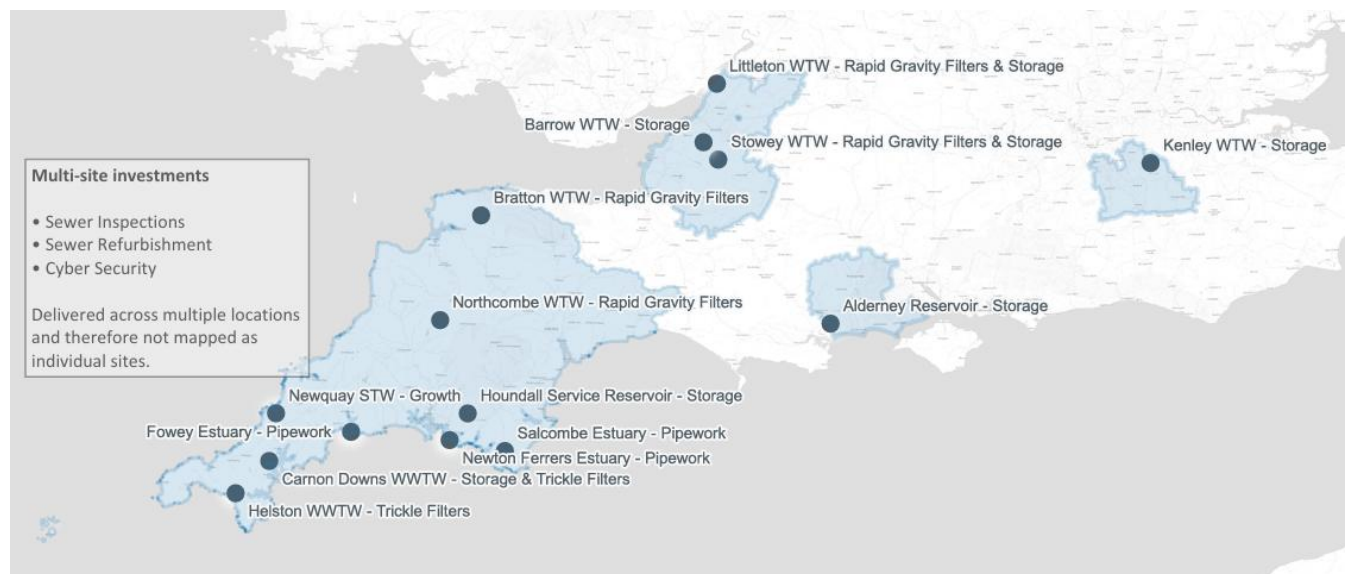


Figure 1: Proposed locations of investment across Pennon operating areas

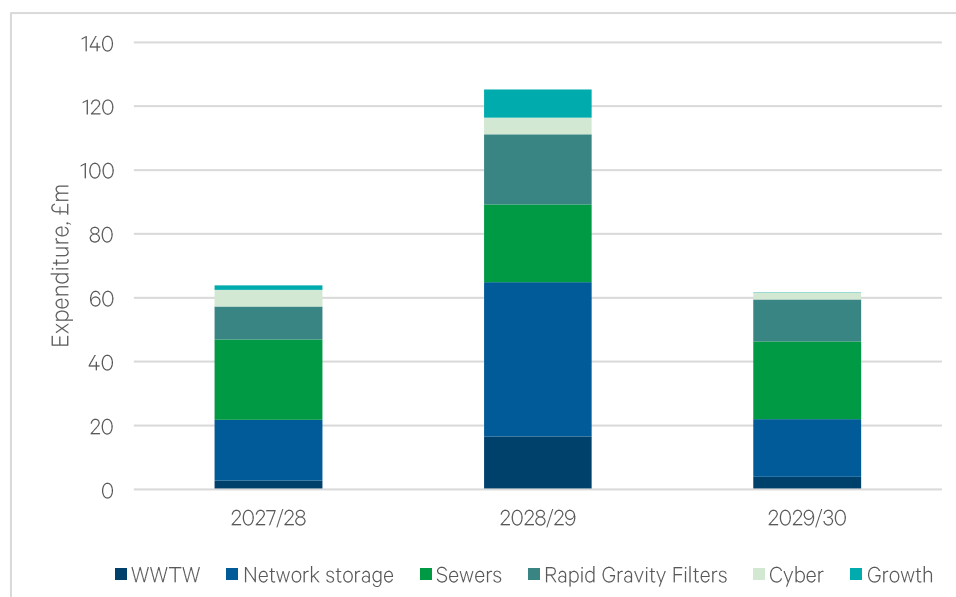


Figure 2: Expenditure profile of our 2026 cost change submission

The above figure shows our forecast cost profile as a result of this cost change submission. The profile has a decrease in expenditure between the last two years of the control period. We intend to make a further cost change submission in 2027, which will reverse this position, providing a glide path into the next control period.

The key components of our 2026 submission are described below.

Table 3: Cost change submission component summary

Region	Category	Site	Description	£m
Bristol Water	Asset health – Rapid Gravity Filter	Littleton Water Treatment Works	The proposed funding will address deterioration within the system by accelerating renewal into AMP8 and constructing a new rapid gravity filter system. This targeted replacement will deliver immediate benefits by strengthening drinking water quality resilience to asset failure at Littleton Water Treatment Works, reducing the risk of unwholesome water entering the system, safeguarding supply to the local distribution network, and avoiding the complexity, delay and risk associated with phased renewals and constrained shutdown sequencing while maintaining throughput during delivery. We signalled the investment need at PR24 and proposed phasing into AMP9 alongside our enhancement investment due to base maintenance constraints.	12.5
Bristol Water	Asset health – Rapid Gravity Filter	Stowey Water Treatment Works	The proposed funding will deliver a targeted asset replacement approach to address deterioration within the rapid gravity filter system. The scheme will reduce the risk of asset failure, water quality risk and supply interruptions, improve operational resilience and protecting customers from service impacts. By replacing near end of life assets and restoring the site to current design standards, it lowers the likelihood of reactive interventions and operational risk events.	9.4
South West Water	Asset health – Rapid Gravity Filter	Northcombe Water Treatment Works	The proposed funding will replace the ten primary treatment filter processes at Northcombe Water Treatment Works. This addresses the underlying risks of assets operating beyond design life with progressive structural deterioration, persistent base leakage and widespread corrosion/coating failure, where isolated repairs have not stopped deterioration and defects continue to recur.	17.6
South West Water	Asset health – Rapid Gravity Filter	Bratton Water Treatment Works	The proposed funding will be used to replace the deteriorating primary treatment filter processes within a new works solution. This directly addresses the root problem, progressive asset deterioration which is driving increasing outages and reduced output, and the existing site constraints make in situ replacement inefficient and high risk; building the replacement offline removes those constraints and resets the failure mechanisms. Customer benefits are improved control of water quality risk and stronger supply resilience at a critical 10 MLD source by removing reliance on leaking/subsiding, deteriorating filtration assets, reducing the likelihood and duration of unplanned outages and loss of output when units are offline.	5.9
South West Water	Asset health – Wastewater Treatment Works	Carnon Downs Wastewater Treatment Works	The proposed investment at Carnon Downs Wastewater Treatment Works will deliver a whole-site replacement by demolishing and decommissioning the existing works and constructing a new site at an alternative location with a new activated sludge process stream. This addresses the deteriorating asset health of the two trickle filters and settlement tanks while reducing escalating pollution/environmental risk and restoring robust, reliable treatment performance. Construction on the existing site is no longer feasible for the long-term due to subsidence-related concerns.	16.7

Region	Category	Site	Description	£m
			The new Wastewater Treatment Works will deliver long term benefits for customers by replacing ageing assets with a full replacement approach that is more cost efficient than continued reactive maintenance, reducing the need for repeated repairs, emergency interventions and unplanned outages. This shift improves whole life value and limits future bill volatility. Alongside this, the new site with modern treatment capabilities will mitigate the currently escalating risks of pollution and environmental harm.	
South Water	West	Asset health – Wastewater Treatment Works	Helston Wastewater Treatment Works	6.6
			The proposed funding will deliver a targeted asset replacement by demolishing and decommissioning trickle filters, and constructing a new modern equivalent treatment stream, with the existing trickle filters taken out of service and abandoned. This targeted replacement will deliver immediate benefits by restoring robust secondary treatment and strengthening confidence in stable permitted performance and water quality protection, while improving resilience to asset failure and reducing the likelihood of unplanned outages and operational risk events, it also improves health and safety outcomes and reduces ongoing operator intervention requirements.	
South Water	West	Asset health – sewers	Gravity sewer condition inspections – multiple sites	1.5
			Delivering 120km of gravity sewer CCTV condition inspections that provides a representative sample of the wider gravity sewer network, in line with Ofwat's sewer condition data request. Delivery will be within AMP8 and reported as a defined output (km surveyed) to support Ofwat's sewer condition data request. The programme will provide a statistically robust, unbiased condition dataset that improves understanding of gravity sewer health, strengthens and validates deterioration modelling, and supports efficient targeting of future rehabilitation and capital maintenance.	
South Water	West	Asset health – sewers	Gravity sewers refurbishment – multiple sites	60.7
			The proposed funding will enable a step-change in gravity sewer rehabilitation during AMP8 to address deteriorating structural condition and increasing service risk that cannot be mitigated through existing PR24 base expenditure allowances. The rehabilitation programme will reduce the risk of pollution incidents, support delivery of storm overflow spill reductions, lower the likelihood of external flooding, and improve resilience to asset failure, thereby reducing operational risk events. Primarily, the investment moves us to a more long-term stable sewer rehabilitation level, which can run alongside our already increased investment in operational measures that manage service performance.	
South Water	West	Asset health – sewers	Fowey Estuary pipework	11.7
			This solution encompasses a refurbishment of the Fowey foreshore gravity sewer collector system and associated lateral connections in a coastal, tidally influenced saline environment. The scope includes replacement of c. 1,000m of foreshore gravity sewer pipework, renewal of up to 15 submerged manhole/connection structures and refurbishment of 38 connection points serving 52 properties, including bespoke sealed covers and anti-flotation measures.	

Region		Category	Site	Description	£m
				The refurbishment will reduce saline ingress and associated impacts on downstream pumping and treatment, improve operational resilience and storage effectiveness during high tide periods, and materially reduce the risk of uncontained failures (pollution, and environmental harm) in a sensitive coastal setting.	
South Water	West	Asset health – sewers	Salcombe Estuary pipework	The investment need at Salcombe is similar to Fowey and our scope of works includes for the replacement of 1,245m of foreshore gravity sewer pipework, renewal of 7 submerged manholes/connection structures, and refurbishment of 14 connection points serving properties along the estuary frontage, including bespoke sealed covers and anti-flotation measures. Due to the extremely challenging delivery conditions in the foreshore environment, we believe further planning and scheduling is required before we can commit to an accurate and efficient cost for the project.	N/A
South Water	West	Asset health – sewers	Newton Ferrers Estuary pipework	The investment need at Newton Ferrers is similar to Fowey and our scope of works includes for the replacement of 2,297m of foreshore gravity sewer pipework, renewal of up to 46 submerged manhole/connection structures, and refurbishment of 27 connection points to existing properties, including bespoke sealed covers and extensive anti-flotation measures. Due to the extremely challenging delivery conditions in the foreshore environment, we believe further planning and scheduling is required before we can commit to an accurate and efficient cost for the project.	N/A
SES Water		Asset health – water network storage	Kenley Water Treatment Works	The proposed solution for the water network storage assets at Kenley Water Treatment Works is to replace the ageing contact tank and treated water tanks with new assets constructed in place. This forms part of a wider programme of asset replacement to address deteriorating asset condition, emerging compliance risk and resilience shortfalls funded from existing base allowances. This targeted replacement will deliver immediate benefits by strengthening drinking water quality risk control and resilience to asset failure, reducing the likelihood of unplanned outages and wider operational risk events that can arise from operating constrained or failing treatment assets.	11.6
Bristol Water		Asset health – water network storage	Littleton Water Treatment Works	The proposed funding includes water network storage assets covering raw water holding tanks upstream of treatment and the treated water tank downstream of disinfection, which are critical resilience points for buffering demand and maintaining continuous, stable supply and water quality protection prior to distribution. This forms part of a wider programme of asset replacement to address deteriorating asset condition, emerging compliance risk and resilience shortfalls funded from existing base allowances. This replaces assets where logs have recorded repeated short-term mitigations cannot address the underlying loss of structural integrity or long-term watertightness.	5.3

Region	Category	Site	Description	£m
Bristol Water	Asset health – water network storage	Stowey Water Treatment Works	The proposed funding will deliver a targeted asset replacement to address evidenced deterioration and associated integrity risk with the site's clean water tanks. The new tanks will be constructed following demolition of the existing rapid gravity filter and storage assets and will be located within the same footprint. This targeted approach addresses the underlying causes of escalating reactive maintenance costs, which currently provide limited whole-life value. Delivering the new tanks in place of the redundant rapid gravity filter system ensures there is no increase in the overall site footprint.	3.2
Bristol Water	Asset health – water network storage	Barrow Water Treatment Works	Funding to replace the existing Barrow chlorine contact tank (compartments A & B) and associated inlet/outlet arrangements due to worsening inter-compartment leakage, defects in the combined outlet chamber, and corroded/leaking penstocks that prevent effective isolation. The solution reduces leakage/defect risks that could compromise disinfection/contact performance and lowers the likelihood of unplanned outages in a constrained system where extended outages are not feasible and resilience is limited.	18.2
South West Water – Bournemouth Water	Asset health – water network storage	Alderney Reservoir	The proposed funding covers reconstruction of Alderney Reservoir 3, a covered treated-water service reservoir constructed in the early 1900s, to address deteriorating condition, water quality risk and resilience shortfalls. The scope includes demolition of the existing reservoir, construction of a new dual cell 40ML reservoir, construction of an intermediate pumping station, and associated pipework. The reconstruction will improve drinking water quality compliance by reducing contamination pathways associated with structural deterioration and ingress risk, and strengthen resilience of treated water storage supporting supply security.	36.0
South West Water	Asset health – water network storage	Houndall Service Reservoir	This solution encompasses demolishing the existing Houndall service reservoir (capacity 20.46ML, constructed 1960) and constructing a new smaller covered reservoir (10–15ML, two cells) with new inlet/outlet pipework, valves and mechanical, electrical, instrumentation, control, automation to address structural deterioration, water ingress/cracking and associated water quality and resilience risks. The solution will reduce water quality risk arising from widespread structural defects and improve security of supply resilience for c.80,000 customers in the Plympton/Plymstock area, by restoring reliable treated-water storage and reducing the likelihood of unplanned outages and operational failures.	11.2
South West Water	Growth	Newquay	The proposed solution involves the construction of a new oxidation ditch to provide permanent additional biological treatment capacity, alongside enhancements to the anoxic zones to improve process performance.	10.3

Region	Category	Site	Description	£m
			Additional primary and final settlement capacity will be delivered to support increased flows and loading, supported by the replacement and upgrading of aeration blowers to ensure robust and energy-efficient operation. The scheme also includes replacement of the final effluent UV disinfection system to maintain environmental protection standards. Taken together, these interventions provide sufficient capacity and process stability to manage extreme seasonal and event driven peak loads within the design envelope, and protect sensitive coastal receiving waters.	
South West Water	Cyber	Multiple sites	The proposal will apply identical security measures that we are implementing at our drinking water treatment sites to our critical wastewater treatment sites. By installing appropriate hardware solutions to segment the network' reduces the exposure to a cyber-attack and prevents malicious software such as ransomware spreading between operational sites.	12.5
Total 2026 Cost Change submission				250.9

In summary by company this amounts to investment of:

Table 4: Investment summary by Pennon region

	2027/28 £m	2028/29 £m	2029/30 £m	Total £m	In period revenue £m	Revenue Change 2027-30 p.a.	End of period RCV £m
South West Water - water	10.1	47.4	13.2	70.7	9.6	0.9%	66.5
South West Water - wastewater	34.5	54.9	30.6	119.9	22.6	1.7%	106.5
Bristol Water	17.4	21.7	9.5	48.6	7.4	2.8%	45.3
SES Water	2.0	1.2	8.5	11.6	1.1	0.4%	11.1
Total	63.9	125.2	61.8	250.9	40.7	1.4%	229.4

Further details of the above cases are set out in the Level 2 documents, and supporting Level 3 technical business cases.

In total, the proposed cost change represents a 5.1% increase on the costs allowed as part of the 2024 price review final determinations. This is a significant, but manageable, increase to our delivery programme.

Development of future submissions

We welcome Ofwat's cost change process. It enables investment to be made close to the point of new needs being identified, rather than having to wait until the next price review. This helps smooth delivery and bill profiles, which is beneficial for our customers. It provides a structured process for considering more investment for areas of priority for both customers and stakeholders. The cost change process is an important development to deal with uncertainty at PR24, and we welcome Ofwat's approach to also allowing acceleration of asset health as condition and data information is collected, and to support economic growth.

For asset health, we have focused on the condition assessment of the assets at specific priority sites where there is sufficient need evidence and options available to meet the cost change criteria. This focuses less on the cohort asset types and reflects that overall our PR24 plan included sufficient capital maintenance investment but recognised that there was likely to be a bigger step change in the future as assets aged further and the external pressure on their resilience increased. We will continue to undertake surveys and the industry data share on the 2026 and future priority asset health categories and this will shape our overall AMP8 cost change programme.

We intend to make a further submission in 2027 on other emerging areas, and will share with Ofwat in due course once we have further developed the supporting evidence base. We have considered carefully areas of investment that could emerge outside of the cost change process, but we currently do not have any areas of additional investment that are likely to emerge ahead of PR29 planning processes that we would not consider through this process. Our customer research anticipated a potential total AMP8 programme of similar size to our 2026 submission in 2027.

We set out below our emerging thinking for what could potentially be included in this submission, and note that we will tailor our submission to reflect Ofwat's decisions on "priority assets".

Major programmes (>£50 million)

Biobeads – Biobeads are plastic biomedias used at some wastewater treatment works. They are small (3-5 mm) plastic pellets that provide a high surface area for bacteria to break down sewage in space-constrained plants. However, they pose risks if they leak into the environment (as seen with Southern Water's spill at Camber Sands in 2025). All companies want to phase out the use of biobeads, and we are committed to doing so as these assets reach the end of their asset lives. There may be opportunities to make broader replacements of assets to address the biobeads issue sooner, and reduce the risk they pose to the environment.

Water storage – Our 2026 cost change submission includes some water storage schemes. We are currently assessing our asset base to consider whether further schemes should be included in a 2027 submission. Our current view is that there could be material benefits from accelerating further expenditure to this control period. This could include investment in pipelines, pumping stations, service reservoirs, water towers, and other assets that would strengthen system resilience.

Significant programmes (>£10 million)

Settlement tanks / Gravity sewers / Rapid gravity filters / Trickle filters / Activated sludge – Our 2026 cost change submission includes some schemes relating to these categories. We are currently assessing our asset base to consider whether further schemes should be included in a 2027 submission. Our current view is that there could be material benefits from accelerating further expenditure to this control period.

Foreshore sewers are a particular priority for us. These assets are located in extremely challenging tidally influenced environments which is accelerating their deterioration compared to similar assets laid in more normal conditions. Our 2026 submission for foreshore sewers in Fowey demonstrates these challenges and the risks of continuing with routine maintenance. We have identified two other locations with similar risks and challenges in Salcombe and Newton Ferrers – however, we have only included these for needs assessment rather than as a funding request. This is to allow additional time for more extensive planning and costing.

Further priority asset health areas – Ofwat are consulting with companies on the next tranche of priority asset categories and this is likely to influence our 2027 submission. Rising mains and sewer pumping stations are sewerage asset categories alongside inlet works and further Wastewater Treatment Works asset types that are likely to be priority areas that matter to our customers and stakeholders, particularly in areas of growth pressure. We will review all asset types and building on this submission targeting effective and efficient investment across different cost change categories as this is likely to be the best use of additional investment.

Moving bed bioreactors / Network pumping stations / Boreholes / Portable water mains – We are currently exploring whether there would be benefits in accelerating expenditure across these asset classes to deliver benefits early, and further support with smoothing bill and delivery profiles. We will confirm whether we intend to make a further mid-period cost change submission next year.

Cyber security – Our 2026 cost change submission includes expenditure to improve cyber security on our main strategic treatment works. In all likelihood, these will be included in any impending legislation, which is likely to be confirmed before the 2026 cost change process is concluded. But it is probable that such legislation could go further and include requirements on additional sites. Should this be the case, we could seek a further cost change allowance to deliver against such requirements.

Growth – Our 2026 cost change submission includes a specific growth scheme (Newquay). We are currently seeing unexpected growth in a number of other locations. The new towns in Plymouth and East Devon are sites that have emerged in Government economic growth planning since PR24 and the phasing will be clarified by 2027. We are in the process of exploring whether these can be best managed through existing plans, or whether there would be benefit from different, larger scale solutions.

“Newquay is absolutely massive now. I mean, there’s just houses as far as you could see. And if they’re going to make more, they really do need investment because it’s utterly unrecognisable already.”

South West Water customer view on growth investment in Newquay

Supporting our customers

Affordability for all

We remain strongly committed to delivering essential improvements in water and wastewater services while placing affordability at the centre of all decision-making. The company has developed a robust approach that balances the need for significant investment in infrastructure, environmental protection, and service resilience with measures designed to keep bills manageable for households and businesses across the regions served.

Our extensive PR24 engagement with customers and stakeholders has informed this balanced strategy. Feedback from more than 250,000 customers, including direct input from around 30,000 on the 2025-2030 plans, highlighted clear priorities: cleaner rivers and seas, reduced pollution and storm overflows, reliable drinking water, lower leakage, and greater resilience to climate challenges. At the same time, many participants expressed concerns about the cost-of-living pressures. South West Water has responded by prioritising investment where it delivers the greatest value, phasing delivery to focus on urgent needs first, and embedding efficiency and customer support throughout the planning process.

A comprehensive affordability package forms a cornerstone of the strategy. We have committed to an extensive support framework valued at over £200 million across the period, aimed at helping those who need it most and advancing the ambition of eliminating water poverty. This includes expanding access to discounted and social tariffs, with the number of customers benefiting expected to more than double compared to earlier levels, reaching over 100,000 by 2030. Additional elements cover debt support, flexible payment options, payment breaks, water efficiency advice, and proactive auto-enrolment onto assistance schemes. The Priority Services Register is being strengthened, with a target to register 25% of households by 2030, ensuring vulnerable customers receive tailored help and faster responses. Inclusive service standards, including achievement of relevant kitemarks and improved accessibility, further demonstrate the commitment to equitable support.

Smart metering rollout is accelerating as a practical tool for affordability and efficiency. Plans include installing up to 500,000 smart meters by 2030, with all new meters being smart from 2025 onward. This technology provides customers with better visibility and control over usage, supports faster leak detection, and contributes to targeted water savings of around 5% in participating households. Complementary campaigns such as Stop the Drop and Save Every Drop have already shown positive results in reducing consumption and helping manage bills.



Innovative tariff development is another important strand. Trials of fairer charging arrangements are underway to reflect seasonal demands, particularly in tourist areas, encourage efficient use, and ensure those who use more during peak periods contribute appropriately. Options under consideration include environmental tariffs with winter discounts or summer adjustments, rebalanced wastewater charges, and greater customer choice. These measures align with the principle that fairness means paying for what is used, while rewarding careful consumption.

Initial indications from these trials are that they support consumption reductions in high users and for lower volumes users (excluding social tariff customers who are not included in the trials) consumption may increase which may reflect an improvement in affordability.

WaterShare+ continues to empower customers by giving them a direct stake and voice in the business. Currently around 90,000 households (approximately one in 14) participate, with an ambition to grow this to one in 10 by 2030. The scheme has already shared significant value with customers through bill reductions or equivalent benefits, and further outperformance sharing is forecast. An independent Customer Advisory Panel provides robust challenge and oversight, helping ensure decisions remain aligned with customer interests and promoting transparency on performance, costs, and dividends.

To develop the cost change proposals we have drawn on extensive existing customer evidence and supplemented this with new customer engagement, in line with *Involving Customers in Decision Making*. Customers were actively involved in testing the need for investment, the balance between risk and outcomes, value for money and timing. Their feedback has directly informed our decisions on scope, phasing and prioritisation.

Our PR24 research shows strong recognition of the need for investment, with over 90% acknowledging the importance of environmental improvements and 74% finding the overall PR24 plan acceptable. Notably, 78% of participants indicated a preference for bill increases to begin earlier rather than deferring costs to future generations, reflecting a mature understanding of intergenerational fairness. Support remains high even among those who have faced bill difficulties in the past.

Our cost change research indicates that customer support is conditional on strong accountability, with clear expectations that protections are in place if commitments are not delivered and customers are not asked to pay twice for the same outcomes. Customers expressed support for performance-based mechanisms, including price control deliverables, to strengthen accountability and build trust. Our approach to assurance and incentives demonstrates that customer perspectives have been embedded in both our investment choices and delivery commitments.

Stakeholder engagement has been undertaken on an early and iterative basis to inform the development of the 2026 cost change submission, including three dedicated sessions with the WaterShare+ Panel (our independent advisory group who represent customers) to test the emerging scope, funding approach and customer impacts and customer research approach and findings ahead of submission. We discussed our approach with the Consumer Council for Water with the same presentations for its awareness.

Engagement has focused on explaining the rationale for accelerated investment, the prioritisation of asset health, growth and emerging obligations, and the implications for bills and deliverability, recognising the compressed timetable and evolving evidence base. Stakeholders acknowledged the need for timely intervention to address asset risk and future pressures but consistently emphasised the importance of affordability, bill smoothing and clear justification for in period funding. Their feedback has directly informed the submission approach, reinforcing the focus on discrete, deliverable schemes, the use of phased investment to avoid future bill shocks, and the need for proportionate, targeted customer research and clear communications to maintain customer and political confidence.

We are proud of the progress made in keeping bills affordable to date, including periods of below-inflation increases and targeted assistance that has already benefited over 100,000 customers.

This affordability-focused approach provides a solid foundation for the new investment areas and business cases set out in this submission. Those cases detail specific investments and their associated costs, allowing stakeholders and regulators to see how additional proposals can be integrated while maintaining a disciplined focus on efficiency, value for money, and customer support. Any new investment will be assessed against the same principles: delivering outcomes that matter most to customers, driving further efficiencies where possible, and ensuring that affordability measures continue to protect those in greatest need.

By combining ambitious service and environmental improvements with a strong package of efficiencies, smart technology, innovative tariffs, expanded support, and customer participation through WaterShare+, we are confident in our ability to deliver positive outcomes for the region. The company looks forward to ongoing dialogue with regulators, stakeholders, and customers as these plans evolve and new business cases are developed. Together, this collaborative approach will help secure resilient, high-quality services that remain affordable and sustainable for current and future generations.

Part of the commitments we made following the “outstanding” assessment of the South West Water business plan was the establishment of two new funds – a £2.5m new hardship fund and a £2.5m community fund, which has been launched as the “Better Futures” Fund. In addition to this the £19m of existing tariff support over AMP8 remains in place.

Customer research findings

Our customer research for cost change indicated that customers did not see a particular affordability challenge with the AMP8 investment, beyond the support we already provide, although this was on the basis of a smoother change in bills over time which in itself supports long term affordability.

Our approach to customer research is set out in Customer Research Technical Appendix.

We considered our existing customer research that we had undertaken at PR24. This emphasised that customers were willing to accept bill increases for the PR24 programme as long as the investment delivered improvements that mattered to them and the local area. This included prioritising bathing water storm overflow schemes and long term public health investment in water quality, such as the replacement of lead pipes.



We used four focus groups (covering the South West, Bournemouth, Bristol and SES areas) to explore whether this PR24 finding still applied, in the specific cost change context of an in-period bill increase and for the specific areas of investment we were targeting. This research considered both the 2026 priority asset health areas and our provisional view of what a whole AMP8 cost change process may include. We tested customer support for the schemes, as well as whether there was a preference for investment timing and the principle of in-period allowing a smoother change in bills leading into 2030.

“Sewers in tidal areas, is probably the one that resonates most with people in the southwest. We can see flooding as an obvious problem and sea levels rising. So, to me, the £1.19 is probably a justifiable cost and it's quite affordable.”

South West Water customer view on investment in foreshore sewers

There was broad support from customers for the cost change process:

- Customers overwhelmingly support the notion that the plans should be flexible, reflecting the view that circumstances, external factors, and public expectations can change over time.
- When introduced to the process, it initially raises concerns for customers about the extent bills could change. Customers want flexibility to stay within reason and controls on how much extra spending could flow through to bills.
- Customers generally prefer investment now, particularly where it supports smoothing out bill changes over time.

We looked at the three types of investment that water companies could include in the cost change proposal:

- **Asset health** – Customers believe that this is an important area for investment. They linked it through to improving water quality and reducing leakage. South West Water customers also thought it was a good area for investment in sewage treatment and protecting the environment. Customers were supportive of changing the PR24 plan to invest more in this area as they want to see proactive asset management. Some customers challenged whether they have already funded this in past bills, whereas other customers considered the investment as an opportunity to save money over the long term. Individual customers also identified specific issues such as sewer overflows, lead pipes and rural areas based on their own experience or priorities.
- **Growth investments** – Customers recognise that more homes and businesses will result in greater water demands and want to see investment to ensure the infrastructure can support the growth. However, they question whether this is something that cannot be accurately forecasted at the beginning of the plan. They also question whether it should be funded by investments from customer bills, believing that developers should fund the necessary increases in infrastructure and that the growth will also bring more revenue to water companies through a greater customer base. Generally growth is funded by new developers, and in our submission it is a specific area impact which customers generally do support (Newquay) as no-one wants bad publicity about the capacity of water and wastewater systems in their area, particularly where it affects jobs – there is pride and respect for the areas where people live in Devon & Cornwall.
- **Cyber** – Customers recognised that cyber security is an important area. They particularly focused on protecting their personal data, with recent examples from the press e.g. Marks and Spencer's mentioned. Whilst it is seen as important, this limited appreciation of the issue led some customers to question the necessity of further spending.

Views were tested on the specific scheme proposals and the results of this research that aligns to the overall themes is provided as supporting evidence. Overall, there was broad support from customers for the cost change process, the proposed investments and an associated in-period bill increase. This research aligns with previous customer research.

Customer protections

Ofwat's Price Control Deliverable framework provides protection to customers, whereby if the projects are not delivered, the associated funding is returned to customers.

We are proposing non-delivery Price Control Deliverables across all areas of our proposed cost change submission where we are provided additional allowances. This aligns with customers expecting strong accountability and protections to be in place.

In developing our Price Control Deliverable proposals we have considered a range of factors:

- Whether Price Control Deliverables fully protect customers from non-delivery of investments;
- Whether there is a read-across to Price Control Deliverables based on similar assets or investments from Ofwat's PR24 FD;
- Whether the Price Control Deliverable links to appropriate cost-drivers to support cost reflective payment rates;
- Whether the complexity of the output warrant using different unit rates for different schemes;
- Whether there is any overlap with PR24 performance commitments;
- Whether the Price Control Deliverable needs to distinguish between separate replacement / refurbishment activities on the same assets;
- To what extent a supervisory approach would be more appropriate than applying Price Control Deliverables mechanistically; and
- Whether Price Control Deliverables are appropriately measurable, reportable and can be assured, with delivery clearly evidenced.

For the purposes of our cost change submission we are not proposing any time incentive Price Control Deliverables. The proposed schemes are to be delivered in the short term, and so there is limited scope for delivering early. In addition, the majority of our investments are single schemes, as opposed to broader programmes (which is where Ofwat focused the time-based incentives at PR24). In response to Ofwat's consultation on the cost change process we previously set out that Price Control Deliverables should only be subject to non-delivery payments.

We have taken into consideration the implicit allowance calculations in the construct of our cost change request and submissions in that the requested funding is for the net additional allowance. Our Price Control Deliverable proposals below reflect the same principle, that the Price Control Deliverable clawback for this cost change submission only applies to the additional allowance sought. We consider that it would not be appropriate to apply base Price Control Deliverables to the implicit base allowance across asset classes in-period. For our final submission, no implicit allowance deduction from the gross cost change request was required for the schemes we are proposing.

We have considered overlap between Performance Commitments and Price Control Deliverables. For this cost change process, given that these investments are replacements that are due to be delivered at the end of the period, there is unlikely to be a material impact on any Performance Commitments in this control period. There may be some minor performance impacts from the sewer refurbishment programme – for further details, see the technical business case. However, we consider these to be relatively minor and carrying material uncertainty. As such, we have not proposed any changes to performance commitment levels, instead, seeking to protect customers through the price control deliverable mechanism.

We considered a range of options for the unit to be used to measure each Price Control Deliverable. We have set these options out including the rationale for why we have chosen our preferred option (in bold) in the table below.

“Better to ‘get on with it now’ as the later it’s left the more work it will be.”

Bristol Water customer view on water treatment work targeted asset health investment

Table 5: Price Control Deliverable options summary

PCD and asset covered	Options considered including preferred option and rationale
Rapid gravity filters	1. Scheme level allowance (£m) – Provides least amount of customer protection as no measurable output and no cost efficiency incentive for Pennon. 2. Number of filters replaced (Nr) – Does not scale effectively with cost and risk. 3. Treatment Volume (ML/d) – This measure scales appropriately with cost and risk with a defined, recognised and easily measurable output.
Service reservoirs	1. Scheme level allowance (£m) – Provides least amount of customer protection as no measurable output and no cost efficiency incentive for Pennon. 2. Number of assets replaced (Nr) – Does not scale effectively with cost and risk. 3. Storage volume replaced (ML) – This measure scales appropriately with cost and risk with a defined, recognised and easily measurable output. Ofwat also used a volume delivered approach for its Sludge Storage (tanks) Price Control Deliverable at PR24.
Activated sludge plants and replacement of WWTW	1. Scheme level allowance (£m) – Provides least amount of customer protection as no measurable output and no cost efficiency incentive for Pennon. 2. Peak flow capacity delivered (m³/d) – Sum of design / as-built storage flow capacity replaced and in operational use – scales appropriately and takes into consideration any changing of technology use from trickle filters to Activated Sludge Plant or similar modern equivalent technology.
Gravity sewers – rehabilitated (Fowey sewer)	1. Lateral connections (Nr) 2. Manholes renewed (Nr) 3. Length of gravity sewer rehabilitated (km) 4. Pennon need to retain some degree of flexibility in the scope of the interventions to rehabilitate the parts of the Fowey gravity sewer or connection nodes that are experiencing significant infiltration and/or deterioration. As it could be that after further investigations, some parts of the sewer require an alternative intervention e.g. replace or additional sealing/lining. If the Price Control Deliverable solely focussed on the option in 1,2 and 3, it would create a perverse incentive to rehabilitate parts of the sewer that do not require intervention. 5. Scheme level allowance (£m) – Considering the unique complexity of delivering the Fowey foreshore scheme this does not lend itself to a Price Control Deliverable with a singular cost driver. This would follow the same approach as for network reinforcement PCDs that Ofwat introduced at PR24.
Gravity sewers - refurbishment	1. Area of gravity sewer refurbished (km²) – Adds an unnecessary layer of complexity to calculate output. 2. Complexity of delivery weighted against length of sewers replaced/refurbished – Adds an unnecessary layer of complexity to calculate output. 3. Length of gravity sewer refurbished (km) – following precedent from PR24 where Ofwat used a length of mains sewer approach for the Sewer Pumping Station Mains Renewal Price Control Deliverable.
Gravity sewers - inspections	1. Length of gravity sewer inspected (km) – we have not considered any alternative options for this Price Control Deliverable.
STW Growth	1. Additional population equivalent (PE) treatment capacity delivered (P.E). Incremental PE capacity from new permanent treatment assets – this follows Ofwat precedent at PR24.

1. Approval of delivery of agreed scope with the Drinking Water Inspectorate or other relevant regulatory authority (£m value) – consistent with the approach for delivering our obligations for water treatment works NIS compliance. We would discuss the legal form that this would take with the Drinking Water Inspectorate akin to a formal notice as is the case for drinking water. For the cost change component this would focus on those schemes targeted to be delivered within AMP8.

Full details of our proposed Price Control Deliverables are set out in the Level 2 supporting documents.

Monitoring delivery

The water sector is in the process of moving to a supervisory model of regulation. This will likely involve the regulator working more closely with the water companies, and monitoring delivery on an ongoing basis.

We welcome collaborative working with all our key stakeholders and regulators. We would like to invite Ofwat to come and visit the sites set out in this submission to assess the facts on the ground, and to hear from the key stakeholder groups affected by the assets in question.

We would also like to offer delivery update meetings, where we can brief Ofwat on the progress of delivering our cost change projects along with agreed key PR24 projects.

“It is a priority... I think it's really more of an operational decision for them. They've got all the information, they know what they need to do.”

SES Water customer view on investment at Kenley Water Treatment Works



Delivery progress

Design and delivery risks have been explicitly considered as part of the AMP8 cost change deliverability assessment, with a structured review of risk themes covering programme uncertainty, cost and budget, supply chain, risk management and governance. Our assessment of deliverability recognises a number of inherent uncertainties associated with large scale asset health and refurbishment activity, including post PR24 cost pressures, scope finalisation during early AMP8, the technical complexity of brownfield sites, and cumulative programme demands arising from historic underinvestment and concurrent delivery commitments.

We have evidenced that delivery arrangements are actively evolving in response to these challenges. We are strengthening governance, controls and management arrangements as part of the transition into AMP8. These changes collectively provide an appropriate and increasing level of confidence in the organisation's ability to deliver the cost change programme. Key drivers of delivery risk are well understood across the portfolio, with a clear line of sight to the factors most likely to influence delivery outcomes as schemes progress through design and into construction.

While the maturity of scheme level risk documentation and mitigation planning varies, this reflects the programme's position in the AMP8 lifecycle rather than a lack of grip. Material risks are consistently identified and understood, and work is underway to further consolidate risk registers and integrate them into scheme specific controls, delivery plans and portfolio level oversight. This continued focus is strengthening consistency and enabling risk management to be increasingly forward looking and action oriented.

Confidence in delivering at scale is therefore supported by improving portfolio coordination, active supply chain engagement and the progressive embedding of Programme Management Office. As delivery arrangements bed in, mitigation planning is being refined, with increasing clarity around ownership, sequencing, capacity and contingency. Continued emphasis on robust delivery planning, early warning indicators and portfolio level control will further strengthen delivery confidence and provide assurance that AMP8 outcomes can be delivered to time, cost and regulatory expectations.

As a summary of key delivery risks and mitigations:

- **Portfolio integration and delivery control:** As AMP8 delivery scales, there is a risk that increasing portfolio complexity could place pressure on delivery outcomes if integration and coordination across schemes is not maintained at programme level. This is mitigated through a clearly defined AMP8 delivery framework, with Amplify (our major alliance with leading engineering companies) providing a consistent delivery route across the portfolio, supported by established governance, strengthening Programme Management Office oversight and the appointment of a Chief Asset Officer with accountability for portfolio-level integration and delivery control. Amplify-led coordination, combined with enhanced portfolio-level planning, reporting and assurance under the Chief Asset Officer's leadership, provides visibility of scheme status, interfaces and dependencies, enabling active sequencing and prioritisation as delivery ramps up. As AMP8 mobilisation continues, this integrated model provides confidence that scale and complexity are being managed in a controlled and structured way.
- **Supply-chain capacity and industry-wide constraints:** The AMP8 portfolio is being delivered within a constrained industry supply-chain environment, which could affect delivery timelines if capacity pressures are not effectively anticipated and coordinated across the portfolio. This risk is mitigated through the use of the Amplify alliance model, which provides early and ongoing engagement with Tier 1 and Tier 2 contractors, access to specialist capability, and a clear route to market. Portfolio-level visibility of delivery routes, anticipated workload and phasing through Amplify is further supported by strengthened central asset and delivery oversight under the newly appointed Chief Asset Officer, enabling more coordinated sequencing and demand management as delivery scales. Known industry-wide capacity constraints are well understood and are being actively managed through coordinated planning across the AMP8 portfolio.
- **Scheme maturity, scope evolution and cost refinement:** As schemes progress through design and approval, there is a risk that scope refinement and cost evolution, particularly for complex or refurbishment led assets, could affect delivery confidence if not managed in a controlled way. This risk is mitigated through strong asset-led justification, early optioneering and structured problem-statement handover into Amplify, providing continuity from concept through to delivery. Scope and cost evolution are actively managed through established governance and cost-change processes, with Amplify supporting progressive design development and challenge. The assessment demonstrates clear awareness of post-PR24 cost pressures and historic underinvestment, with mechanisms in place to manage change and align scheme maturity with delivery and funding expectations.
- **Governance, approvals and external dependencies:** Delivery at pace is dependent on the timely management of governance decisions, approvals and operational interfaces, which could affect progress if not coordinated effectively across the portfolio. This is mitigated through established internal governance arrangements, clear accountability between asset management and Amplify, and early engagement with key stakeholders and regulators where schemes involve compliance, environmental or operational sensitivities. Governance pathways, portfolio-level assurance and

decision clarity are being strengthened under the oversight of the Chief Asset Officer, supporting more consistent management of approvals and interfaces as schemes progress into delivery. Scheme-specific engagement and permissions planning is being progressed as part of AMP8 mobilisation, supported by improving documentation and increasing assurance readiness.

Stakeholder engagement

We have engaged relevant stakeholders across the business to confirm investment needs, inform option development and test early deliverability assumptions for the proposed investments, including input from asset management, operations, delivery partners and specialist suppliers.

External engagement has included discussions with the Environment Agency, the Drinking Water Inspectorate and relevant local authorities to identify consenting, permitting and operational interface requirements for schemes with compliance, environmental or operational sensitivities. We also engaged with the Consumer Council for Water on our cost change plans so they had the same information as our WaterShare+ Customer Advisory Panel.

Formal permissions and consents have generally not yet been sought or secured for investments in this cost change process which reflects the current stage of scheme development. We will progress scheme-specific regulatory engagement as scheme options and designs mature to confirm scope, manage deliverability risks and support timely regulatory approval.

Our overall approach to manage stakeholders to support delivery in AMP8 includes:

- Maintaining a scheme-level stakeholder plan for each proposal, setting out required permits/ or regulatory approvals, responsible owners and dates.
- Sequencing any appropriate external engagement to align with scheme delivery progress
- Tracking dependencies and risks through governance, with clear escalation routes where consenting timelines could constrain delivery.
- Maintaining evidence of engagement and decisions to support assurance and regulatory scrutiny as schemes move into delivery.

Supply chain engagement

Delivery of the proposed investments is being progressed within a wider water-industry context where supply-chain capacity is under pressure. The assessment evidence demonstrates early and ongoing engagement with delivery partners and specialist suppliers to inform feasibility, option development and deliverability. Established delivery routes, including alliance and delivery partner models, are being used across the portfolio, with engagement in several cases progressing to concept stage or problem-statement handover, supporting a clear understanding of delivery.

For all of our proposed investments, we have identified our likely delivery partners and each of these partners have been actively involved in the optioneering, scoping, scheduling and pricing of the schemes. In some cases we are proposing investments that sit alongside our enhancement programme which allows us to integrate the work such that the investments are delivered in parallel. Where this is occurring, we have identified and confirm the increased resourcing needs and their availability within the business cases.

Supply-chain capacity is recognised as a managed delivery consideration, with good visibility of market constraints and the scale, profile and sequencing of planned AMP8 activity. Intended delivery routes and areas of potential capacity pressure are well understood at portfolio level, enabling informed planning and early engagement. While scheme-specific confirmation of design and construction resources is still being finalised in some cases, this reflects the stage of scheme development rather than uncertainty over delivery strategy or market access.

Availability of materials and specialist resources is also recognised as an area of ongoing focus, particularly for refurbishment-led schemes and those with complex site conditions. The assessment demonstrates a clear understanding of where material or capability constraints may arise, with further scheme-level confirmation expected as designs mature and delivery assumptions are refined.

Overall delivery confidence is supported by a clear line of sight to industry-wide supply-chain pressures and how these are being coordinated and sequenced across the portfolio. Continued scheme-specific engagement will be used to confirm capacity assumptions, manage emerging constraints and, where required, put contingency or alternative delivery approaches in place, providing increasing assurance as AMP8 delivery arrangements are embedded.

“MWH understands the additional base investment needs and proposals at South West Water’s Stowey, Littleton and Kenley WTWs, having been closely engaged in the early design, planning and development of the Cost Change Request. We were instrumental in identifying the best-value opportunities and supporting the development of the associated business cases, while providing South West Water with confidence in the deliverability of the schemes. Delivery will be undertaken by our regional team, supported by identified and resourced delivery teams, with access to a national network of engineering specialists to provide additional capacity and capability as required to support SWW’s enhancement programmes.”

Comments from MWH Treatment, a member of our amplify alliance, on the development of our submission

“MMB have been working closely with South West Water throughout the recent Cost Change development process. Together, our teams have identified opportunities, shaped robust business cases, and built the confidence that these schemes are both viable and deliverable within the AMP8 period.”

Comments from Mott Macdonald Bentley, a member of our amplify alliance, on the development of our submission

2025-30 (AMP8) delivery

The AMP8 capital programme has been deliberately planned against a flatter delivery profile than previous AMP cycles. This reflects a clear business-planning objective to support efficient financial management, sustained delivery performance and reduced volatility across the period. Year-one delivery reflects the planned early-period prioritisation and sequencing of base expenditure, which has, by design, moderated the initial pace of enhancement delivery rather than indicating any limitations in pipeline visibility or supply-chain capability. Management evidence demonstrates active oversight of this transition, including unlocking work earlier where possible, bringing activities forward where feasible, and progressing elements of new programmes ahead of industry peers.

As the programme moves through mobilisation, the foundations for delivering a flattened profile are increasingly evident. The programme demonstrates clear intent, an established and visible pipeline, and improving delivery readiness as governance, scope definition and programme-level controls continue to embed. Residual delivery risk is primarily associated with the ongoing transition to a programme-led operating model and the maturation of scheme scope and approvals, rather than fundamental constraints on capacity or capability. Taken together, this provides a sound basis for delivery confidence to strengthen as AMP8 progresses.

Delivery programme

An outline delivery programme is in place for AMP8, setting out the anticipated delivery approach, timelines and sequencing for the proposed investments. Scheme-level delivery routes have been established, and delivery arrangements are strengthening, providing a clear foundation and growing confidence in the transition to AMP8 delivery.

Evidence shows that while scheme-level development is progressing, delivery programmes are at differing stages of integration at portfolio level. Programme-wide planning, Programme Management Office capacity and supporting controls are continuing to mature as part of AMP8 mobilisation. While this means that full visibility of resourcing, prioritisation and inter-scheme dependencies is still being consolidated in some areas, the constraints and interfaces across the portfolio are well understood and are being actively managed as delivery arrangements bed in.

As AMP8 delivery activity ramps up, confidence in the delivery programme will be supported by effective portfolio coordination, supply-chain sequencing and Programme Management Office operation to manage competing demands and delivery at scale. Continued development of integrated, resourced delivery programmes will strengthen control over inter-dependencies and provide increasing assurance that the AMP8 portfolio can be delivered to time, with managed reprofiling where required.

The pre-assurance delivery plan update tables which contain the latest update of delivery milestones and expenditure (actual and planned) will be submitted to Ofwat at the end of April as per the reporting cycle.

Financial impact

The overall financial impact of our proposals is modest, delivering necessary investment while keeping customer bills stable and affordable. In-period revenue increase avoids future sharp bill rises, and helps preserve our financial resilience.

Bill impact

Stakeholder engagement has consistently found that our customers value a smooth bill profile that avoids step-changes in revenue between regulatory periods, and our proposal seeks to achieve this by beginning to recover proposed investments during AMP8. Revenue collected in-period also reduces the whole-life cost to customers by avoiding the accumulation of financing costs associated with delayed recovery.

Our proposals would increase revenue by 2.42% by the end of AMP8 at South West Water and 0.98% at SES Water, which is modest and acceptable to our customers, and would lower any step-change adjustments to the Regulatory Capital Value in 2030, and smooth out changes in bills. Phasing in these increases over AMP8 is particularly important given the likelihood that investment requirements will remain high at PR29. Deferring the recovery of costs to the next regulatory period would exacerbate pressures on bills and/or constrain our ability to obtain customer support for necessary investments.

Table 6: Revenue increase with in-period revenues (£m, real)

	2026	2027	2028	2029	2030	Total
Revenue impact – SWB	–	–	3.946	14.027	21.670	39.644
Increase from base case – SWB	0.00%	0.00%	0.46%	1.60%	2.42%	
Revenue impact - SES	–	–	0.110	0.2240	0.744	1.094
Increase from base case - SES	0.00%	0.00%	0.14%	0.32%	0.98%	

Our customer research found that 78% of participants preferred bill increases to begin earlier, rather than being deferred to future generations. The preference for earlier cost recovery is consistent with the Social Discount Rate, which reflects society's valuation of present relative to future consumption. The UK real Social Discount Rate of 3.5%¹ is lower than the 4.20% cost of capital set out in the Competition and Markets Authority's PR24 Final Determination, with the result that deferring recovery would have a negative net present value for customers.

Ensuring an investable framework

Our ability to finance investments relies on regulatory processes that are seen as fair and balanced and on regulatory outcomes that allow investors to earn an adequate return.

As a listed company, our equity investors reassess our value every day, and maintaining access to equity capital depends on their confidence that we can achieve their cost of capital on our incremental investments. Similarly, our rating agencies and lenders expect that regulatory decisions will allow *timely* recovery of expenditure and a *fair return* on all investment², allowing efficient companies geared close to the notional level to achieve credit metrics consistent with a Baa1/BBB+ credit rating. At a minimum, this requires that returns are not deferred without compensation or set below the prevailing cost of capital.

Our final determination allowed return of 3.97% was based on Ofwat's view of the cost of capital in September 2024, and has little relationship to investors' current expectations. It also assumes that most debt was raised at the interest rates that were available in the past – whereas our incremental investments will be financed entirely with new debt raised at significantly higher rates.

¹ HM Treasury (2026), 'The Green Book', Para 6.54. "The discount rate used in the Green Book is known as the social time preference rate (STPR). It is set at 3.50% in real terms for years 1 to 30 of an appraisal."

² Moody's Ratings (2023), Rating Methodology: Regulated Water Utilities, "Cost and Investment Recovery (Sufficiency and Timeliness)" factor score, p.5

The Competition and Markets Authority's PR24 Final Determination provides a more recent and relevant benchmark than the Ofwat PR24 final determination as it has been updated for market movements, and we are therefore seeking a return of 4.20% in line with the Competition and Markets Authority's decision. This however does not take into account that the notional debt raise should be allowed at the new cost of debt. This is consistent with the equivalent of an Interim Determination of K (IDoK) process and is an assumption that maintains the PR24 risk and return balance. We show in the table below how this results in a 4.75% wholesale Weighted Average Cost of Capital as the appropriate return on the cost change investment.

Table 7: WACC assumptions

	Ofwat FD	CMA FD	Pennon cost change (IDoK consistent)
Gearing	55%	55%	55%
Cost of equity	5.10%	5.70%	5.70%
Cost of embedded debt	2.77%	2.38%	2.38%
Cost of new debt	3.74%	3.78%	3.78%
Additional borrowing costs	0.15%	0.20%	0.20%
Share of new debt	24%	28%	100%
Cost of debt	3.15%	2.97%	3.98%
Appointee WACC	4.03%	4.20%	4.75%
Retail margin adjustment	-0.06%	0.00%	0.00%
Wholesale WACC	3.97%	4.20%	4.75%

As a listed company with a conservative financial policy, we have publicly targeted our leverage close to the notional level. Our rights issue in January 2025 demonstrated our commitment to financing growth with an appropriate balance of debt and equity. We therefore ask that Ofwat make the same notional balance sheet assumptions, including the allowance for the cost of raising new equity (2.5%), as at PR24.

Financial analysis

An in-period revenue adjustment is important to maintain our financeability and investability on a notional basis. Even the relatively modest investment cases we are proposing today could have a material adverse effect on our notional credit metrics if recovery is deferred to end of period, and this would compound with the further submissions we expect in 2027.

Ofwat's final determination was calibrated to provide an adjusted interest cover ratio of 1.49x for South West Water and 1.74x for SES Water on a notionally financed basis by the end of the period, below the Baa1/BBB+ credit rating that Ofwat targets and we currently achieve. If we are required to absorb the proposed costs during AMP8, we calculate that South West Water's notional adjusted interest cover ratio would fall to 1.29x, creating a significant risk of credit rating downgrades. In the same scenario our SES Water notional adjusted interest cover ratio would fall to 1.56x, also below the Baa1 threshold and representing a significant erosion of headroom from the notional FD position. Even with our proposed in period funding, the notional AICR ratio stays below the threshold for Baa1, as did the PR24 FD.

Although we have assessed financeability on a notional basis, consistent with Ofwat's guidance, this is not a theoretical risk for us: despite our strong performance and conservative financial policy, our Baa1 rating from Moody's has a negative outlook, indicating elevated risk of a rating downgrade. Any adverse impact on cashflow or credit metrics could affect investors' willingness to fund projects and lead to materially higher financing costs.

Figure 3: Adjusted interest cover ratio – South West Water

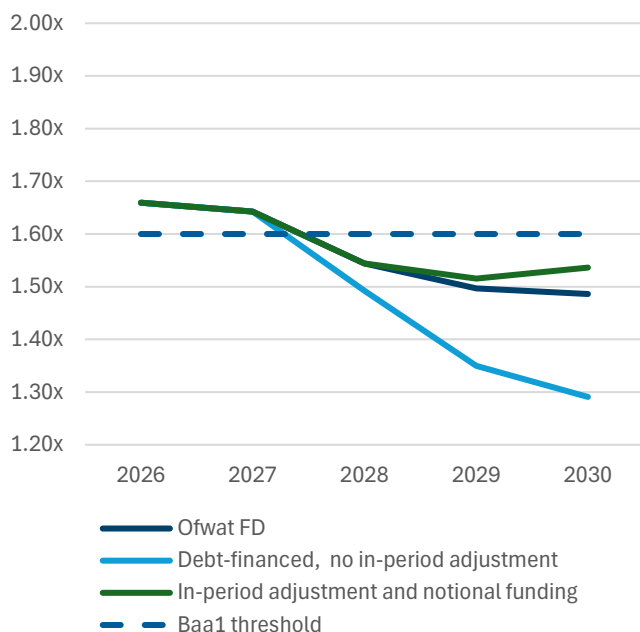
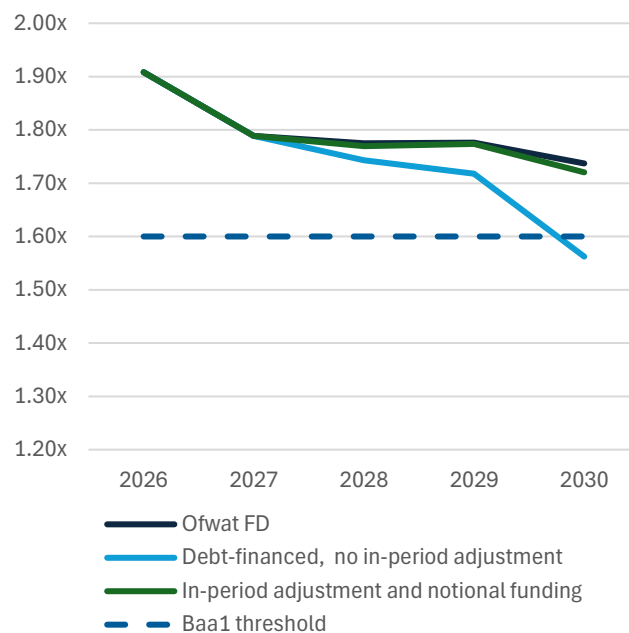


Figure 4: Adjusted interest cover ratio - SES Water



Our proposed solution of in-period revenues and support to raise new equity to leave the notional balance sheet in the range 55% to 57.5% post the new investment would allow us to maintain notional leverage and adjusted interest cover ratio close to levels set out in the final determination. This helps to retain the risk and return balance of our PR24 Final Determination.

In-period revenues are also preferable from a balance sheet management perspective. Timely revenue reduces working capital requirements and limits the build-up of financing deficits that would otherwise need to be funded through increased borrowing, increasing our (and ultimately customers') exposure to refinancing and interest rate risks. In-period revenues would preserve our financial resilience and the careful balance of risk and reward provided by Ofwat's Final Determination.

The erosion of headroom against credit rating thresholds as a result of cost change totex would leave us less able to respond flexibly to unforeseen risks and may ultimately require reactive or inefficient interventions. Such outcomes are unlikely to be in the long-term interests of customers, as they can increase costs, weaken financial resilience, and undermine our ability to deliver stable and sustainable services. In-period revenue recovery mitigates the extent of headroom erosion, resulting in better overall outcomes for customers.

Financial assumptions

We used a scheme-specific asset life to produce a run-off rate for this cohort of investment cases.

For gravity sewer refurbishment, where we historically included all base infrastructure maintenance investment within “fast money” Pay As You Go allowances, we considered that for this investment this should be limited to 10% of the scheme cost to reflect the survey and operational cleansing components, with the rest recovered over the 60-year asset life. For ease of modelling, we adjusted the Regulatory Capital Value run-off rate for the three years for wastewater to 7.62% rather than showing as a fast money element.

For other asset areas, we used the 4.2% PR24 Regulatory Capital Value run-off rate to maintain the risk and return balance, recognising that for civils there were demolition and associated mechanical, electrical, instrumentation, control, and automation equipment included in the cost estimates. This was confirmed as an appropriate assumption with the financial ratio analysis set out above. We have made the simplifying assumptions (consistent with Green Recovery and 2024/25 accelerated investment) that there are no Real Price Effects and no efficiency frontier shift applied to the cost change elements. This is consistent with the separate Price Control Deliverables and we assume standard cost sharing rates are applied to cost change expenditure. We consider the standard cost sharing rates at Ofwat’s PR24 Final Determination can be used as the proposed Price Control Deliverables to provide appropriate customer protection.

The exception to using standard cost sharing rates may be for the foreshore sewer investment as this is a marine environment where there is a wider range of costs than for other areas of investment. One option we could consider with Ofwat is to use a narrower cost sharing rate which would provide customers with more protection from cost overruns but would also provide community and local authority incentives to lower delivery costs (e.g. access requirements). This could mean a 10:10 sharing rate for outperformance : underperformance may be appropriate for foreshore sewers, with enhanced cost monitoring to build information on cost risks as these schemes deliver. Our logic is supported by the location: these are steep gradient locations where a replacement sewer through the streets would have a significant technical and community cost.

We need to ensure that our cost and delivery plans align with our financing strategy for this additional investment. We welcome the opportunity to discuss our submission, building on the engagement we have had during this process. It is important that we get the balance of measures right in order to support the investment proposition – our customer research emphasises how trust in this process and our delivery need to be in-step.

We will need to consider the timing, scope and scale of projects in response to Ofwat’s feedback and consider that the technical needs cases and options are sufficiently strong enough to support this process. Ultimately, we consider schemes should only proceed through this process in 2026 if delivery and financing proposals remain aligned through the decision-making process.

We have used the PR24 Final Determination appointed revenue in forecast nominal prices for 2025/26 for the purposes of the 2% materiality threshold test for in-period revenue due to the timing of the submission, noting that this should be updated to actual following completion of our Annual Performance Reporting.

Redactions

We plan to publish customer and investor summaries of our cost change approach. These will summarise information in this main case summary and therefore does not form part of this submission. We will provide links to Ofwat for information, once published.

This main cost change submission will not require any redaction for publication by Ofwat alongside the draft decision consultation. The technical cases for the cyber security case should be fully redacted from the published documents. The other technical cases and cost benchmarking document will require significant redaction as they include both specific site details and third-party cost benchmarking information and the technical and site-specific nature of the information means that only the two-page summaries at the start of the document, alongside this main submission, should be published.

Board Assurance Statement

The Board of South West Water (for South West, Bristol and Bournemouth investments) and the Board of SES Water (for SES Water investments) confirms that it:

- has been engaged in the development of the cost change submission and has received reports from the Executive and an overview of the findings of the independent assurance process
- is satisfied that the cost change investments are the right plan for right now
- has received information on the justification for the proposals and their deliverability
- supports the asset cases proposed, including the cost and customer protection mechanisms proposed
- considers that the Company's submission is financeable on the basis of a notional capital structure and using scenarios, which include the Company's actual capital structure
- has appropriately considered the affordability of the proposals
- confirms it is compliant in all material aspects with the undertakings given by Pennon Group Plc to the Competition and Markets Authority prior to the merger of Bristol Water and South West Water licences and also following the acquisition of Sutton & East Surrey Water.

David Sproul

Chair, Pennon Group

On behalf of the Board of South West Water and the Board of SES Water, following approval by the Boards on 1 May 2026.

