



DRIVING LASTING CHANGE

SEVERN TRENT BUSINESS PLAN: 2025-30

MAIN PLAN

WONDERFUL ON TAP



Cover page: Creating floating wetlands to support lower carbon water treatment at our under construction Witches Oak treatment works.

This page: We are making over £2 billion of enhancement investment in the health of our rivers over the next five years.





WELCOME TO OUR BUSINESS PLAN FOR 2025-30

This is Severn Trent's business plan for 2025-30 which covers Asset Management Plan period 8 (AMP8). It explains the progress we will make over the next five years towards the 2050 aims we set out in our accompanying Long Term Delivery Strategy.

ABOUT US AND THE REGION WE SERVE

We provide essential services to over 4.6 million households and businesses in a region stretching across the heart of the UK, from the Bristol Channel to the Humber and from Shropshire to the East Midlands.

We serve a diverse range of customers with different cultures, interests and experiences. Our region includes some of the most affluent areas of the country as well as some of the most deprived. There are more urban conurbations than any other water company's region, yet we also serve predominantly rural counties and communities. It is a region which is characterised by, and benefits from, its diversity.

Severn Trent Water Limited is part of the Severn Trent Plc group. Listed on the London Stock Exchange, we are committed to upholding the highest standards of governance. We believe in transparent reporting about our performance, and decision making that considers the interests of all our stakeholders.

THIS FIVE YEAR PLAN COMES AT A CHALLENGING TIME:

- there are compelling reasons to increase investment to protect the environment and ensure our service remains resilient in the face of challenges, including climate change;
- our customers are feeling the effects of a period of economic uncertainty and cost of living pressures; and
- the sector's credibility is at risk, with research showing trust in water companies is falling.

Our plan aims to navigate these challenges and will help us play our part in rebuilding our sector's reputation. It is ambitious, but importantly, it is also designed to be financeable, deliverable and affordable.

We know that our customers must be able to see tangible benefits from what we propose to do. So our plan starts with the change customers will see, and how their money will be spent...





HOW DO WE MAKE SURE THAT YOU CAN DEPEND ON A HIGH QUALITY AND RELIABLE, SUSTAINABLE AND AFFORDABLE SERVICE?

Our world is changing faster than ever before. New technologies, climate change, and shifts in demographics, societal expectations and the economy, create both challenges and opportunities. At the same time, we want the essential service we provide to remain a constant in your lives – something you can depend on.

Against the backdrop of a changing world, some things remain the same. **You told us that the following areas are important to you:**

High quality and reliable:

A high quality, reliable service that can be depended on no matter what, where our customers know they are valued.

Sustainable:

Confidence we are doing the right thing for the environment, society and future generations.

Affordable:

Water should be affordable for everyone – so that no person or generation is left behind.

20 WAYS OUR PLAN WILL MAKE A DIFFERENCE BY 2030

1 Sustainable water sources

Around 100 million litres per day from new and replacement sources, so we don't risk harming the environment by taking too much from existing ones.



2 Reduce leaks

16% reduction in leakage, helped by enough replacement water mains to go from Land's End to John O'Groats almost twice.

5 Smart meters

One million installed, helping us all understand how we use water and be smarter about it.



6 Water-saving customers

More support to help customers each save over six litres a day, and innovative tariffs to reward our smarter water users.



9 Help with bills

Financial support more than doubling to help to keep people out of water poverty.



10 Supporting better futures

A decade long commitment to help up to 100,000 people through free employability training in communities and work experience for schools.



13 Tackling surface water

Combining nature, tried and tested engineering, and AI to establish a model for sustainable drainage in four urban areas, creating 92 'nature hubs' with advisers to help communities find collaborative solutions.

14 Healthier rivers

Fixing 99% of the reasons for rivers not achieving good status that we're responsible for, leaving 14 remaining.



17 Less pollution

A 30% reduction overall, pushing for a new industry-frontier performance, and zero serious pollutions.



18 Open information

1,000 water quality monitors so everyone can see what's happening in our rivers.





3

A more joined-up network

Better connected so we can move c.280 million litres of water a day to where you need it most when the weather heats up.



4

Bigger tanker fleet

Part of a package to give 163% more customers a back-up in case there's a local supply problem.



7

Better customer service

Driven by more people at the front line to serve you, and new technologies that mean we can keep you better informed and show you how you're using water.

8

Digital security

The latest technology used by trusted public service providers globally, including the US Government, making sure your data and our infrastructure are safe and secure.



11

Giving back to communities

At least £2 million a year to community projects, and additional help for 50,000 customers a year with debt, all funded by our shareholders.



12

Only rewarding strong performance

Executive bonuses paid from our non-regulated businesses, and 60% of every employee's bonus linked to great outcomes for customers, the environment and society.

15

Fewer spills

Reducing the average number of storm overflow spills by 30% - helping us to hit the Government's 2050 target five years quicker.

16

Sustainable and affordable

Building an innovation hub to design new ways to eradicate storm overflows.



19

Working with farmers

Partnership working on over 8,000ha of farmland to reduce phosphates in our rivers and improve biodiversity.



20

An operational Net Zero group

Cutting over 240,000 tonnes of CO2e emissions, following our launch of the world's first carbon neutral wastewater site in 2024.





WHAT DOES THIS MEAN FOR INVESTMENT AND BILLS?

We know that everyone wants to be confident that every last penny is well spent. Over the next five years, we're going to spend £12.9 billion on running our day-to-day business and making improvements for customers and the environment.

Five things to know about bills in the next five years

1

We're starting from a comparatively lower place

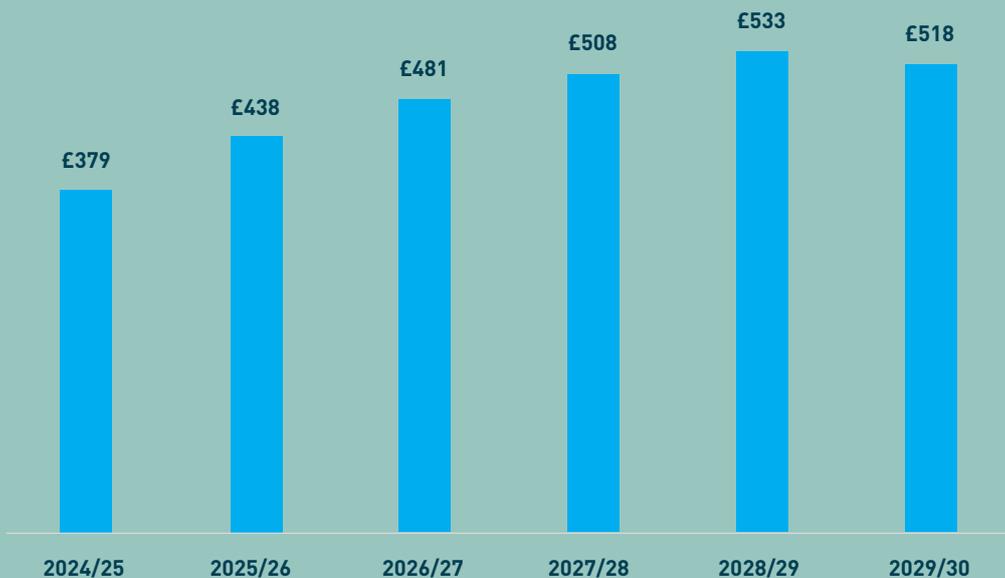
Today (2023/24) our bills are £29 a year (or £2.42 a month) lower than the industry average, and £85 a year (or £7.08 a month) lower than the highest.

2

During 2025-30 bills will increase gradually

The average combined household bill will increase by an average of £2.32 a month over the next five years (so that bills are £11.58 a month higher in 2030). With other water companies also planning large investment programmes, we anticipate our bills will stay amongst the lowest.

Average annual combined household bills 2025-30 (before inflation)¹



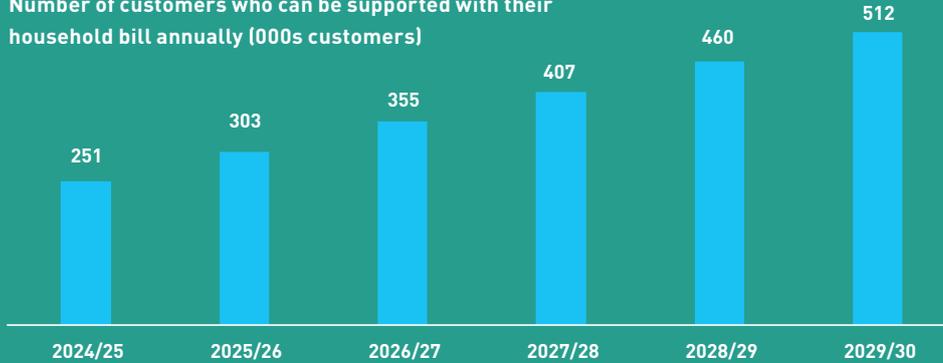
¹Our plan proposes an adjusted bill profile which assumes a small change to the post financeability revenue adjustment so that less revenue is collected in the earlier part of the AMP, to support affordability.

3

If you need help with bills, it will be there

We've designed our future financial support packages to cover more than the number of customers we forecast may need help by 2030 (using our industry's measurement - 'water poverty'). We'll make discounts on bills available for twice as many customers (through our Big Difference Scheme and WaterSure). There will be a wide range of other support options available, including payment breaks and income maximisation advice.

Number of customers who can be supported with their household bill annually (000s customers)



4

You won't pay twice for the same improvement

All the enhancement investment we're proposing is linked directly to new statutory standards, responds to changing risks or will deliver the improvements customers have said they'd like to see. We'll keep our day-to-day running lower than Ofwat's (our regulator) assessment of what an efficient company needs.

Impact of new investment on the average combined monthly household bill



5

We'll keep the impact on household disposable incomes as low as possible

Our bills are currently 1.2% of the median household disposable income (compared to 6% for energy bills). By 2030, following our large investment programme, our bills will have increased slightly to 1.3% of the median household disposable income.



Our storm event generator test facility enables us to undertake pilot trials of new waste technologies at our Resource Recovery and Innovation Centre (R2IC) at Sernal. Our learning over the last AMP is informing our environment programme for AMP8.

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INTRODUCING OUR PLAN FOR 2025-30

This is an ambitious plan, built on a strong track record. It shows we want to play a leading role in restoring our sector's credibility today, while pushing forward with sustainable change for future generations.



The water sector has achieved much over the last 30 years – and performance standards compare well to other countries. But we need to do more, and we need to do it faster. As recent research by both Ofwat and the Consumer Council for Water (CCW) has shown, as a sector we are losing the trust of our customers.

At the same time, we live in a period of rapid change. Population growth, climate change, economic uncertainties, new technologies, changing expectations and environmental ambitions, which we once saw as in the distant future, are now much more immediate. By 2050, summers in the Midlands will be 16% drier, winters 13% wetter and the population we serve will have grown by 12% to 9 million. Patterns of availability of our natural resource are changing. Our customers are changing too – in terms of their expectations, their personal circumstances and their use of our product. We must change with them.



Over 68,000 customers have taken part in research to develop this plan.



This needs a step up in investment. But changing in the right way means twinning this with novel, more sustainable approaches and a shift in how we all use water - especially if we are to keep bills affordable for every generation of customer. Crucially, if we are to unlock these opportunities fully, we need our customers' support. And to earn our customers' support, we must, as a sector, rebuild our credibility.



We started by listening to what our customers are really saying. Over 68,000 customers have taken part in research to develop this plan – that’s in addition to our on-going research with customers over the last decade. Around 630 stakeholders have helped to shape it, by supporting us in developing our long term strategies and strategic investments. We’re committed to working in partnership with them to deliver it. And in response to what we’ve heard, we’ve built an ambitious plan that delivers on what matters most to our customers:

- We’re pushing hard on three totemic issues - pollutions (where we’re targeting a level of performance that any company has only achieved once in the last 12 years), storm overflow spills (so that we can meet the Government’s 2050 target five years early), and water use (both leakage and household consumption) where we’ll meet the Government’s target for 2050 and 2038 respectively, at least five years early.
- We’re building on our strong track record by creating new service benchmarks for customer and environmental priorities. As well as pollutions, we want to push the industry’s performance frontier for external sewer flooding and household consumption. We’re also targeting better than forecast upper quartile industry performance on key

wastewater measures, and better than forecast upper quartile performance for water and sewerage companies on key water measures.

- We’ll continue the momentum we’ve built through our investment in innovation and global collaboration into the next five years. Severn Trent Plc will reach operational Net Zero, and our investment in driving down process emissions from wastewater will establish a pathway for our industry to follow.

The scale of the investment we’re proposing – with enhancement investment business cases totalling c.£5 billion¹ – will mean that the average combined household bill will increase by an average of £2.32 a month, over the next five years. With clear statutory and customer drivers that show customers are not paying twice for the same outcome, we know we need to work hard to ensure this investment is affordable and to earn our customers’ confidence that their money will be well spent:

- We’ve thought carefully about intergenerational fairness. 94% of the investment we’re proposing is either required to deliver statutory obligations by 2030, or will work towards statutory obligations after 2030 - so we know it’s a good choice for this generation and those to come.

¹ Our plan includes a further c.£0.9 billion of recurring or modelled enhancement expenditure.

Christine Hodgson,
our Chair, attending a
customer focus group.





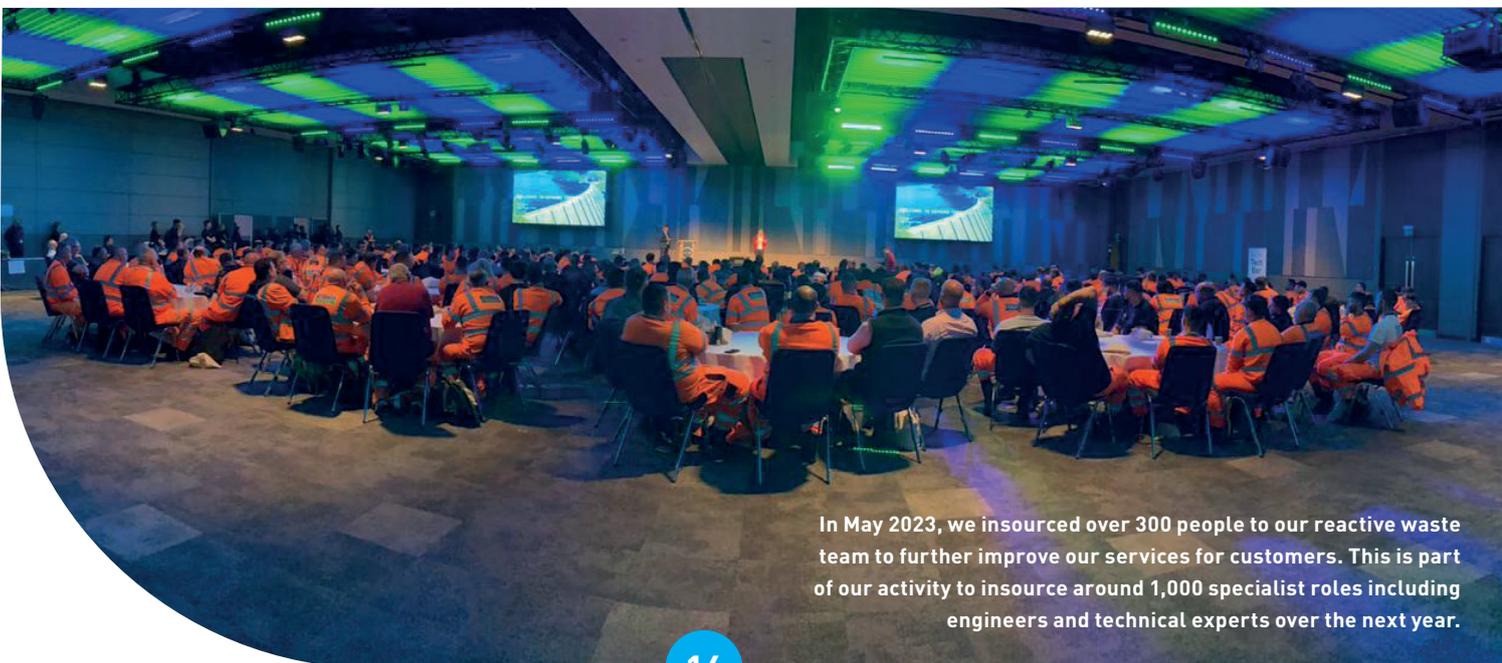
- We've stretched ourselves to deliver more from the £7 billion of base costs that we will use to run our company - our plan is c.5% more efficient than Ofwat's benchmarks, with c.4% driven by cost savings and the remainder from service improvements.
- We're acutely aware of the cost of living pressures some of our customers already face. We'll more than double the number of customers we can offer financial support to, so that by 2030, the support available exceeds the number of customers we forecast will be in water poverty.
- Our shareholders will fund further support for our customers and the communities where they live. This includes helping 50,000 customers a year with debt repayment, providing 10,000 hours of employability support a year and paying at least £2 million a year into our Community Fund (or more depending on our performance) to go to projects chosen by our customers.
- We know returns must be earned. We will only pay dividends when our performance supports it. In 2022/23, our Executive Director bonuses were paid for in their entirety by the holding company, Severn Trent Plc, supported by strong performance of our non-regulated companies. In the future, they will continue to be paid for by our non-regulated companies.

In many ways our plan is about driving a transformation - but it can't come at any cost.



We can be this ambitious partly due to our strong track record which gives us a solid foundation to build from. In the last two years (2020/21 and 2021/22) we've achieved 'leading' status in Ofwat's water company performance reports, and performed similarly well in its assessment of financial resilience.

We're proud to be the only company to have ever secured 4* status on the Environment Agency's Environmental Performance Assessment (EPA) for four years running. We also know we don't always get things right, and to sustain 4* status in the future, we're committed to learning and acting where we should. And on customer experience, where our performance hasn't been as strong as on other customer outcomes, we're spending around £150 million in new technologies and insourcing roles now, so we can excel for our customers right from the beginning of AMP8.



In May 2023, we insourced over 300 people to our reactive waste team to further improve our services for customers. This is part of our activity to insource around 1,000 specialist roles including engineers and technical experts over the next year.

In many ways our plan is about driving a transformation - but it can't come at any cost. Sustainable, affordable change requires innovation. With international collaboration, and Ofwat Innovation Fund support, we're already creating the world's first carbon neutral wastewater site. Our next innovation hub will be dedicated to finding ways to eradicate storm overflows for much less than the £350 billion to £600 billion that some national estimates suggest. These hubs are underpinned by the same philosophy. They draw together established and new technologies, nature-based solutions, and AI to help us get the very best out of our existing assets, rather than starting from scratch. And you'll see many of the innovations we've been working on embedded in our strategic enhancement investment proposals.

We're confident in our plan, so we're fast tracking over £400 million of investment. That's on top of the £566 million (2017/18 prices) additional investment we're already making in this AMP to support our region's 'green recovery'. This acceleration means customers and the environment get promised outcomes sooner, while also supporting timely delivery of a substantial investment programme. And we'll use Ofwat's price control deliverables (PCD) mechanism as a way to support the delivery of customer priorities, including boosting water supply resilience, earlier in AMP8.

The work we've undertaken over this AMP to diversify our supply chain (working with over 60 partners and introducing 12 dedicated environmental framework contractors), means we're uniquely placed in our sector to deliver novel and traditional investment at this scale. We've insourced our capital design team with more delivery focused roles to come, and applied diligence in working with our supply chain to confirm their capacity. And we've innovated by working with the Manufacturing Technology Centre and automotive supply chains to develop manufacturing capability that will deliver 'off the shelf' standard components. These factory-built solutions, a first for our sector, could reduce end-to-end delivery times by years in some instances.

These steps mean that our customers should be confident we have the capacity and capability to deliver. We'll also be supporting water customers beyond our region by using less of the national industry's traditional supply routes and creating new ones they can draw on. For example, we'll be sharing our factory facility design with the wider sector rather than seeking to patent it.

With the potential to create 7,000 jobs in our region and supply chain, our investment will have important regional impact too, and we hope our focus on employability support - for some 100,000 people over a decade - will help a much more diverse range of people benefit from these opportunities.

As this plan will see us deliver a record £5.1 billion of new investment to improve services to customers and enhance the environment, to fund it we have raised £1 billion of new equity from our investors. This equity raise is good news for our customers and investors. It means we have a fully funded equity plan for 2025-30 and supports our plans to fast track over £400m of investment over the next 18 months. This equity raise reflects our confidence in our plan, as opposed to endorsing Ofwat's early view of the weighted average cost of capital (WACC) - which we understand will be updated to reflect the latest market evidence and ensure a fair balance of risk and return across AMP8.

We're excited about this plan and its potential to deliver for our customers, the environment, our region, and where earned through strong performance, our investors. With customer-tested acceptability levels of 76%, it's well supported by the people who matter most to our service too. It is a plan that embraces the need for change. It sets out an ambitious response. And it can, and will, be delivered.



Liv Garfield

Chief Executive

DRIVING CHANGE: THE WORLD WE OPERATE IN

Our world is changing faster than ever before: new technologies; climate change; and shifts in demographics, societal expectations and the economy, create both challenges and opportunities for us.

Some changes remain uncertain, such as the impact of global events on the economy in the near term. But for others, for example, climate change over the next decade, we can more confidently predict there will be some intensification of their impact.

Taken together, the critical momentum of these changes – in terms of their magnitude and pace – speaks to a watershed moment for our industry. It is one that this five year plan fully embraces.

CLIMATE CHANGE AND THE ENVIRONMENT

1. Climate change will reduce water availability

Summers in the Midlands by 2050 will be on average 2.6°C warmer than today with 16% less rainfall. Our modelling suggests that 4.6% of our current abstraction is vulnerable to such climate change and a further 8.7% may need to be forgone to ensure the sustainability of our rivers, streams and aquifers. Collectively, this could amount to a loss of 290 ML/d of supplies.

Our plan responds by investing in replacement water sources that can better sustain future abstraction and by using a combination of advanced treatment and catchment management to protect existing sources. See pages 31 to 33.

2. More extreme weather will increase surface water

By 2050, winters will be warmer and around 13% wetter across the Midlands, with more extreme heavy rainfall events. Summers will be drier overall, but subject to heavier, torrential downpours with the potential to spark localised flash flooding. This, twinned with the challenges of urban creep and population growth, will increase volumes of surface water. Without intervention, this could result in 39% more properties at risk of internal sewer flooding and 14% more spills from storm overflows annually by 2050.

Our plan responds with ambitious proposals to reduce the average number of storm overflow spills by 30% by 2030. We will also create four new urban catchments designed to use a combination of traditional, nature-based and AI solutions to manage surface water and create a blueprint for broader use in the future. See pages 35 to 38.



3. Our water resources are an integral part of natural ecosystems increasingly under threat

The Kunming-Montreal Biodiversity COP15 in 2022 brought into sharp focus the ongoing degradation of natural ecosystems across the world, and introduced binding commitments to restore 30% of them. Globally, the UK is among the bottom 10% of countries on the Biodiversity Intactness Index. We are very aware of the potential of our operations, through abstraction, pollution risk or construction, to impact natural habitats and biodiversity. We also have the potential to protect and enhance biodiversity both on our own land, and within our wider water catchments, through conservation partnerships and the adoption of nature-based solutions.

Our plan responds by using methods including catchment nutrient balancing to reduce phosphates in rivers while boosting biodiversity, and builds on our ambition to improve biodiversity on 10,000 hectares of land by 2025. See pages 36 to 40.

4. Mitigating climate change will require rapid decarbonisation

Climate change is among the most significant challenges of our generation. The steps we take between now and 2030 will be critical if we are to limit global warming to 1.5°C, the long-term temperature ambition of the Paris Agreement. However, with 2022 being the sixth warmest year on record, and global averages reaching 1.16 °C above the pre-industrial baseline, even this appears increasingly challenging.

The UK is one of the few countries with a legally binding commitment in line with the global Paris Agreement: Net Zero greenhouse gas emissions by 2050, and a 78% reduction by 2035 (from a 1990 baseline). Water companies have played a strong role in meeting the Government’s climate commitments, not least by investing in renewable energy generation. However, process emissions – particularly those emanating from wastewater treatment – remain a significant hurdle to overcome for our industry to achieve operational Net Zero.

Our plan responds by committing to Severn Trent Plc achieving operational Net Zero by 2030, supported by new investment in our wastewater sites to drive down process emissions and those from heat and fuel. See page 41.

DISRUPTIVE TECHNOLOGIES

5. Digitalisation gives us power to drive asset optimisation and service improvements

Combining operational technology with digital models offers many opportunities. It will become increasingly possible to predict and visualise the future, connect the real and digital worlds, and use machine learning and AI to assess risk and automatically optimise how water and wastewater networks are operated for changing conditions.

Our plan responds by furthering the digitalisation of our wastewater assets. With AI and predictive modelling, and use of existing and nature based engineering solutions, this will further optimise the use of wastewater assets. More widely, we will be expanding our use of AI across our business to take new, and emerging, opportunities to better tailor our service to our customers’ specific needs. See pages 38 to 39.



Our Great Big Nature Boost is supporting the reintroduction of species to our region, including, in partnership with the Derbyshire Wildlife Trust, beavers to Derbyshire for the first time in 800 years.

PEOPLE, THE ECONOMY AND SOCIETY

6. Consumers will be increasingly empowered by smart technologies in their homes

The penetration rate of the smart home market globally is expected to increase from 16.4% today to 28.8% by 2027. As customers become increasingly accustomed to controlling their energy use with real time data and insights, we expect customers will want similar empowerment for their water use.

Our plan responds by installing one million smart meters and exploring innovative new tariffs that reward changes in consumption habits. See pages 30 to 31.

7. Tackling cyber security risk will become an increasing priority

The rise of disruptive technologies, adoption of smart technologies and even the increasing digitalisation of customer service channels, risks greater exposure of IT system vulnerabilities and the impact of any breach. With water now the fourth most targeted Critical National Infrastructure in the world, a commensurate shift will be needed in our approach to cyber security.

Our plan responds by investing in the latest 'zero trust' cyber security approach used by the US Government. See page 34.



By 2050, the population we serve **will have grown by 12%**, the third fastest of any region in the UK.



8. Population growth will drive more demand for water

By 2050, the population we serve will have grown by 12%, the third fastest of any region in the UK, reaching almost nine million people. If no action is taken, the effect of more people and households is likely to add a further 130 million litres per day of water demand.

Our plan responds by adopting a range of demand management measures and investing in more sustainable replacement supplies. These include leakage and demand reductions, investment in smart meters and greater connectivity to meet peak demand when temperatures rise. See pages 30 to 32.

9. Storm overflows are not acceptable to the majority of customers

Increasing awareness of the operation of storm overflows and the visible impact on rivers means the majority of our customers now believe their operation under any circumstances - even as designed into the sewerage network for over a century - is not acceptable. In our research, 70% of respondents agree that no sewage should enter rivers, no matter how dilute, 63% agree that investment is urgently needed to reduce the use of storm overflows, and 49% believe they should stop being used regardless of cost. There is now a uniquely strong mandate for accelerated action.

Our plan responds with ambitious proposals that will accelerate our progress against the Government's Storm Overflows Discharge Reduction Plan. See pages 35 to 37.

10. The investment required will impact customer bills and affect affordability for some

The size of investment required over the next three decades to secure the future of our services will be sizeable. With around 6% of customers in our region currently estimated to be in water poverty, we forecast this proportion will increase with rising investment if there is no sustained economic growth to support incomes, or additional support to pay water bills.

Our plan responds by more than doubling the number of customers we are able to offer financial support to. See pages 42 to 43.



11. The causes and incidence of poverty are changing

Compounding the challenges of ensuring water bills remain affordable is the changing nature of poverty in our region. The West Midlands Metropolitan area has the highest proportion of the working age population with no qualifications amongst all English regions, while simultaneously there are skills shortages. And, both regionally and nationally, poverty has shifted more towards in-work households (for example, due to low wages, zero hour contracts and job insecurity) while housing costs are increasing significantly, pushing many people into poverty.

As a water company, and as an employer of around 7,000 people in these areas, we can not only act through the size of our bills and the support we offer, but also by tackling some of the underlying causes of poverty.

Our plan responds with a shareholder funded Societal Strategy which focuses on increasing employability in some of our region's most deprived areas . See pages 44 to 45.

12. Declining trust in water companies

This is a period of significant scrutiny for our industry, and there is a worrying, emerging trend of declining trust from customers. Recent research from both Ofwat and CCW suggest trust in our sector has declined over the last year, and the poor perceptions of some customers are concerning. In Ofwat's research, customers were twice as likely to agree that their water company puts the interests of shareholders/owners first (47%) rather than acting in the interests of customers (25%) and the environment (27%).

Our plan responds by driving transformation in Severn Trent and our sector. It delivers ambitious improvements in leakage, pollutions and storm overflows. It seeks to double the number of customers we can support with bills and goes further with shareholder funding to support employability, help customers with debt arrears and our customer-led Community Fund. See pages 30 to 45.



Our first 'Big Boost for Brum' event in Birmingham in July 2023 was an important early milestone in our decade long Societal Strategy commitment to provide employability support to 100,000 people in the Midlands to help tackle the underlying causes of poverty.

EMBRACING CHANGE: OUR VISION AND STRATEGY

Our vision and strategy are designed to fully embrace the opportunities presented by the rapidly changing world we operate in. They reflect our potential to drive positive change for our customers, communities and the environment we all depend on.

OUR CUSTOMER IMPERATIVES

Every day we gather new insights about our customers, their changing needs and circumstances, and their perceptions and expectations of us. Across all the insight we collect, three themes consistently emerge as being fundamentally important to them:

High quality and reliable:

A high quality, reliable service that can be depended on no matter what, where our customers know they are valued.

Sustainable:

Confidence we are doing the right thing for the environment, society and future generations.

Affordable:

Water should be affordable for everyone – so that no person or generation is left behind.

We use these customer imperatives as an anchor against which to gauge our plans and strategies; the outcomes we propose to deliver; the solutions we intend to use; and the pace at which we progress.

ONE SIMPLE VISION

Our vision for the next 25 years is deliberately simple, reflecting a changing world, while keeping at its core our purpose to take care of one of life's essentials:

No matter what the future holds, our customers can depend on our high quality and reliable, sustainable, and affordable service.



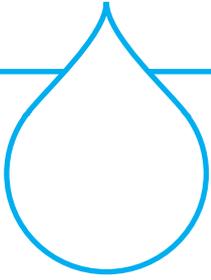
This simplicity, however, does not belie the fact that transformational change is needed, and the future will look very different. This change comes from:

How we achieve our vision

In the past	Towards the future
Rigid infrastructure, point source solutions, latent capacity	Digitalisation, dynamic, intelligent networks
Secure physical assets	Secure physical and cyber assets
Abundant, predictable water	Optimised supplies, optimised use
Distinct services	Integrated catchments
Regional focus	National and global collaboration
Capital expenditure first	Nature-based solutions, behaviour change
Energy and carbon intensive to run	Operational Net Zero, then Net Zero
Carbon intensive to build	Nature-based or factory built, carbon light
Safe disposal	Waste as a commodity, circular economies
Depleting natural resources	No harm, towards restoration and regeneration
Underutilised land	Restored habitats
Reactive to data	Dynamic compliance

How it looks and feels for our customers

In the past	Towards the future
Unobtrusive service, abundant product	Engaged consumers, with intentional use
A silent company	Active in communities, trusted partner, driver for change
Focus on 'average' customers	Focus on individual experiences and behaviours
Help with bills	Supporting opportunity and prosperity, as well as bills
Grey infrastructure	Greener communities, growing forests, restoring habitats, healthier rivers



DEEP DIVE: WORKING HAND IN HAND WITH NATURE

Many of the challenges the water sector faces cannot be solved alone: water scarcity, climate resilience, carbon, biodiversity collapse, river health and poverty. They require a multi-agency approach, co-ordinating and collaborating to find the right long-term solutions. And as we have developed our strategic enhancement investments, we have already identified more than £180 million of third-party investment where we have overlapping drivers or solutions just in the next five years.

Nature itself is one of our most important partners, and our approach builds on a track record of delivering significant improvements to the biodiversity of our natural environment, both independently and with third party co-operation. In this AMP alone we have:

- delivered 7,727 hectares of biodiversity improvement and planted 694,144 trees - with an ambition to improve 10,000 hectares by 2025 (2% of the UK Government's total requirements as part of its COP15 commitment);
- engaged with 7,506 farmers across 48 catchments and 432,000 hectares to protect raw water quality; and
- restored 1,218 acres of peatland by working with partners including Moors for the Future.

All of these have involved broadening the types and volume of partners we work with in our supply chain - establishing new relationships that will help us to deliver our ambitious plans for the next five years.



Working with our partners, we have planted almost 230,000 trees this year (2022/23), taking our total to nearly 700,000, over halfway towards our 1.3 million target by 2030. Our communities have benefited through increased biodiversity, and natural protection against the worst effects of climate change, as well as enriching their local natural environment.

Our catchment nutrient balancing activity will help to remove 10.75 tonnes of phosphate a year from rivers and enhance biodiversity on 8,393 hectares of farmland, through converting farmland into grassland habitat to support a number of plant, animal and insect species.



We want to deepen the integration of nature into the solutions we propose. To protect raw water quality we will be working in 64 catchments to reduce the pesticide, nitrate and cryptosporidium concentration in both ground and surface water sources. We hope to work on the ground with over 1,000 farmers in the region to reduce nutrient loads and with multiple environmental organisations and charities on landscape recovery projects from the Wye Valley to Sherwood Forest to reduce phosphorus, improve biodiversity, restore sites of special scientific interest (SSSIs) and enhance natural habitats. In delivering these objectives we will be working on over 780,000 hectares of land in our region while investing in partnership funding. Overall, our approach has a benefit to cost ratio of £5.33 of environmental benefits for every £1 invested, which demonstrates a compelling business case for investing in nature.

In our approach to improving river water quality, we will be replacing 13 septic tank sewage works with wetland treatment systems to remove BOD (biological oxygen demand) and suspended solids which can stress aquatic life in rivers. An additional wetland treatment system will be installed to deliver phosphate removal. These 14

nature based wetland systems will improve water quality in approximately 30km of river. We will also be upgrading 11 sites with reed bed systems as part of our phosphate and ammonia removal programmes, improving a further 72km of river. And we have included 13 large scale Catchment Nutrient Balancing projects, where we will work with the agricultural sector on diffuse nutrient control measures to offset our point source discharges. We anticipate that these schemes will remove 10.75 tonnes of phosphate a year and enhance biodiversity on 8,393 hectares of farmland. Learning from these projects will lay the foundations for more lower carbon, lower impact solutions in the future.

We will use nature to tackle flood risk and storm overflow improvements too. Our plan uses green and blue solutions to separate c.52 hectares of land to reduce surface water, covering c.4 hectares in nature-based solutions. Vitality, our work on surface water management will help reduce internal flood risk at around 840 properties and help improve c.1800km of river impacted by storm overflows, resolving a number of the RNAGS that we are accountable for.

PACING CHANGE: PROGRESS TOWARDS 2050

The extent of the future challenges we face, and the longevity of the solutions we invest in, mean the decisions we make in this plan will impact our customers, the environment and society for generations to come. Our plan aims to find the right balance between securing our services for future generations and meeting the needs of our customers today.

RIGOROUS, ADAPTIVE PLANNING

Our Long Term Delivery Strategy brings together at a more granular level every aspect of our strategic planning frameworks, statutory environment programmes and planned enhancement activities. It is a single 25-year strategy covering both water supply and wastewater services.

This strategy, based on a rigorous adaptive planning approach, has involved many iterative steps and engagement with customers,

stakeholders and our Board. It accounts for future uncertainty by using different pathways and scenarios to test investment propositions.

This gives us confidence that we are making the right long term choices in this business plan. Of the £5 billion of enhancement investment business cases proposed:

82%

is needed to meet 2030 statutory timescales.

12%

is needed to make progress towards statutory obligations that are required after 2030.

6%

relates to investment that is needed to manage future risks or deliver customer driven improvements.



MAKING CHOICES ABOUT PACE

With around 12% of our enhancement investment working towards statutory obligations in the period 2030-50, and a further 6% driven by customer support for action and changing risks in our operating environment, we have more choice about pace than the 82% of investment that is required to meet statutory targets by 2030.

These choices can require us to balance a range of considerations including customer preferences, present and future affordability, the future availability of new technologies, and other uncertainties about how the future could unfold. Our adaptive planning approach, including extensive research with our customers, has helped us to make those choices including:

- **Accelerating pace** – we are moving faster on storm overflows, leakage and household demand management, and pollutions, accelerating progress against relevant government targets by at least five years.
- **Even pace** - investment in operational Net Zero will continue the momentum we have built over AMP7, help to offset the upward pressure on wastewater emissions from meeting increased treatment standards, and make sure we maintain an even pace with the Government’s

2050 targets. To meet the Government’s targets for an 80% reduction in phosphorous impacting rivers by 2038, we have spread the value of our programme evenly between AMP8 and AMP9. By prioritising areas impacted by RNAGS in this AMP, we will address 99% of those attributed to us by 2030 (from a 2022 baseline). While spreading the cost in this way helps to keep bills more affordable, we want to make as much progress against the remaining 14 RNAGS as soon as possible in AMP9. We plan to progress with feasibility throughout AMP8, accelerating investment where we can, so that we are starting construction as AMP9 (2030/31) begins.

- **Keeping pace** - we will continue to invest to make sure we manage risks and meet required standards for emerging raw water contaminants including microplastics during AMP8. Gathering robust data now will help us to make effective investment decisions in AMP9 when we anticipate a further tightening of standards.

Read more: our Long Term Delivery Strategy sets out in more detail the pacing decisions we have made, and the evidence supporting them.



Our plans include moving at pace on managing water demand, both our customers’ usage and leakage. We’ll build on recent successes by focusing on leak ‘find and fix’ activities and insourcing mains renewal pipe laying gangs.



Our ten-year Societal Strategy will see us working with schools to provide work experience placements and 10,000 hours of free skills training and employability training to support individuals into their first job. Our programme of work experience weeks, discovery days, training in schools and Severn Trent Academy 'pop ups' will help improve the lives of people in our communities.

WORKING NOW WITH THE FUTURE IN MIND

We know that operating our business in the right way today, makes choices about the future easier. Over AMP6 and the first three years of AMP7, we have taken five steps which have left us more strongly positioned for the choices we have made in this plan. They reduce the need to make trade-offs between: investment need and capacity to deliver; and investment need and affordability.

Five steps we are taking now to support intergenerational fairness:

1. Spending in line with planned investment levels

By the close of AMP6 we spent to within 1% of the total expenditure allowed for at the 2014 price review. In AMP7, we are on track to deliver our regulatory commitments, despite difficult market conditions across energy and construction. We continue to manage our plan effectively as well as delivering additional customer service benefits through choice investment.

2. Delivering more from base expenditure

By focusing on driving performance improvements and efficiencies, we can deliver more from our base expenditure for customers now. In this AMP, for example, we have been able to offer an additional £30 million of affordability support, and launch our Societal Strategy to support the prosperity of customers in the future too. We also launched our Get River Positive Pledges and, while helped by drier conditions in 2022, through additional focus and investment we reduced the average number of spills per storm overflow from 27 in 2020 to 18.

3. Investing in innovation

Outperformance against our commitments, twinned with external funding, gives us more scope to innovate. Our Net Zero Hub is a great example of how innovation in this AMP is giving us scope to make more progress in the next. For example, by drawing on increasing digitalisation and AI, including digital twins, we can get more out of our existing assets, rather than needing to build new ones.

4. Accelerating expenditure

Accelerating investment and trialling new approaches, including our £566 million (2017-18 prices) Green Recovery programme, and fast-tracking over £400 million into the final two years of AMP7 means we can deliver outcomes sooner for customers; and support efficient delivery by smoothing our investment profile.

5. Financing our business sustainably

Raising money from investors helps us to spread the cost of investment across the generations of customers who benefit from it. We are entering the next AMP in good financial health, with a strong balance sheet, a track record of raising new equity – including £250 million to support our Green Recovery investment – and consistently being rated as one of the best performers for financial resilience by Ofwat.

Our dedicated team of River Rangers are working in partnership with our communities to support delivery of our Get River Positive Pledges.



DELIVERING CHANGE: OUR PLAN FOR 2025-30

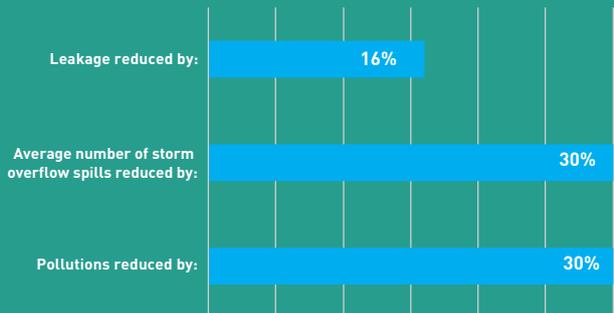
We want the next five years to further the transformation of our sector. We will show leadership and ambition where it matters most to our customers without losing sight of the cost of living pressures they face. We will be innovative and efficient; and with trust in our sector at stake, our ambitions must be both deliverable and financeable.

OUR PLAN IS:

Ambitious

An ambitious response to three totemic issues

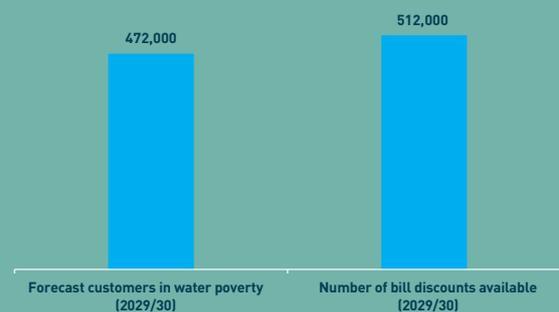
Ambitious improvements across all three areas by 2030



Affordable

More support available for customers

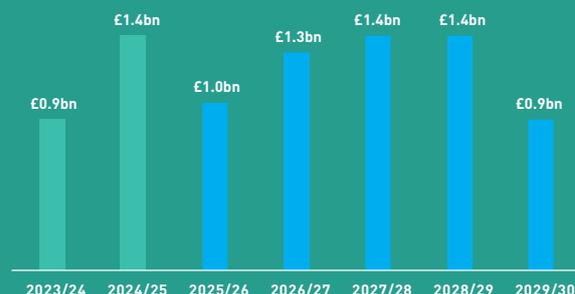
By 2030, more support will be available than customers forecast to be in water poverty



Deliverable

Uniquely placed to deliver

Delivering at the required run rate for our core capital programme before the AMP starts





Efficient

Stretching ourselves on base costs

c.£310m

lower base costs than Ofwat's benchmark

c.£80m

service improvements from productivity gains

Financeable

Supported by a track record of sustainable financing decisions

Our credit rating is

Stable

at Baa1/BBB+, which is two notches above the lowest investment grade credit rating

Track record of bringing new equity into the sector

£250m

raised to support

£566m

(2017/18 prices)

Green Recovery investment

Credible

Supported by a track record of strong performance for customers and the environment

Only company to deliver 4* for the environment, 'leading' status on service delivery, and strong financial resilience for two consecutive years

	2020/21	2021/22
EPA	4*	4*
Performance	Leading	Leading
Financial Resilience	Top 3	Top Category

Acceptable

Endorsed by our customers

76%

customers find our plan acceptable



DELIVERING ON WHAT REALLY MATTERS

Our plan is built around our three customer imperatives: quality and reliability; sustainability; and affordability. This is how it delivers against them...

1

OUR CUSTOMERS WANT A HIGH QUALITY, RELIABLE SERVICE THAT THEY CAN COUNT ON, NO MATTER WHAT

Our customers rightly expect: a high quality, reliable supply of water; to have confidence that their wastewater will be safely taken away; and to benefit from a positive overall experience of our service – one that shows they are valued as customers.

FOCUSING ON DEMAND

Our plan includes one million smart meters, leakage reductions of 16%, and more than doubling the rate of mains renewals, to secure sufficient water supplies for the Midlands over the next 30 years. Our demand measures will save around 110ML/d, and with the new and replacement supply capacity we plan to create from more environmentally sustainable sources,

will close down our forecast 2030 supply/demand deficit. Comprising around half of the demand reductions we propose to make, our leakage commitments are deliberately stretching. We know we must secure our customers' confidence that we are doing all we can to reduce wastage, before we ask them to.

With the roll out of smart meters, we are giving one million of our customers the tools they need to better understand their consumption. We will also give them the incentives to act. Initially rolled out to 3,000 customers, we will explore tariff innovation, introducing rising block tariffs to signal and reward an efficient level of water use, while supporting our affordability ambitions. Customers will benefit from

lower charges for their first vital tranche of water use, and higher charges for discretionary use.

These strengthened incentives will form part of our plan to reduce household per capita consumption (PCC) reductions, as we target 122 l/p/d by 2030, a c.8% reduction from 2020, and meaning we achieve the Government's target for 2038, eight years early.

16%

Leakage reduction

more than X2

Rate of mains renewal

PROTECTING CUSTOMERS WHEN THEY NEED WATER MOST

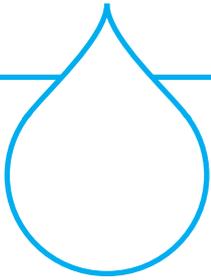
Our customers have not had a hosepipe ban since 1995, but in recent years there have been times when we have had to ask our customers to reduce their water use when they and their families want it most – when temperatures soar.

The relative stability of PCC over the last decade masks more recent changes in customers' consumption habits. Water demand on hot days has increased significantly compared with cooler days over the same period. In 2022, for example, customers used an extra 52 l/p/d (38%) on extreme peak demand days, compared to their average use over the year. With prolonged hot weather events projected to increase significantly, interruptions to customers' supply could increase by 5% a year unless we take action to respond to these specific circumstances, over and above our day-to-day demand management activities.

By using a range of measures, including better connectivity on our network, we can relieve the pressure on supplies by efficiently moving water to where it is needed most. This will create the equivalent of 282ML/d of available supplies during peak demand. This investment will not only help to provide an additional c.280,600 customers with a water supply that can withstand a 30-day extreme peak demand event, but also make our strategic grid more resilient to a wider range of hazards.

And as the severity of supply disruption impacts depends not only on a customer's direct exposure to it, but also on their social and physical vulnerability, we have tested the prioritisation of our schemes to ensure investment will provide better protection to vulnerable customer groups.

We will also increase investment in our Network Response Team, including a fleet of tankers, to boost alternative supplies to customers in the event of a supply interruption. Our investment in this AMP played a crucial part in our improved response to the December 2022 freeze/thaw event (with a 93% improvement on some customer metrics compared to the 2018 'Beast from the East' event). Given the demonstrable benefits to customers, tankers and overland pumping – as well as using traditional bottled water approaches – are the most effective way for us to meet new requirements of emergency measures legislation. While we are confident this blended approach will deliver a better service for customers than using bottled water alone, it is more expensive. However, we will only pass on to customers' bills the costs of using bottled water alone. In effect, our customers will receive a best value solution, but pay for the least cost, receiving an additional £13 million of benefits.



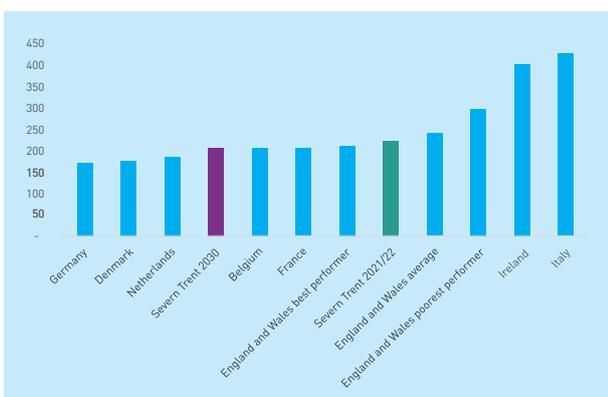
DEEP DIVE: LEAKAGE AND ENCOURAGING EVERYONE TO USE WATER MORE EFFICIENTLY

Leakage is a totemic issue. It is often cited by our customers, unprompted, as a concern. When perceived as unnecessary waste, it can be a barrier to persuade customers to use water more efficiently.

To make sure we are all using water more efficiently, ultimately we want to minimise the amount of water we put into supply per person (distribution input per capita). That means focusing on both of its component parts – the amount of water our customers use and how much water is lost through leaks (from both our pipes and our customers’ pipes).

By looking at distribution input per capita, we can also better understand how efficiently we are using the water we put into supply compared to data for Europe. On this basis we were equal third best performing company in England and Wales in 2021/22 and performed better than European countries like Ireland and Italy (based on available data). However, we know there is more we need to do, and by 2030, we want to get much closer to leading countries like Germany, Denmark and the Netherlands.

Comparison of distribution input performance in England and Wales in 2021/22 and available data for Europe (l/p/d).



So, what to do we plan to do?

1. Accelerate our progress on leakage

We want to show leadership, by being ambitious about our own resource use first. We are proposing a 16% reduction in leakage (from a forecast 346 MI/d in 2024/25 to 290MI/d in 2029/30). Based

on performance in the sector to date, this would enable us to make a huge step forward and challenge some of the leading companies with higher metering penetration, and importantly enable us to move closer to where Europe’s leaders are today. It would also mean we are reducing leakage from a 2019/20 baseline by 32% in ten years – helping to accelerate reaching the Government’s 2050 targets for achieving a 50% leakage reduction by five years.

We will deliver these savings using a mix of activities. These include, pressure management, active leakage control, and reducing trunk main leakage. These build on emerging successes from our current leakage reduction programme, such as:

- **Focused resources:** This year (2022/23), we found and fixed our highest number of leaks ever at 50,000 supported by a 20% increase in ‘find’ headcount. By insourcing our mains renewal teams ready for AMP8, we expect to build on these successes
- **Operational improvements:** These include pressure management and network calming, as well as creating a new team to investigate unbilled and unmeasured consumption, which would otherwise be included in leakage calculations.
- **Innovation:** Including a three-year industry collaboration on a new analysis modelling tool, called Paradigm, as well as building on our use of acoustic loggers and trialling new technologies including hydrophones.

And by more than doubling our mains renewals rate, we will help to prevent future leakage. Around half of the cost will be paid from our day-to-day running costs, a quarter from enhancement investment and the remaining quarter will only impact customers’ bills once delivered.

2. Support our customers to reduce consumption

With our investment in smart meters, innovative trials and empowering customers with real-time data, we want to support our household customers to make similarly ambitious reductions in their consumption. Like leakage, our PCC targets are stretching – we are planning to reach the Government’s 2038 target for PCC, in 2030. We will also work with business customers and retailers too with the aim of offsetting forecast growth in business demand - driven by expected economic growth in our region - so that everyone plays their part.



PROTECTING OUR RAW WATER SOURCES

We have 12 raw water sources, contributing around 338ML/d to our water supplies, which are proving susceptible to the impacts of third-party pollution and environmental changes within our catchments. To ensure our customers in the future continue to benefit from high quality drinking water, we will use a combination of enhanced treatment, including ultra violet (UV) treatment and advanced ceramic membranes. Building on our AMP7 successes, around 30% of the water sources we plan to protect will be supported by catchment management activities.

Our programme includes investment to meet new water quality standards for perfluoroalkyl and polyfluoroalkyl substances (PFAS), also known as ‘forever chemicals’. Through advanced carbon-based absorption treatment processes, we will: remove PFAS at two sites; use catchment investigations to reduce future treatment costs; and build our specialist laboratory capability to confirm PFAS removal and inform long-term planning for this emerging contaminant.

With support from our customers, we will go further on lead. Uniquely placed to capitalise on the experience we have gained through our Green Recovery lead replacement trial, we will continue to work within the DWI’s lead free

strategy. Mindful of affordability, in AMP8 we will focus on the most vulnerable, with grants available for 500 financially vulnerable customers to have their communication pipes replaced. We will investigate sources of lead in up to 1,000 schools and nurseries and replace lead communication pipes where necessary. This project is an ideal candidate for partnership working, and we are actively pursuing opportunities with stakeholders in the field of education.

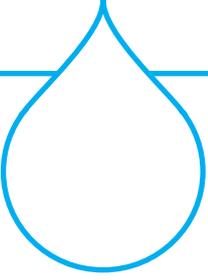
SHOWING CUSTOMERS WE VALUE THEM, AND THEIR TIME

We know we can do better in terms of our customers’ experience of us, where our performance has often been middle of the pack for our industry. We are ambitious that we can:

- leapfrog into the top three for our industry by 2026 on Ofwat’s measure of performance (C-MeX);
- drive down complaints to be the best performing company on CCW’s measure; and
- be in the upper quartile for the utilities sector – comprising around 30 different organisations across water, electricity, and gas, on the Institute of Customer Service’s measure.



Our Green Recovery project at Church Wilne and Witches Oak, including trials of ceramic membranes, wetlands and UV, is informing our AMP8 approach to water treatment.



DEEP DIVE:

FAST-TRACKING £150 MILLION OF INVESTMENT IN OUR CUSTOMER AMBITIONS TODAY

We have shown potential to deliver one of the best customer experiences in our sector, and improved our C-MeX rank on water and waste to 7th and 10th respectively in the last year. But as a 'middle of the pack' performer we know we have more to do. So we are committing £150 million of investment now, with the ambition of delivering improvements as early as possible in this and the next AMP. This reflects our determination to transform our customer experience and deliver a more personalised and considerate service to our customers.

Three steps to improving customer experience

1. Insourcing and investing in people

This year we announced the significant step of insourcing our 300 person reactive waste team which provides our customer blockage, flooding and pollutions response. Insourcing offers a number of benefits, not least the opportunity to invest in skills and training (using our dedicated Academy) and reinforcing our customer-centric culture. The move builds on the recent integration of our waste planning team into our centralised workforce management and optimisation teams. This is already showing promising results by allowing us to keep customers better informed and supporting a 29% improvement in waste complaints this year (2022/23).

Ultimately these changes, by enabling faster resolution, will create value for our customers by giving them back time. So too will our new commitment to reduce the time customers spend in roadworks due to our works. With enough mains renewals to stretch from John O'Groats to Land's End almost twice over the next five years, and with the West Midlands having the highest car dependency in the UK (at 9,000 miles annually, close to double the next highest), this bespoke performance commitment will be more valuable to our customers than in any AMP in recent history.

2. Designing more customer-focused roles

We are creating a new team of customer-dedicated inspectors and technicians to work with customers to drive down leakage both on our network and within customers' properties. Available during weekends and evenings, as well as usual business hours, our inspectors will provide customers with an end-to-end service, promoting ownership and accountability and ensuring customers are kept fully informed to resolution. For our waste service, we are introducing multi-channel case management, upskilling our customer operations service centre agents so that they are better equipped to diagnose waste issues at customers' first point of contact.

3. Investing in technology and data

We are investing tens of millions in intelligent planning and automated scheduling for our 4,000-strong field force team. We'll be providing real-time updates on progress and ensuring that we have the right people, with the right skills and equipment on site at the right time. From our customers' perspective, this means that we will not only keep them better informed, but we will be able to resolve their issue first time.

And as we move into AMP8, our new water usage management platform will allow us to better tailor services to our customers' needs and consumption characteristics by enabling innovative tariffs and propositions to drive water demand reduction, with personalised insights and advice.

SECURING CUSTOMERS' DATA AND OUR ASSETS

A theme across our plans, be it to drive improvements in customer experience, support people at risk of falling into debt, or our ambitious waste plans detailed below, is digitalisation. And with increasing digitalisation comes increasing cyber risks. With water now the fourth most targeted Critical National Infrastructure sector in the world, we will make a paradigm shift to the 'zero trust architecture' approach used by the US Government. This capitalises on our recent cloud-based infrastructure investment and ensures the continued protection of our water and wastewater services, as well as our customers' data.

OUR CUSTOMERS WANT TO BE CONFIDENT THAT WE ARE DOING THE RIGHT THING FOR THE ENVIRONMENT

Our own research shows that there is a strong correlation between trust and our customers' perceptions of how well we look after the environment. The maths is not surprising - we only need to look at media coverage of our sector and sentiment on social media to see this relationship in practice.

RIVERS FIRST

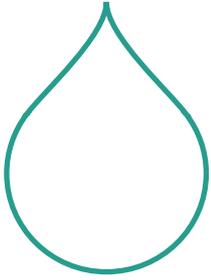
When we talk to our customers about the environment today, rivers are front of mind for them. It is very clear that as a sector, we have fallen behind our customers' expectations, and risk continuing to do so unless we take bold action now. In March 2022 we made a series of ambitious Get River Positive Pledges, which are firmly embedded in our plan. Today we look beyond our Pledge to reduce the average number of times storm overflows activate to 20 by 2025, with a new target for 2030.

We have made good progress against our 2025 Pledge, with an average of 18 spills per storm overflow reached in 2022 (a 27% year-on-year reduction). Although helped by the dry summer, we are confident this was driven in the main by our ongoing investment and operational improvements – so much so that we are ready to go further and faster against the Government's target. By 2030, we will deliver a 30% improvement in our performance (from a 2025 baseline²), taking us to an average of 14, and accelerating our expected achievement the Government's requirement of a maximum of 10 by 2050 by five years to 2045.

We have also listened carefully to customers' concerns about forecasts of £350 billion to £600 billion of capital investment that could be needed to eradicate storm overflows nationwide by separating sewerage systems, and the impact it could have on their bills. We will address these concerns in two ways:

- First, the reduction in storm overflow spills we are delivering for 2025 will all be accommodated within our existing cost allowances. Also, around one third of our proposed AMP8 reduction in the average number of spills will be funded from base costs to reduce upward pressures on customers' bills.
- Second, building on our experience of creating a Net Zero Hub, we will create a 'Zero Spills Hub' designed to test a range of new technologies, AI, natural solutions and behaviour change to find lower cost ways of achieving zero storm overflow spills. And we will share our learning with the rest of the sector.

² Using the Environment Agency's measure, or 44% based on our forecast position using Ofwat's measure.

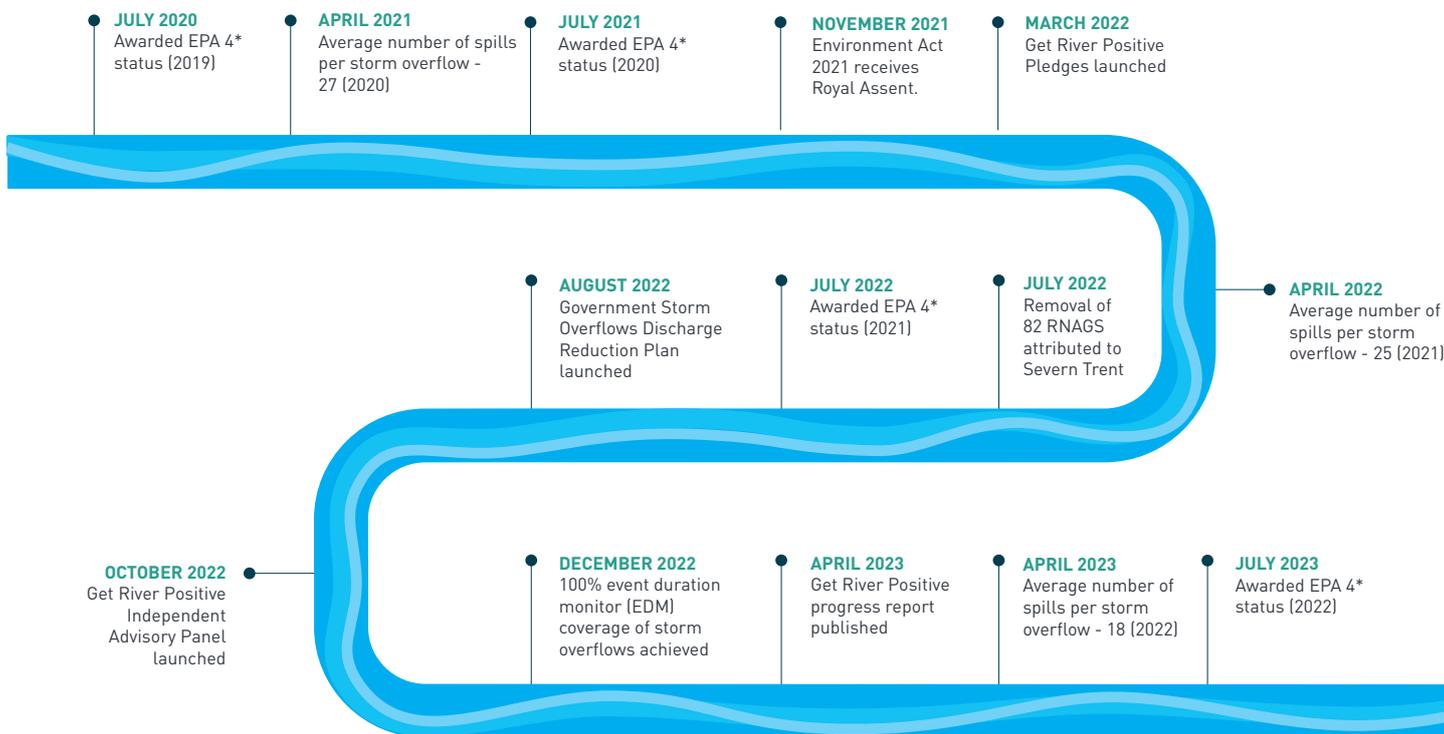


DEEP DIVE: GOING FURTHER AND FASTER ON RIVERS

1. Change is happening

Improvements in recent years have not been delivered fast enough to keep pace with our customers' expectations - the Get River Positive

Pledges we made in March 2022 are designed to show our commitment to making progress, quicker. This plan builds on those pledges.



2. Between 2025-30 we will make over £2 billion of enhancement investment in rivers

This investment will ensure that we meet all of our forthcoming statutory obligations and deliver wide ranging benefits including:

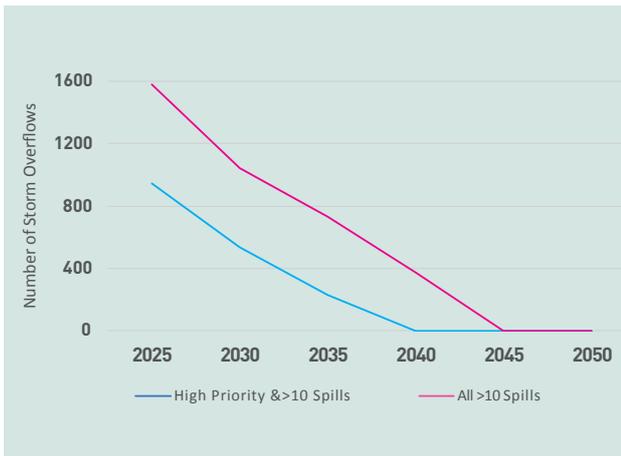
- 99% of the RNAGS assigned to us will have been addressed (from our position in 2022), with the remaining 1% restored as early as possible in AMP9, by accelerating spend in AMP8;
- 1,000 river water quality monitors will be installed;
- 1,375km of river and 6km² of lakes will benefit from phosphate removal;
- 346km of river will benefit from enhanced ammonia removal and other treatment works improvements;
- 164 tonnes per annum of phosphate will be removed from our rivers and lakes;

- 8,393 hectares of farmland will benefit from catchment nutrient balancing interventions covering 10% of all waterbodies in our region; and
- 13 environmentally sensitive areas will be improved.

3. Our investment allows us to move faster on storm overflows

The Government's Storm Overflows Discharge Reduction Plan (SODRP) sets a trajectory for delivery of the 'eliminate harm' and 'less than 10 spills' requirements. This sets both general milestones applicable to all storm overflows, and a trajectory that is specific to defined high-priority storm overflows. It is our ambition to deliver all high priority area improvements by 2040 and reduce all overflows to less than 10 spills per annum by 2045, five years ahead of the Government's targets.

Our delivery trajectory against the Storm Overflows Discharge Reduction Plan



By 2024 we will have created our storm overflow Zero Spills Hub at our Stoke Bardolph site. It will draw together a range of different approaches, on a catchment scale, to trial combinations of different solutions, including AI, to optimise asset use, behaviour change, nature-based solutions to prevent spills and more broadly find ways to manage increasing surface water challenges. Central focus points like this also have wider, cultural benefits by showing our people the art of the possible and helping to foster a zero spills mentality. This means that while our investment proposals include improvements at 562 overflows, we expect to be working on many more over the AMP.

As rivers are a shared natural asset, at the heart of many communities and impacted by a much wider range of organisations than just water companies, we believe greater cooperation and partnership working will have a key role to play in their future restoration and protection. Our 10-strong team of River Rangers are already working in local communities, and we plan to play our part in other community focused initiatives including the Ofwat Innovation Fund, United Utilities and Rivers Trust sponsored Catchment Thinking Systems Cooperative project.

4. We need to innovate

Achieving the aims of the Government’s SODRP plan is forecast to cost £56 billion across our sector as a whole. The costs to completely eradicate storm overflows will be even higher. Customers are understandably concerned about these costs, and with many competing priorities for water company investment, there would be substantial benefits to finding more efficient and effective ways of tackling spills.

Our Zero Spills Hub at Stoke Bardolph, will enable us to trial combinations of different solutions, including AI, to optimise asset use, and nature-based solutions to prevent spills.



We have been trialling 76 river quality monitors on the River Leam and River Teme gaining valuable knowledge that is informing our approach to installing 1,000 monitors in rivers across our region.



URBAN CATCHMENTS OF THE FUTURE

Managing surface water is an increasingly urgent challenge. It is complex, involves multiple stakeholders and not only impacts storm overflow spills, but also can have devastating effects on homes and properties. Climate change, with urban creep and population growth, is a significant contributor to this challenge and we plan for a 2°C increase and prepare for 4°C. However, our adaptive pathway analysis shows there is a significant investment difference between options produced by a 2°C change when compared to a 4°C scenario. With the latter, there is a clear advantage to building more adaptable blue-green infrastructure to manage the storm impact across our networks, and a strong case, supported by our customers, to deploy and enhance these approaches now.

We want to create our first 'urban catchments of the future' in four towns in our region. We will ensure these towns are future-proofed from the further effects of urban creep, population growth, and 4°C climate change, protect c.840 properties from internal flooding and improve flood resilience for over 1.3 million customers. We will do this using a combination of natural, AI, traditional and community focused solutions including:

- building nature-based resilience with 92 nature hubs, creating new green spaces in communities;
- redirecting rainfall by replacing 30 hectares of hardstanding in the form of roads and roofs with sustainable urban drainage;
- installing 150 monitors and smart controls across 4,000km of sewers; and
- using our innovative Artificial Intelligence of Things (AIOT) flow management to optimise how we use latent capacity in our existing network.

We also want to create a new team of Community Resilience Officers, using our expertise in drainage management to design solutions that communities can implement themselves. This team offers huge potential to make a difference by working with local flood action groups, introducing our expertise, and pooling resources to create accessible and attractive solutions to localised issues. Using community assets, these solutions could be as simple as adding attenuating water butts and flower beds that, when deployed cohesively, could make a real difference to surface water management.

HOW USING NATURE BASED SOLUTIONS COULD TRANSFORM A COMMUNITY IN NETHERIDGE (GLOUCESTER):



SMARTER ASSET MANAGEMENT

Sewerage assets globally have not typically benefitted from the same quality of information as gas, electricity, or even water networks. With increases in monitoring over the last two AMPs, and more to come in AMPs 7 and 8, we now have more data on our wastewater assets than ever before. This gives us a potentially transformative opportunity: Can we harness this data and combine it with our engineering expertise to optimise the performance of our assets (and therefore our performance for customers and the environment) in near real-time?

Our initial trials have proved we can dynamically control flows in our waste network using actuated gates and pump controls, allowing us to use more of the existing latent storage in our network and at pumping stations. This reduces overflow spills



and flooding incidents without the need for the construction of additional attenuation tanks. In addition, this approach will help us to stabilise the flows into our treatment works, improving our control of the treatment processes better and recover valuable resources from the wastewater. We are embedding this learning in our Zero Spills Hub and our proposals to create four urban catchments of the future. This is just the start of our journey; we see wider potential, by harnessing AI to better visualise what is happening and why on our networks, predict what is likely to happen, and then act in response.

USING AI TO SUPPORT OUR TRANSFORMATION

Our investment in AI to harness latent capacity in our sewerage network is just one example of how we are increasingly using AI and machine learning across our business to transform how we operate. We are driving better services for our customers by using big data and analytics to tailor financial support, using smart meter data to target active leakage intervention and trialling AI with online flow cytometry to identify potential water quality risks before they impact customers. To optimise asset management and operation, we are developing digital twins of our treatment works, trialling the use of AI tools to grade the condition of sewers, and applying AI to capital delivery programming. And for the environment, we have created predictive risk models to target pre-emptive action for pumping stations, blockages and storm overflows.

By 2030, these types of applications of AI and machine learning will become much more common place in how we operate our business day-to-day. Subject to proving the feasibility and desirability of solutions that are changing at a fast pace, we are planning for these applications of AI to include:

- analysing custom data to provide personalised recommendations, services and solutions tailored to individual needs;
- deploying real-time neural network based capabilities in priority wastewater catchments and water resource zones to optimise asset capacity and energy use; and
- creating near real-time visibility of performance across our network to help to predict and prevent flooding, overflow spills, leakage and supply interruptions.



Smart metered customers in Coventry are already benefiting from our 'My smart tracker' trials.



MORE FOR NATURE

Our environmental ambition does not end with rivers and nature-based solutions. Earlier this year we announced our plans to extend and bring forward our commitment to improve biodiversity on 5,000 hectares of land by 2027 to 10,000 hectares by 2025. This means that by the close of this AMP, we will have delivered a 2% share of the nation's 2042 National Nature Recovery Target. And in the next AMP we will do more – our plan includes biodiversity improvements at nine water sites and 17 wastewater sites.

We will also build on the 50% reduction in pollution incidents we have delivered over the last 10 years, with a further 30% reduction in all pollutions over the next five – an ambition we believe will push the frontier of performance for our industry in 2030. And we recognise that zero is the only acceptable target for serious pollution incidents, which we are striving to deliver before the AMP starts.

14

Average number of spills from overflows

30%

Reduction in pollutions

45%

Reduction in wastewater greenhouse gas emissions towards our 2030 Net Zero ambitions



Our Boost for Biodiversity scheme has supported Tame Valley Wetlands, the RSPB and West Midlands Bird Club to increase local willow tit populations.



Our Strongford works will become the world's first carbon neutral wastewater site in 2024. Working in partnership with others in the UK and internationally, we will trial innovative new technologies and alternative processes that can be deployed at scale.

A NEW NET ZERO PATHWAY

Severn Trent Plc is committed to reaching Net Zero operational emissions (our Scope 1 and 2 and some outsourced Scope 3 emissions) by 2030 in order to limit our impact on the climate. With over half of our energy use self-generated from renewable sources within Severn Trent Plc, and as one of the first 600 companies globally to introduce Science Based Targets approved by the Science Based Targets Initiative (SBTi), we are widely regarded as a leader in our sector. With progress to date largely funded through our base costs and as part of our non-regulated activities, it is a position we have secured without significant enhancement expenditure.

To support our ambition, next year (2024) we will retrofit the world's first carbon neutral wastewater site. This is a truly global collaboration with Aarhus Vand in Denmark and Melbourne Water in Australia, with £28 million of investment from Severn Trent, the Hub is also being supported by £10 million from the Ofwat Innovation Fund and is the first innovation competition bid in Ofwat history to have the entire UK and Ireland water sector backing its submission.

Our learnings from the Hub form an important part of our strategic enhancement investment proposal 'Net Zero Investments'. By 2030, we plan to have retrofitted successfully trialled solutions at over 100 wastewater sites. These interventions, by targeting one of the principal drivers of our Scope 1 and 2 emissions – process emissions – will make a significant contribution to the 45% reduction in our wastewater operational greenhouse gas emissions (from a 2024/25 baseline) we are targeting in the next AMP.



3

OUR CUSTOMERS BELIEVE THAT AS AN ESSENTIAL SERVICE, WATER SHOULD BE AFFORDABLE FOR EVERYONE

We are very aware that this plan comes at a time when some customers are facing difficult cost of living challenges. All of our customers have seen rises in their everyday living costs. We share our customers' view that as an essential public service, water should be affordable for all. For us, this means not only providing meaningful support to those facing financial struggles, but also keeping bills as low as they can be for every customer, and every generation of customer, with a fair balance of benefits and risks struck across each.

KEEPING BILL INCREASES AS LOW AS POSSIBLE

To achieve this balance, we have undertaken rigorous scenario testing as part of our LTDS and are very confident of the need to increase investment today to benefit this generation and the next. So, over the next five years, we plan to spend £12.9 billion – including enhancements - on our services.

Greater investment will place upward pressure on bills. To minimise the impact on our customers, we have challenged ourselves to keep increases as low as possible by driving efficiency and innovation. Our day-to-day costs will continue to be within the parameters Ofwat sets for efficient, well-run

companies. Our base costs will be c.£310 million lower than Ofwat's benchmarks, and we are driving c.£80 million of additional productivity through service improvements. Our enhancement investment proposals have undergone detailed cost maturity assessments and expert independent review, looking through four critical lenses: climate change impacts, cost/benefit assessments, cost benchmarking and evidence of customer support.

Overall, by 2029/30, our water bill will increase slightly to 1.3% of the median household disposable income from 1.2% today (based on independent forecasts of income growth). This is in contrast to energy bills which currently represent 6% of the median household disposable income.

100,000

x2

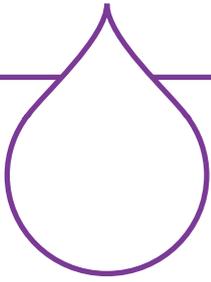
People receiving employability support over a decade

Customers receiving discounts on their bills if they need it

For those customers already, or at risk of struggling, we are proposing a substantial package of support, one that approaches the challenges of water poverty from our customers' perspective – and that means finding ways to help with their incomes as well as their bills.

By 2029/30 we will be helping 693,000 households (1.7 million people) with support measures including bill discounts, debt payment matching and payment

breaks. This includes opportunity for 310,000 more households (775,000 people) to access our Big Difference Scheme, paying a water bill of on average around £259 per year compared with £379 now (a 32% real terms reduction over seven years). With our WaterSure scheme, this is twice the number of customers we are able to support in this AMP, and exceeds the number of people we forecast will be at risk of falling into water poverty in 2030.



DEEP DIVE: EVERY CUSTOMER IS UNIQUE

The above may sound like an obvious statement, but as we develop business plans, we risk viewing customers as an 'average' rather than individuals each living in unique circumstances. In this plan, we have worked harder than ever before to do more to reflect this diversity.

1. Service

We know that a relatively small proportion of our customers may experience repeat service issues, and some may not feel able or willing to raise this with us. We never want this to happen, but recognise we can at least recompense these customers, before addressing the root cause. This year we introduced - and plan to continue - new tariffs for customers who have had their services repeatedly impacted by supply interruptions or sewer flooding. Affected customers will not pay for that part of their bill.

As part of this plan we are also introducing a team of Community Resilience Officers to work within communities impacted by surface water and flooding, where there is no single simple solution or it involves complex stakeholder interactions. Our team will work both with affected customers to help them recover, and community action based initiatives to share our expertise and encourage action to build resilience.

2. Circumstances

Our affordability support is designed to directly reflect the needs of individuals. We have used extensive customer research, and tested options against a range of different personas to ensure that we offer support that meets a wide range of needs by including bill discounts, innovative charges, water efficiency advice and support, payment matching, income maximisation advice and payment breaks and plans.

We have applied a similar lens to our strategic enhancement investments. For example, to ensure we can meet peak water demand, and in tackling lead pipes, we have overlaid information about vulnerability in different ways (including those most susceptible to health impacts) so we can better understand if we are prioritising schemes and their delivery in the optimal way.

3. Environment

A core tenet of our proposals to create four urban catchments of the future is that we will be using green/blue solutions that enhance local environments as well as manage surface water. Across the four catchments, around 35% of the areas covered rank in the top 20% of deprived areas nationally (based on the Index of Multiple Deprivation). With deprived areas often having less access to green spaces than their more affluent counterparts, we hope that through our investment, we can make a difference to the well-being of people living in these areas as well as managing flood risk.

Our nature-based solutions approach to protect communities from flooding also enhances urban biodiversity and enriches the local natural environment. Working alongside local partners, our plan uses green/blue solutions to separate around 52 hectares of land to reduce surface water, covering c.4 hectares in nature-based solutions.





GIVING BACK

We want our customers to be confident that their money is being spent well. As well as delivering ambitious outcomes for customers and the environment, and helping to future proof our service, our investment programme is expected to create 7,000 jobs in our region.

With our affordability schemes, we will support our customers who are most in need by looking at the underlying causes of poverty. In the West Midlands, for example, average incomes are below the national average and there is a prevalence of low wage and low skill work. With the number of jobs requiring qualifications forecast to rise over a decade, we want to use our resources and expertise to support 100,000 customers and their families in some of our region's most disadvantaged areas to secure better job opportunities and higher incomes. This is a longer term approach, funded by our shareholders, to tackling water poverty that focuses on creating value.

We will also continue with our successful Community Fund, which we created in AMP7 and is funded from 1% of our profits (around £2 million per year). In 2022/23 the Fund awarded £1.82 million to 99 projects. The Fund's donations are supporting the creation or enhancement of 102 community spaces and 388,815m² of the environment. The Community Fund awarded £0.47 million to projects in the most deprived communities of our region. Recognising Ofwat's support for mechanisms for the voluntary sharing of outperformance, we plan to improve further the funding of the Community Fund in AMP8.

As the leading performer on ODIs in AMP7 we propose to donate 5% of our (net, after tax) ODI outperformance payments to the Community Fund to share our success with customers. In case our ODI performance reduces in any one year we also propose to guarantee a minimum of £2 million of funding each year. And we will make £15 million of shareholder funding available to support 50,000 customers a year towards their payment arrears. It was very clear from our research with customers that debt places a heavy burden on many. So as well as helping customers with their bills today, we also want to support them to ease that burden.

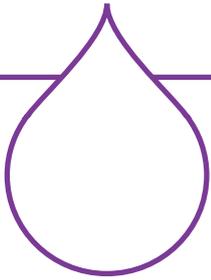
RETURNS MUST BE EARNED

We believe that incentives work and drive us to deliver better outcomes for our customers and the environment. We are very clear that rewards to our people and investors must be earned, and be transparent to our customers. In the last AMP we have worked hard to outperform for our customers, to apply robust governance to ensure that there is a clear line of sight between performance and reward, and to show this clearly in our customers' bills. But we know this remains an area of concern for customers, and perceptions of excessive profits and bonuses within our industry have impacted credibility. So we need to go further.

We are committing to even more of the rewards our people earn being based on the outcomes we deliver for people and the environment – now making up 60% of our remuneration framework, with 40% reflecting our financial performance. And to give our customers further reassurance that they will pay no more than their fair share, executive bonuses will be paid for by non-regulated companies within Severn Trent Plc.



Our Community Fund will continue to support projects across our region, chosen by our customers – such as the Far Forest Primary School Beavers, Cubs and Scouts project that supports children in leading a healthier life and gaining new skills.



DEEP DIVE: **ENSURING OUR DIVIDENDS ARE FAIR AND SUSTAINABLE OVER THE LONG TERM**

Severn Trent Water is owned by Severn Trent Plc and is one of just three UK water and wastewater companies listed on the London Stock Exchange, a position we have held continuously since the privatisation of the sector in 1989. Listed status comes with responsibilities – good corporate governance, transparency and sound financial management, that we believe are key foundations for sustainable performance over the long term.

Anyone can own Severn Trent shares and our investors range from large institutions to small shareholders, including many of our customers and employees. They expect to earn a reasonable return on the capital invested with us, but also expect us to apply appropriate judgement when deciding on the dividends we pay, taking into account the returns earned by, and investment needs, of our appointed business, as well as the contribution from our successful non-regulated businesses.

Severn Trent was the only listed group to accept Ofwat's recent licence changes in full, and for AMP8 we have updated the key principles that guide how we make decisions on dividends to reflect the changes:

1. Dividends will not impair the ability of the company to finance the appointed business

We recognise that funding the RCV growth needed in AMP8 will require a balance between equity and debt to maintain financial resilience. We recently demonstrated our commitment to responsible financing in 2021 when we raised £250 million of new equity to fund around 40% of our Green Recovery programme's nominal investment. Since the start of AMP6 our regulatory gearing has averaged 62.8% and never exceeded 67%. We will continue to manage the balance of dividends and retained earnings so that our gearing stays below 70% and our credit ratings remain robust throughout AMP8. We will pay a base regulatory dividend yield of only 2% in the absence of additional equity coming from investors.

2. Dividends will take account of service delivery for customers and the environment over time

We will assess our performance across all ODIs, performance commitments, and key environmental measures such as our annual EPA rating, when making dividend decisions, in the round and over time.

Through AMP6 and AMP7 we have consistently been a leading performer on ODIs. This means we expect to carry over a significant level of undistributed ODI returns into AMP8, helping to smooth the profile of dividends for our shareholders.

3. Dividends will reward efficiency and the effective management of risks to the appointed business

We believe that the benefits of operational efficiency and effective risk management should result in better outcomes for our customers and the environment, and sustained financial resilience for our appointed business, before being distributed as enhanced returns for our shareholders.

4. Dividends will be transparent

Our customers should be able to see and understand how we make our dividend decisions and how delivery for customers and the environment has been taken into account. This is why we have recently enhanced the Dividend Policy disclosure in our Annual Performance Report to clearly show the main components of our equity returns, the amount distributed as dividends each year, and importantly the amount retained for reinvestment in the appointed business.

CUSTOMER SUPPORT FOR OUR PLAN

The sheer scale and ambition of this plan marks a further step change to those we have produced over the last decade. As a consequence, however, it proposes bill increases, and does so during a challenging economic period for many. This makes the question of the acceptability and affordability of our plan even more important.

Given the magnitude of these issues, we are taking a three-point approach to ensure we have created a plan that our customers support and is accessible to them:

1. Our plan is built from the bottom-up. It uses a decade's worth of historic insight, on-going data gathered from customers as we deliver our service, engagement with our stakeholders and communities, and a bespoke, in-depth programme of research.

68,000

Customers engaged
in bespoke research

75

Sources of
customer insight

45

Online customer community
research activities

630

Stakeholders
engaged

1.2m

Social media
mentions analysed



2. Our plan has been tested for customer affordability and acceptability using the new industry standard designed by Ofwat and CCW.

In the first qualitative stage, participants had the opportunity to understand our plan in detail, with a proposed bill impact equivalent to £159 by 2030 plus uplifts for inflation. There were strong levels of support for our proposals and participants considered their water bills to be more affordable than many other household bills.

In the second quantitative stage, with some refinement of our investment, financing and efficiency proposals, we were able to use a lower bill impact equivalent to £149 plus uplifts for inflation. The acceptability results - at 76% overall - are very encouraging, and akin that to achieved in our plans at previous price reviews.



Our research also tested our customers, views of the ease of affordability of our projected bill levels in 2030. With 53% of households saying that they would find the plan difficult to afford in 2030, we are responding by:

- **Keeping bill impacts as low as possible.** While we are confident our investment choices provide the right balance between serving this generation and the next, we have challenged ourselves to keep bills lower. This plan includes bill impacts equivalent to £139 plus uplifts for inflation.
- **Ensuring we have the right affordability support in place.** Our research was undertaken without detailed explanation of the affordability support available for customers. As explained in detail earlier, we are putting in place a comprehensive package of support that more than doubles the number of customers we can help through bill discounts.

3. Our plan is supported by a communications campaign.

Our qualitative acceptability testing highlights the importance of explaining to customers the value they receive from this plan. Our campaign is based on research undertaken in our customers' homes and local communities as they use water and experience the natural environment in their daily lives. It is designed to ensure it is personally relevant for them. We are launching these communications shortly after this plan, and our second open 'Your water, your say' session (the first was held as we developed the plan) will give interested customers the opportunity to give us and Ofwat their views in person.

BUILDING ON STRONG FOUNDATIONS

The scale and pace of the investment we are proposing, together with the level of support on affordability, is made possible and credible by our track record and the organisational changes we are already making in readiness for a transformational AMP.

Strong performance for customers, the environment and on resilient financing

Over the first two years of this AMP, while our performance commitments have been stretching, we have, in the round, been one of the strongest performing companies in our industry:

- We are the only company that has been recognised by Ofwat as sector leading in both its 2020/21 and 2021/22 Water Company Performance Reports. This ‘in the round’ review considers performance on key customer outcomes as well as how we are investing our totex allowance.
- We were ranked in the top three in Ofwat’s Monitoring Financial Resilience Report in 2020/21 and in the top category in its 2021/22 assessment.
- We are the only company to achieve four consecutive years of 4* status on the Environment Agency’s EPA.

Water and sewerage company performance in Ofwat’s most recent (2021/22) company performance and financial resilience reports (and Environment Agency EPA status – for companies in England)

	Lagging	Average	Leading
Standard	Dwr Cymru (N/A) South West Water (2*)	Anglian Water (2*) United Utilities (3*) Wessex Water (2*) Hafren Dyfrdwy (N/A)	Severn Trent (4*)
Elevated concern	Northumbrian Water (3*)		
Action required	Southern Water (2*) Thames Water (2*) Yorkshire Water (3*)		

And in this AMP, we have ambitious proposals to ensure our C-MeX, complaints, and UKCSI performance – which have tended towards average or middle of the pack performance - reach similarly strong levels.



UNIQUELY EQUIPPED TO DELIVER LARGE INVESTMENT PROGRAMMES

To deliver on our statutory obligations and our customers' expectations, our plan is necessarily ambitious and challenging. It requires a £6.6 billion package of core capital investment over a five-year period. This is a sizeable investment programme, certainly our largest in recent history, and we know that with our sector's reputation at risk, we must be able to deliver on our commitments. We believe the changes we have already made to our capital delivery and commercial structures, and others we have in train, mean we are uniquely placed to do so.

Five reasons we are uniquely placed to deliver:

1. A strong track record of delivery

Delivery of our AMP7 programme and stepping up our run-rate to accommodate additional Green Recovery spend, will mean we are delivering £1.4 billion a year at our peak – more than our expected average annual AMP8 run-rate. This shows that our management processes and supply chain can deliver at this scale.

2. A highly skilled internal design team

In AMP6, we chose to bring design inhouse to aid cost control and standardisation. We now have a team of over 230 professionals, so that we can better manage the quality and flow of work to our supply chain and abstract more synergies across our programme. We also have access to 16 consulting firms who continue to provide additional capacity and peak demand support when needed. Our internal resource removes a key potential bottleneck in capital delivery.

3. A diverse and experienced supply chain of c.60 partners

Building on our AMP6 approach where we took the decision to diversify and deepen our supply chain, at a time when others were consolidating, we have grown from six delivery partners to 60 today. We have also added a further 12 contractors on an environmental framework to support delivery of our novel and nature-based solutions. This not only gives us extra resilience, but also creates £1 billion of capacity which is new to the sector. It means we can deliver more, without impacting other water companies.

4. Detailed modelling to accelerate investment, with confirmed supply chain capacity

Through detailed delivery modelling, we have identified opportunities to accelerate investment into AMP7, and release enough of our AMP8 programme now to meet our target of £1 billion before the end of the first year. With over £400 million of transition spend planned for the last two years of AMP7, we will ensure we hit the right run rate and deliver benefits to customers sooner.

We have also asked our supply chain about their current and future capacity. Their responses (which were independently tested) show that supply chain capacity is c.120% of our AMP requirement and 103% of our expected peak. If we allow for the growth our suppliers have indicated, these figures would be 144% and 124% respectively. This gives us further confidence that there is sufficient capacity available to deliver on our plans, and if modest capacity shrinkage were to occur, our programme would be unaffected.

5. Innovative procurement approaches

We have a strong track record of innovation and have been exploring new ways to drive efficiency and reduce our demand on the supply chain. Working closely with the Manufacturing Technology Centre and automotive supply chain, we are developing a manufacturing capability to build assets to a part, or fully, commissioned stage in controllable factory conditions. Signalling a shift away from traditional bespoke solutions used by the sector, we will have access to 'off the shelf' components that can be delivered at scale, as well as exploiting economies of scale.

We have embraced price control deliverables (PCDs) as a way of ensuring customers pay for outputs as they are delivered, while ensuring we have powerful incentives for delivery. The portfolio of PCDs we are proposing reflect our overall investment run-rate (and our confidence that it can be delivered), while bringing forward customer priorities to earlier in the AMP, including, for example, increasing resilience during peak demand which we believe will deliver immediate value to customers in the event of a warm summer.

As well as our core capital programme, we will also be using the opportunity of direct procurement for customers (DPC) to deliver four schemes, selected through rigorous application of Ofwat's criteria:

Scheme	Description
West Midlands Raw Water Storage	Conversion of a third-party owned quarry into a pumped raw water storage reservoir.
Carsington to Tittesworth	Transfer of raw water from the River Derwent and Carsington Reservoir to Tittesworth.
Minworth Water Recycling Strategic Resource Option	Providing the sole source of raw water for Grand Union Canal to transfer to Affinity Water's area.
Grand Union Canal Strategic Transfer	Raw water abstraction from the Grand Union Canal supported by the Minworth Strategic Resource Option and new treatment works and connection to Affinity Water's existing distribution system.

As a consequence of what we believe is a unique model for capital delivery in our sector, we have diversified risk and built resilience for our customers.

In addition, our approach should benefit customers of the UK water industry too by reducing our dependence on traditional supply routes. A report by Water UK identified 60 suppliers with an AMP8 capacity of c.£43.4 billion available to the water industry. We are using 11 for our AMP8 capacity requirements and plan to use less than 7% of the total capacity identified by the report. This leaves plenty of capacity across the industry, and means we will use £3.5 billion less than the Water UK report anticipated.

We have also decided not to seek to patent our new factory design expertise. Instead, we will share our learning with the sector, allowing others to gain from our investment and enhance their own delivery routes.



A new pipeline to transfer water from Carsington Water in Derbyshire to boost the resilience of water supplies has been put forward as one of our first DPC schemes.

STRENGTHENED FRONT LINES OF DELIVERY

Whether in capital delivery or customer operations, our plan is supported by bold plans to insource roles that are at the frontline of delivering for our customers. Over 12 months we will be insourcing around 1,000 roles including additional engineers, project managers, wastewater technicians and mains renewal pipe laying gangs. There are three key benefits of doing so:

- Organisational resilience – we are reducing our reliance on in-demand markets, giving us greater flexibility, oversight and control.
- Culture and competence supporting customer focus – we believe our employees are well motivated to deliver. Our employee engagement score in is the top 5% of energy and utility companies globally, and reward and recognition unites every employee to deliver for our customers and the environment. Our people have access to a dedicated Academy, where during the past year over 22,700 learners have passed through its doors and we have hosted 765 learning events generating over 56,000 learning hours. We have a strong focus on health, safety and well-being too. Since we refreshed our strategy in 2018/19, we have seen consecutive year-on-year improvements in ‘Lost Time Incidents’, giving us confidence that our strategy will continue to drive improvements in our future performance.
- Supporting economic prosperity of our region, communities and customers – we will continue to reinforce our position as a significant Midlands employer. We will create new employment opportunities which, with our Academy and Societal Strategy focusing on employability, will be accessible to a more diverse range of people than may have traditionally considered a role in our sector.

SKILLS FOR THE FUTURE

Transformation is not just about having the right technology and investment, but also having the right skills and organisational capability. We have a well-established approach to defining the future workforce we will need and making sure that we are taking the right steps today to invest in the skills we will need tomorrow. For example, investing in training to make sure our operational teams can make the most effective use of AI and emerging technologies, and creating the cyber security professionals of tomorrow through investment in apprenticeships today. By taking a long-term, strategic approach to future skills, combined with our investment in the Severn Trent Academy, we are also able to retrain, redeploy and reskill to make sure that our existing workforce can benefit from opportunities in the future, while retaining essential knowledge and understanding of our networks, operations and customers.

RESPONSIVE TO THE NEED FOR CHANGE

While we plan for five-year periods, our industry, the circumstances of our customers and the environment we operate in can be subject to significant changes during this time. In the current AMP, we have been responsive to the need to act. For example, during the current cost of living challenges, we made available a further £30 million of support to help an extra 100,000 customers beyond our current plan.

More recently (July 2023) Ofwat judged us to be “exemplary” in how we have responded to the 143 requirements in its Paying Fair Guidelines. These requirements include communicating effectively and sensitively with customers in vulnerable circumstances, offering more frequent billing frequencies to encourage customers to pay and making efforts to re-engage with customers after an initial occurrence of a failed repayment arrangement.

And as it became increasingly clear that we as a sector were not meeting customers’ expectations on rivers, we were one of the first to act, by first engaging our customers and stakeholders, and then by making our 2022 Get River Positive Pledges. Affordability and rivers are two key issues for this plan, and by not waiting to act on them, we already have existing momentum to build on.



RESPONSIVE WHERE WE NEED TO IMPROVE

There have been times when our service has not been as good as we know it can be. We have shown through focus, resources and strong motivation, we can turn this around. For example, over the last three AMP cycles, we have operated, and invested in, our catchments and assets responsibly to manage drinking water quality compliance. We were therefore pleased when these plans came to fruition in 2020 and we were moved out of the DWI's transformation programme. The Chief Inspector noted in his annual report in 2020: "This is a commendable approach and serves as an example to the industry of the necessary qualities in water company leadership."

In 2018, during a significant freeze/thaw event, we faced a number of challenges, with customer supplies disrupted. We recognised the need for improvement and change, and were therefore pleased that when a similar event occurred at the close of 2022, our performance for customers improved by 93%. We are using the learnings from these transformations as we focus on areas we know we can improve on in this plan. One example would be the expansion of our tanker fleet, which is a core part of our proposals to further boost alternative supplies to customers in the event of an issue.

We are committed to playing our part in the success of the non-household retail market. Factors such as responsiveness to service requests, and the quality of wholesaler data, are crucial to market success. Recognising the need to improve in this area, we have recently embarked on an improvement programme where, based on the Holistic Reporting measures produced by MOSL (Market Operator Services Limited), we have risen from last place to third out of 15 wholesalers (based on July 2023 reporting).

Most recently, while we have secured EPA 4* status for the last four years, the Environment Agency has raised two areas where they would like to see further improvement from us. These are:

- the operability of our estate of event duration monitors (the largest in the industry with full coverage by the close of 2022); and
- the timeliness of our reporting of potential pollutions to Environment Agency officers.

In both cases, we fully recognised the need for improvement. We have dedicated improvement programmes with executive oversight, which in the year to date are yielding promising results, and we are pushing hard for upper quartile or sector leading performance.



Our Academy provides opportunities for people to learn, develop and retrain with us in our industry. Over the past year, over 22,000 learners have passed through its doors, including attending STEM sessions to encourage more women to move into engineering careers.



CREATING INNOVATIVE, BESPOKE COMMITMENTS THAT DRIVE TANGIBLE CHANGE

We are strong supporters of the ODI framework and fully recognise the potential for well-designed incentives to drive innovation and significant improvements in areas most important to customers. For example, following the introduction of our bespoke biodiversity performance commitment for this AMP, in 2020, we announced our Great Big Nature Boost, one of the biggest nature projects in the UK. It aimed to boost nature across 5,000 hectares of land in our region by 2027 and to plant 1.3 million trees. We are proud to have exceeded our biodiversity target four years early, and we want three bespoke commitments we are putting forward in this plan to be just as impactful for our customers and the environment:

- Frontier catchments - targeting nitrate reduction in catchments upstream of water treatment works.
- Reducing traffic disruption from our work - vital in the context of our mains renewal plans, and the West Midlands' high level of car dependency.
- Capital carbon - supporting progress towards the Government's 2050 Net Zero ambitions.

CAPABILITY TO INNOVATE

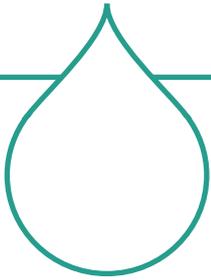
During AMP7 we evolved our innovation model, combining our physical and biological knowledge expertise with our digital and data innovation expertise, to realise the growing potential of digitalisation to optimise our operations. We have also increased investment from c.£38 million in AMP6 to £61 million in AMP7 (not including the £566 million of Green Recovery funding that has provided countless innovation and learning opportunities).

Our investment includes the creation and development of a series of firsts:

- our Resource Recovery and Innovation Centre at Spersal wastewater treatment works;
- the world's first carbon neutral wastewater treatment works at Strongford works (on target for 2024); and
- our first scale urban demonstrator for catchment wide solutions in Mansfield.



Our capital carbon commitment will help to drive down the carbon associated with large capital schemes.



DEEP DIVE: CREATING AN INNOVATION ECOSYSTEM TO DELIVER MORE FOR CUSTOMERS

We have established an innovation ecosystem that brings creative people and organisations together from multiple sectors across the globe.

Through UKWIR, Innovate UK, Ofwat’s Innovation Fund, the Net Zero partnership and other organisations, we are actively working with international partners on common challenges and shared learning.

An annual ideas challenge that seeks to nurture and stimulate innovation in the community that we serve.

Innovation Partners

Bringing together like-minded water companies to share their learning through collaboration and knowledge sharing on trials, research and ground breaking technology.

Innovation Wavemakers

World Water Innovation Forum

Severn Trent Ecosystem

Challenge Cup

Innovation Catalyst

Our annual employee innovation competition, generating hundreds of new ideas from people at the forefront of delivering our service.

Innovation Vanguard

Basing ourselves in global technology hotspots, we engage scouts within those regions to seek out new technologies that are applicable to our needs.

The £42 million of externally funded or part-funded projects we have attracted from Ofwat’s Innovation Fund, UKRI, BEIS, Innovate UK and Horizon, means we are able to deliver more value for our customers and insulate them from the inherent cost risks in innovation.

Working with leading companies, industrial specialists (from inside and outside the water industry) and pioneering academics to stretch our thinking, push the boundaries of the possible, as well as providing evidence to support our business plan.

COMMITMENT TO RESPONSIBLE, SUSTAINABLE BUSINESS

With good performance on a range of independent sustainability indices, Severn Trent is increasingly being recognised as a global leader by ESG investors. This year:



We were ranked 58th in Corporate Knights 2023 Global 100 most sustainable companies.



We ranked 5th, out of 149 entries, on the Social Mobility Employer Index, the highest of any utility.



Sustainalytics has given us a low risk rating score of 14.9, placing us in the **top 4% of utilities**.



We received a B+ 'Prime Status' for our assessment that took place on August 2022, awarded to companies with ESG performance above sector-specific thresholds.



We have maintained our AA rating from MSCI since February 2022 (Scale AAA to CCC).



We received a CDP A- rating and were recognised as a Supplier Engagement Leader.



We are ranked 14th in Tortoise Responsibility100 Index, ranking FTSE100 companies' social, environmental and business ethics.



We were awarded the Fair Tax Mark for managing our tax conduct responsibly and transparently.

Our strong positioning in Ofwat's Monitoring Financial Resilience Report shows our long-standing commitment to responsible, sustainable financing. We have worked hard to achieve a balance between an efficient cost of capital and retaining a strong investment grade credit rating.

We have demonstrated we can bring new equity into the sector with the £250 million we raised to support financing our £566 million Green Recovery investment. This means that as we enter AMP8 we have a strong balance sheet to support delivery of our ambitious improvements, and supportive shareholders.

A STATEMENT FROM OUR BOARD



A STATEMENT FROM OUR BOARD

The Board's ambition for the next five years is to drive transformative change; to play a leading role in restoring the sector's credibility with customers today through ambitious improvements and investment where it matters most. This business plan is our blueprint for that ambition, setting the agenda for everything that Severn Trent Water Limited ('the Company') will do over the next five years. Its development is underpinned by robust governance and assurance, to ensure we give our customers, regulators and other stakeholders confidence that we will deliver in line with their expectations for AMP8 and beyond.

The Board has led the strategic development of this plan (for the 2024 price review - 'PR24') and challenged the Executive Team to submit a strong proposition for customers and the environment – one that is affordable, financeable and deliverable. The Board considers that our plan achieves these aims and will enable the Company to meet its statutory and licence obligations, now and in the future.

As agreed by the Board on 26 September 2023:

In assessing the plan, the Board has sought to satisfy itself that there are appropriate and effective systems; robust approaches to risk management; and internal controls and processes in place, taking care to:

- drive ambition in the plan and ensure better outcomes for customers over the long term;
- provide Ofwat and other stakeholders with confidence that our underlying data, assumptions and our forward-looking proposals will deliver for customers, communities and the environment and enhance the overall credibility of the sector; and
- ensure the PR24 plan will deliver operational, financial and corporate resilience over the next control period and long term.



The Board is confident that the overall strategy for data assurance and governance delivers high-quality data across all aspects of the plan and long-term delivery strategy. The Board's oversight of the plan has taken into consideration:

- the supporting evidence for the proof points required to make the Board assurance statement, presented in Section 5 of Annex 1 of this plan;
- the outcome of reports and presentations from assurance providers and expert assessments;
- outputs and minutes from meetings and customer research workshops;
- personal engagement in the process through Board meetings, dedicated PR24 strategy sessions, attendance at customer engagement sessions, meetings with internal experts;
- regular performance reporting from the Executive Team ensuring the Board has a complete and transparent view of historic performance and the expected performance the plan will deliver;
- approval of other regulatory submissions - our Annual Performance Report, the WRMP, DWMP and WINEP;
- feedback from the ECP who attended Board sessions; and
- the Internal Audit function review memo confirming that all assurance findings were actioned with appropriate mitigation in place.

In line with the key principles underpinning our established assurance framework, our Board has also received a statement from each member of our Executive Committee to confirm our management's engagement with, and commitment to delivering our plan.



Our Expert Challenge Panel (ECP) has provided constructive challenge and advice to enhance our plan over nine main meetings. The Panel's Chair, Professor Bernard Crump has met our Board throughout development of our plan to report on its work.

BOARD ASSURANCE STATEMENT

Having reviewed the Severn Trent PR24 submission, and all relevant supporting assurance papers, and having taken the above into account, the Severn Trent Water Limited Board makes the following statement to confirm that it has challenged and satisfied itself that the PR24 submission:

LONG TERM DELIVERY STRATEGY

- reflects a long-term vision and ambition that is shared by the Board and company management;
- is high quality, and represents the best possible strategy to deliver efficiently its stated long-term objectives, given future uncertainties;
- will enable the company to meet its statutory and licence obligations, now and in the future;
- is based on adaptive planning principles;
- has been informed by customer engagement;
- has taken steps to secure long-term affordability and fairness between current and future customers;
- the first five years of this long-term delivery strategy is implemented in the Severn Trent 2025-30 business plan.

AFFORDABILITY

- considers the full implication of the 2025-30 business plan for customers and the plan achieves value for money; and
- the long-term delivery strategy protects customers' ability to pay their water bill over the long term and delivers fairness between what existing customers will pay and what is paid for by future customers.

COSTS AND OUTCOMES

- will deliver performance commitment levels which are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure;
- is built on expenditure forecasts included in the plan which are robust and efficient;
- the needs of the enhancement investments are not influenced by non-compliance or non-delivery of programme of work (both base and enhancement) that customers have already funded;
- proposes the best option for customers, with a proper appraisal of options;
- presents plans and expenditure proposals which are deliverable and the Company has put in place measures to ensure that they can be delivered, in doing so the Company has ensured that supply chain risk is manageable and delivery plans account for;
 - the ability of the Company and its supply chain to expand capacity and capability at the rate required to deliver the required investment;
 - the impact of similar levels of growth across the sector and any overall sector and supply chain capacity constraints; and
 - key supply chain risks and capacity constraints such as the availability of specialist resource or components;



- includes price control deliverables covering the benefits of material enhancement expenditure (not covered by performance commitments);
- contains expenditure proposals which are affordable by customers and do not raise bills higher than necessary; and
- reflects customer views on expenditure proposals, and where appropriate, proposals are supported by customers.

RISK AND RETURN

- is financeable on the basis of the notional capital structure using Ofwat's definition of the financial ratios;
- enables the actual company to remain financially resilient over the 2025-2030 period and beyond.

CUSTOMER ENGAGEMENT

- meets the standards for high-quality research on customer engagement; and
- has been informed by customer engagement and research.



Our Green Recovery programme has given us valuable experience of working with our supply chain to deploy innovative solutions – including the use of floating wetlands at our new Witches Oak treatment works. We have 12 suppliers on a specialist environmental framework, ready to deliver our AMP8 programme.

BOARD ASSURANCE STATEMENT (CONTINUED)

The Severn Trent Water Board Assurance Statement that supports the Severn Trent Water business plan and supporting documentation was approved at a meeting of the Board of Directors of Severn Trent Water Limited on 26 September 2023 and is signed by all members of the Board.



Christine Hodgson CBE
Chair

A handwritten signature in black ink, appearing to read 'C Hodgson'.



Liv Garfield CBE
Chief Executive

A handwritten signature in black ink, appearing to read 'Liv Garfield'.



Helen Miles
Chief Financial Officer

A handwritten signature in black ink, appearing to read 'H. Miles'.



Kevin Beeston
Senior Independent Non-Executive Director



John Coghlan
Independent Non-Executive Director and Chair of the Audit and Risk Committee



Tom Delay CBE
Independent Non-Executive Director and Chair of the Corporate Sustainability Committee



Sarah Legg
Independent Non-Executive Director



Sharmila Nebhrajani OBE
Independent Non-Executive Director and Chair of the Remuneration Committee



Gillian Sheldon
Independent Non-Executive Director and Chair of the Treasury Committee



Our focus on building and developing skills capability for AMP8 and beyond will see us take on 130 apprentices, 65 graduate placements and 60 summer internships this year, our largest ever intake.

KEY OUTCOMES AND INVESTMENTS



KEY OUTCOMES AND INVESTMENTS

COMMON PERFORMANCE COMMITMENTS

Common performance commitments provide a consistent means to assess: how well we are delivering for our customers and the environment; and our performance against the rest of our industry. We are proposing a stretching package of commitments that:

- set new industry performance frontiers for pollution incidents and external sewer flooding;
- target better than forecast upper quartile industry performance in 2029/30 for key wastewater measures; and
- target better than forecast upper quartile performance for the water and sewerage companies in 2029/30 for key water measures.

Commitment	Unit	Forecast position (2024/5)	Target position (2029/30)	Change
Water supply interruptions	Hours:minutes:seconds (HH:MM:SS) per property per year	00:08:00	00:05:00	-37%
Compliance risk index (CRI)	Numerical score	3.13	2.00	-36%
Customer contacts about water quality	Customer contacts per 1,000 population	1.21	0.96	-20%
Internal sewer flooding	Number per 10,000 sewer connections	1.34	1.14	-15%
External sewer flooding	Number per 10,000 sewer connections	11.69	9.12	-22%
Biodiversity	Biodiversity units per 100km ² for which the company provides monopoly services	0.00	3.59	
Operational greenhouse gas emissions (water)	Tonnes CO ₂ e	199,468	210,222	5%
Operational greenhouse gas emissions (wastewater)	Tonnes CO ₂ e	563,233	307,832	-45%



Commitment	Unit	Forecast position (2024/5)	Target position (2029/30)	Change
Leakage	% reduction in ML/d for a three year average from 2019/20	14	32	
Per capita consumption	% reduction in litres/person/day for a three year average from 2019/20	3.6	8.6	
Business demand	% reduction in ML/d for a three year average from 2019-20	-2	-4	
Total pollution incidents	Number per 10,000 kilometres of wastewater network	19.35	13.58	-30%
Serious pollution incidents	Number	0	0	
Discharge permit compliance	%	99.45	99.46	
Bathing water quality	%	N/a	N/a	
River water quality (phosphorus)	Reduction in kilograms of phosphorus per head of population from annual average of 2020 to 2022	0.12	0.57	
Storm overflows	Average number of spills per overflow	24.94	14.00	-44%
Storm overflows	Equivalent Environment Agency measure	19.94	14.00	-30%
Mains repairs	Number per 1,000 kilometres of mains	116.6	116.6	Stable
Unplanned outage	%	1.49	1.40	Stable
Sewer collapses	Number per 1,000 kilometres of sewer network	8.00	8.00	Stable

BESPOKE PERFORMANCE COMMITMENTS

Bespoke performance commitments are unique to our company, and offer incentives to pursue innovative means to achieve new or existing outcomes that are important to customers. We are proposing three:

- **Frontier catchments:** facing into the challenge of pesticides and nitrates from agriculture impacting water quality by working with 1,000 farmers to adopt more sustainable farming practices.
- **Reducing disruption from our work:** reducing the amount of time our customers spend in roadworks by 10%, including offsetting a potential 20% increase in disruption that could be caused by more than doubling our rate of mains renewals.
- **Reducing capital carbon emissions:** taking action now on capital carbon to stimulate low carbon approaches to construction in our supply chain and drive progress towards the Government's 2050 Net Zero targets.

Commitment	Unit	Current position	Target position (2029/30)	Change
Frontier catchments	Number of farms per year	189	200 (1,000 cumulative)	6%
Reducing disruption from our works	Time per job (days)	4.2	3.8	-10%
Capital carbon	Tonnes of CO2e saved	Capital project specific	Capital project specific	

ENHANCEMENT INVESTMENTS

Our plan includes £5 billion of strategic enhancement investment set out in 13 business cases that are designed to ensure we meet forthcoming statutory obligations, and respond where there is strong customer support for action.

Identified using an adaptive planning approach set out in our Long Term Delivery Strategy, 94% of the investment we are proposing is either required to deliver statutory obligations by 2030, or will work towards statutory obligations after 2030.

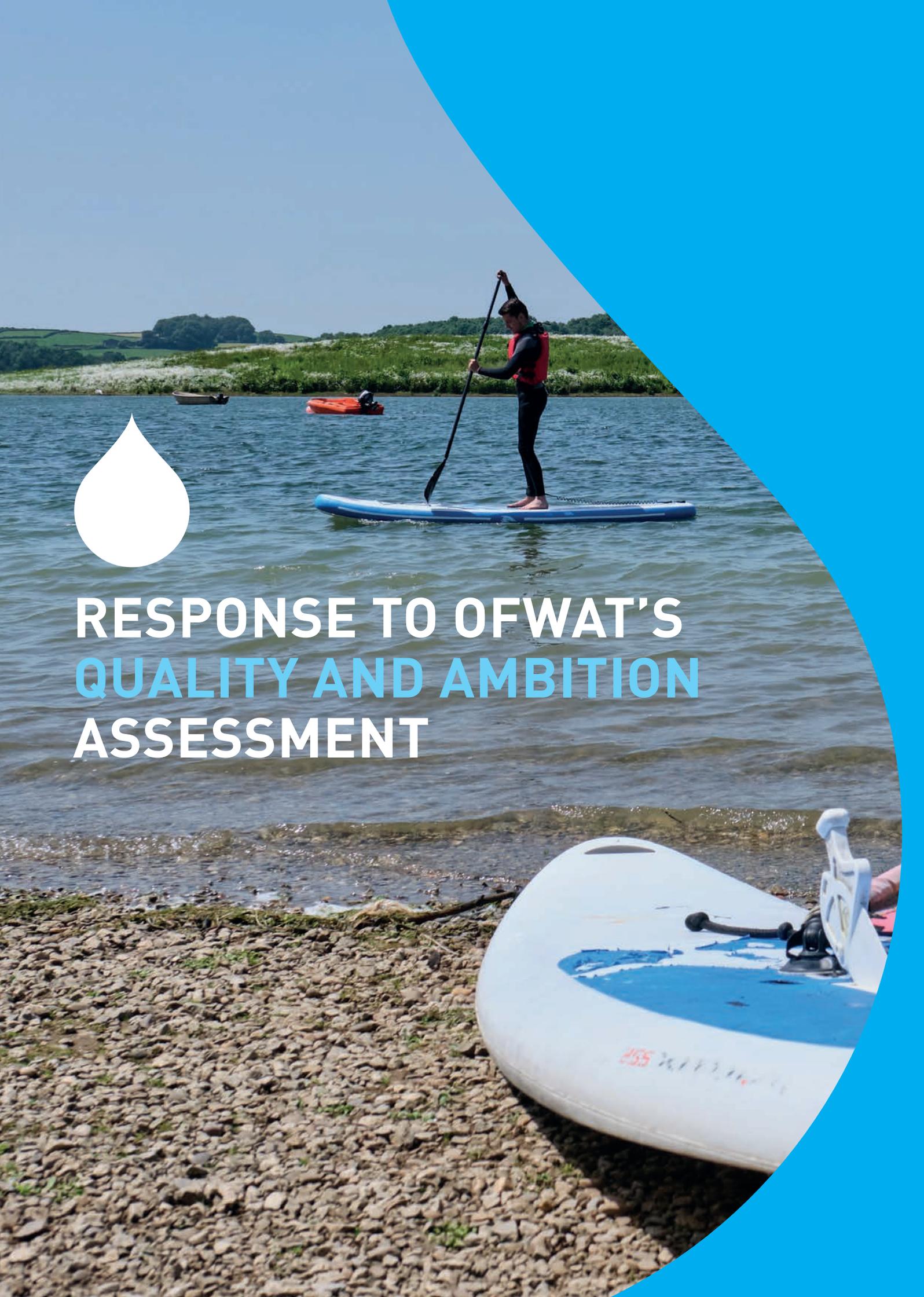
Enhancement investment business cases		Totex (£m)
Water WINEP	Covers the investigations and implementation activities needed to meet the objectives set out in the Environment Agency's National Framework for Water Resources. Includes delivery of catchment protection schemes under the Drinking Water Protected Areas drivers to reduce nitrates, phosphates and pesticides.	3094 (covering water, wastewater and bioresources WINEP)
Wastewater WINEP	Investment towards a wide range of environmental improvement measures agreed with the Environment Agency. Total includes additional investment to accelerate progress on storm overflows, and one scheme moved from AMP7 on agreement with the Environment Agency.	



Enhancement investment business cases		Totex (£m)
Bioresources WINEP	Aims to improve resilience of the sludge to land disposal route against disruption in the supply chain (triggered by issues such as pandemics, outbreaks of notifiable agricultural diseases, or changes to cropping patterns).	
Raw water deterioration	Action to protect 12 raw water sources which are exhibiting measured changes in raw water quality and volatility over time. If left unmitigated, these changes will impact our ability to treat or supply customers with water from these sources.	317
Enhancing cyber security	Playing our part to implement the Government's National Cyber Strategy 2022 and its underpinning regulations. Responding to the increasing threat of cyber attacks, and reflecting the increasing digitalisation of our service, we will implement zero-trust design principles across our systems.	71
SEMD physical security	Investment to meet the revised SEMD and the associated Protective Security Guidance (PSG) 2022, which sets out an updated view on the security requirements of our assets that are classified as critical national infrastructure (CNI).	38
SEMD alternative water supplies	Responding to changes in SEMD legislation that increase the need to supply our customers from alternative sources during a significant event. By using a blended approach of bottled water and tankering, we will increase our ability to provide alternative supplies to customers by 163%.	31
Meeting our future water needs	Without action, we will leave AMP8 with a supply/demand deficit of 184 ML/d. We will use both supply and demand measures to meet the 2030 deficit and start to tackle some of our longer-term 2050 deficit as part of a 'no-regrets' plan to meet the long-term challenge.	706
Net Zero investments	The UK is one of the few countries with a legally binding commitment to reach net zero greenhouse gas emissions by 2050, with an interim reduction target of 78% by 2035 (from a 1990 baseline). Our enhancement proposal focuses on process emissions – those resulting from our wastewater treatment processes – which account for around 30% of total emissions.	430
Reservoir Act Extension	To ensure we continue to meet our obligations under the Reservoirs Act 1975, as amended by the Flood and Water Management Act 2010, our investment includes provision for further investigation and evaluations, as well as replacement assets.	29
Resilient water networks	Observed data patterns show a correlation between increasing temperature and increased water use, and with expert support from the Met Office we predict that, by 2050, our systems will need to be able to transfer enough water to cater for peak demand over 30 days – impacts we are already seeing manifest today. Our investment will provide customers with greater resilience during summer months as well as a wider range of hazards.	128
Urban catchments of the future	Investment in four specific catchments particularly affected by climate change, population growth and urban creep, where we plan to take a nature-based approach to system management to protect homes and businesses. A combination of traditional, nature-based and AI approaches will improve resilience for 1.3 million people within these catchments and create 92 nature hubs.	170
Lead reduction	The DWI expects companies to have a long-term strategy (submitted in March 2023) for working towards lead removal. We want to continue to drive the replacement of customer-owned lead pipes while also making progress towards the long-term goal of reducing the use of phosphate dosing, by investigating lead in 1,000 schools (replacing communication pipes where needed) and supporting 500 vulnerable customers to replace their lead pipes.	27



RESPONSE TO OFWAT'S QUALITY AND AMBITION ASSESSMENT





AMBITION ASSESSMENTS

How our plan meets
Ofwat's assessment
for ambition

AMBITION ASSESSMENTS

Rising to the challenge to be ambitious

At PR24 Ofwat has challenged companies to demonstrate significant ambition in business plans to earn the accolade of an 'outstanding plan'. We welcome this challenge. We have submitted a business plan for 2025-30 that is ambitious in its service commitments, efficient in its costs, and large scale in the size of the affordability package.

The Ambition Assessment areas are organised into:

- Stretch and efficiency; and
- Affordability.

The eight assessment areas are set out in Table 1 below.

To demonstrate our ambition this part of our business plan explains how we meet all eight of Ofwat's Ambition Assessment areas for PR24.

Table 1: Ofwat's eight Ambition Assessment areas for PR24

Stretch and efficiency	1.	Evidence demonstrating that a stretching performance from base expenditure allowances will be delivered.
	2.	Evidence demonstrating that the expenditure proposals are efficient and consistent with our stretching efficiency benchmarks, and evidence on cost adjustments, if any.
	3.	Evidence justifying enhancement expenditure, which is based on adaptive plans, meets customer and environmental needs and makes progress towards delivering relevant government targets.
	4.	Evidence demonstrating that best value solutions will be delivered, by considering wider environmental and social benefits, costs, risks, opportunities for third party funding and the affordability of customers' bills.
Affordability	5.	Evidence of proposals to further enhance affordability overall.
	6.	Evidence of proposals to enhance affordability for future customers.
	7.	Evidence of proposals to enhance affordability for residential customers struggling to pay.
	8.	Evidence of high value and innovative proposals to support customers, such as voluntarily sharing outperformance, making other contributions from investors, or delivering charging innovation. Please give specific references for each proposal submitted.

AMBITION ASSESSMENT 1

Evidence demonstrating that a stretching performance from base expenditure allowances will be delivered.

Our business plan proposes to deliver stretching and ambitious improvements in service from our base expenditure and shareholder funding. We have framed our performance from base expenditure in three areas:

- stretching performance on common performance commitments;
- wider environmental performance; and
- additional service offerings we provide in the community.

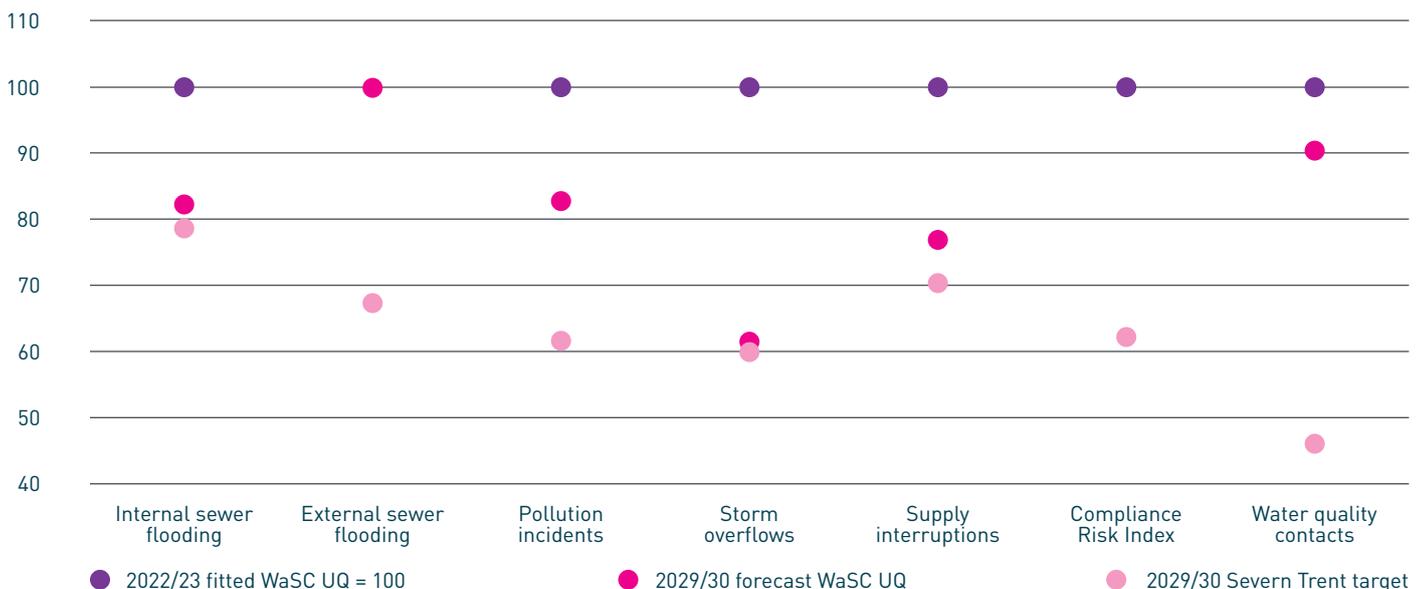
Stretching performance on common performance commitments

In AMP8 we are proposing a stretching package of performance commitments:

- We will be setting new industry performance frontiers for pollution incidents and external sewer flooding.
- For the key wastewater measures, our performance commitment levels are better than forecast upper quartile industry performance in 2029/30 and significantly better in the cases of external sewer flooding and pollution incidents.
- For the key water measures, our performance commitment levels are better than forecast upper quartile performance for the water and sewerage companies in 2029/30.

Figure 1 below shows our AMP8 performance commitment levels relative to forecast upper quartile performance to 2030 for the key water and wastewater measures.

Figure 1: Our key performance commitment levels versus forecast water and wastewater company upper quartile in 2029/30



Notes

- For the Compliance Risk Index the 2029/30 UQ is 122 and is not shown on the diagram.
- For water quality contacts we have used the UQ for WaSCs in the west to allow for underlying water quality differences between the east and west.

The extent of the improvements we are committing to is illustrated by the fact that despite being one of the leading companies in the sector, if we applied our 2030 targets to our 2022/23 service performance we would incur an annual penalty of £200 million.

This level of stretch is particularly evident in relation to the three totemic issues for the sector of leakage, pollution incidents and storm overflow spills. For these three measures we are delivering very significant improvements from base expenditure:

- **Pollution incidents** – a 20% reduction in incidents from base expenditure, contributing to a 30% reduction overall. This improvement is from a starting point of being upper quartile on pollution incidents.
- **Storm overflow spills** – a 10% reduction in the average number of storm overflow spills from base expenditure, contributing to a 30% reduction overall (on the Environmental Agency's definition). This improvement is from a starting point of already being ahead of Ofwat's expectation for 2025.
- **Leakage** – 9% reduction in leakage from base expenditure, contributing to a 16% reduction in leakage overall. This improvement is from a starting point of being upper quartile on distribution input (leakage plus water consumption).

We are also fast-tracking around £150 million in customer service improvements from base expenditure to deliver upper quartile performance on C-MeX, Ofwat's core measure of customer service, in AMP8. This includes: investment in new technologies such as a new water usage management system; insourcing key functions (including 320 expert staff and 180 fully-stocked vehicles to drive improvements in wastewater services); and enhancing our planning and scheduling of customers' jobs to enable us to transform our customers' experience with a more personalised and considerate service.

Wider environmental performance

We have a track record of delivering stretching environmental performance from base expenditure as exemplified by our river pledges that we announced jointly with Anglian Water in March 2022. These included reducing the use of storm overflows to an average of 20 per year by 2025, which has now been adopted by Ofwat as its expectation for all companies in 2025.

Looking towards AMP8 we will continue this focus, acting decisively on two of the most dominant environmental issues: Net Zero and the health of our rivers.

- **Net Zero** – by May 2024 we will have created the world's first Net Zero Hub for operational carbon emissions. This hub is being funded mostly through our own base expenditure, with some support from the Ofwat Innovation Fund and additional funding from the EU Horizon Europe Research Programme. This project will help the wastewater sector globally learn how to reduce greenhouse gas emissions and we have partnered with Melbourne Water (Australia) and Aarhus Vand (Denmark) to test and share the learnings.
- **Storm overflows** – Learning from our experience on the Net Zero Hub, we are also creating a storm overflow 'Zero Spills' Innovation Hub at our Stoke Bardolph site in 2024, funded through base expenditure. The aim of this hub is to test a range of new technologies including AI, nature-based solutions and behaviour change to find lower cost ways of achieving zero storm overflow spills than the £350 billion–£600 billion suggested by some national estimates. As we are doing with our Net Zero Hub, we will share these learnings across the sector and globally.

Additional service offerings we provide in the community

Alongside the headline performance commitment and environmental improvements, in AMP8 we intend to offer customers and the community an extensive range of additional services and benefits funded through base expenditure. These include:

Service performance

- Providing dedicated in-person visits for any water service issue, including weekend and evening appointments.
- Providing free repairs of bursts on private pipes to vulnerable customers.
- Sending out water efficiency 'door knockers' to provide advice to customers on saving water and reducing their bills.
- Increased monitoring at sites of special scientific interest (SSSIs).
- Driving towards zero pollution incidents in the long term.
- Providing free water meters.
- Sending out Network Protection Officers to provide advice to customers on avoiding sewer misuse.
- Recruiting River Rangers dedicated to improving river health and boosting biodiversity.
- Providing Community Flooding Officers.

Capital delivery

- Increasing mains renewal.
- Holding a public meeting for every capital scheme with a named contact.
- Ensuring biodiversity net gain on all capital projects.
- Holding regional public meetings on all capital schemes in an area.

Community

- Creating around 7,000 jobs in the regional economy.
- Training specialist apprentices.
- Providing free lessons to schools on water awareness.

- Providing work experience for 500 young people each year from schools in socially-deprived areas.
- Planting hundreds of thousands of trees.
- Restoring over 1,000 acres of peatland.
- Providing access to land for community groups.
- Offering free-to-the-public visitor centres.
- Generating more renewable energy.
- Offering free water bars at community events, as we did for the 2022 Commonwealth Games in Birmingham.

In addition, we have our shareholder-funded Community Fund, debt payment matching scheme and Societal Strategy, which we discuss in Ambition Assessment 8.

AMBITION ASSESSMENT 2

Evidence demonstrating that the expenditure proposals are efficient and consistent with our stretching efficiency benchmarks, and evidence on cost adjustments, if any.

Ofwat’s cost assessment data set consistently shows that we are an efficient company when comparing outturn costs to Ofwat’s modelling benchmarks.

Using Ofwat’s PR19 models and the latest data, we are the second most cost efficient company of the 10 large water and wastewater companies. Using Ofwat’s draft PR24 models, we are the second most cost efficient company, behind South West Water. In our view, our performance reflects true efficiency as demonstrated by our sector leading performance on the Environment Agency’s Environmental Performance Assessment and Ofwat’s water company performance reports.

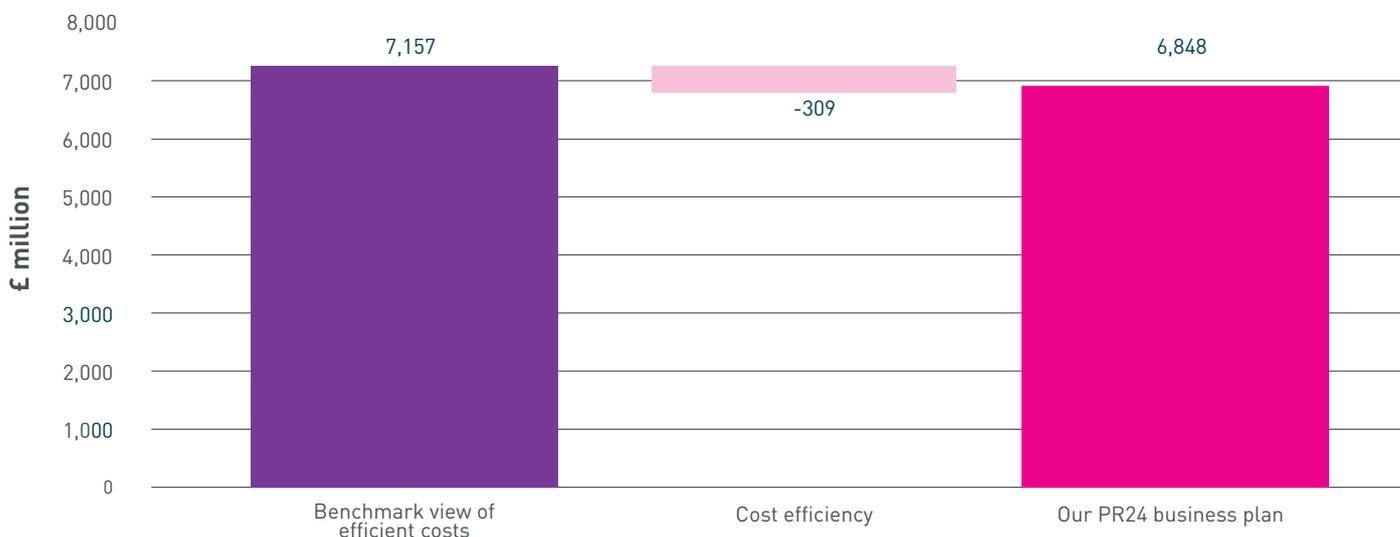
Using Ofwat’s draft PR24 models and Ofwat’s PR19 stretching cost efficiency benchmarks we beat Ofwat’s efficiency benchmarks for wastewater, bioresources and retail, and are only marginally behind the benchmark for water. No other company has beaten Ofwat’s benchmarks for three of the four services.

Our PR24 business plan continues with this track record of efficiency. We have challenged our plan based on how we expect Ofwat will apply its stretching cost efficiency tests. This involved:

- Taking Ofwat’s stretching cost efficiency benchmarks from PR19 and applying them to Ofwat’s draft PR24 cost models.
- Applying a frontier shift challenge of a further 0.61% efficiency per year and allowing for Real Price Effects. (Note: the cost models do not take account of the large service improvements we are delivering from base expenditure, as described in Ambition Assessment 1, which increase the overall efficiency stretch we are proposing).
- Incorporating a small number of cost adjustment claims to remedy limitations with the modelled efficiency benchmark, which are: water network complexity, the additional costs of operating tight phosphate consents at sewage treatment works and the cost of energy price pressures.

We find that our PR24 business plan for base expenditure is 4.3% more efficient than our expectation of Ofwat’s PR24 efficiency benchmark as shown in Figure 1 below. This increases to 5.4% if we allow for measureable service improvements delivered from base expenditure.

Figure 1: Our business plan is 4.3% more efficient than our estimate of Ofwat’s efficiency benchmark



We have benchmarked our enhancement costs using market testing, industry cost databases and independent engineering consultants' views.

For example:

- We have benchmarked our enhancement costs using market testing, industry cost databases and independent engineering consultants' views.
- For seven of our enhancement cases the benchmarking analysis showed that we were already proposing costs at or equivalent to upper quartile efficiency. This was after fully considering a wide range of options and using a robust assessment method to select the optimum solution.
- For the remaining six enhancement cases, the rigorous benchmarking process identified total efficiency savings of £208 million (around 12% of the costs of those schemes). We have reduced our costs accordingly to ensure we are targeting upper quartile efficiency for our enhancement expenditure.

AMBITION ASSESSMENT 3

Evidence justifying enhancement expenditure, which is based on adaptive plans, meets customer and environmental needs and makes progress towards delivering relevant Government targets.

We have followed Ofwat's adaptive planning process for our Long Term Delivery Strategy (LTDS) and our PR24 business plan enhancement expenditure. We have put our proposed enhancement programme through the rigorous adaptive planning process to ensure the investment remains optimum under a wide range of plausible futures, minimises the risk of technology regret, makes sure our costs are efficient and prioritises high-impact expenditure.

For example:

- By optimising across the whole plan we identified synergies that have helped to reduce costs. For example, we reduced costs by £65 million across our water enhancement plan due to there being multiple benefits across peak demand resilience and meeting supply demand balance investments.
- More than 80% of our proposed Net Zero interventions are linked to options that deploy proven technologies, so there is minimal risk of technology regret or inflated costs due to the immaturity of the technology.
- We worked with innovation experts, SIT UK, and 10 external organisations, to expand the options we considered by an additional 78 options. This process resulted in our optioneering process having solutions that totalled more than 200% of the size of the AMP8 requirements, improving the optimum solution for customers.

Across our plan, 82% of our enhancement investment is statutory by 2030, which is primarily aimed at meeting the environment's needs. This investment will: resolve 250 Reasons for Not Achieving Good Status (RNAGS), improve 562 storm overflows, improve biodiversity at 262 sites, protect 338 ML/day of raw water sources, improve physical security, improve cyber security, enhance alternative supplies in the event of a supply interruption and meet new Reservoir Act requirements at 45 tanks and reservoirs.

A further 12% of our enhancement expenditure is needed to make progress towards government targets after 2030. This phases the investment efficiently and avoids storing up costs for future customers. The expenditure includes additional improvements at storm overflows and reductions in greenhouse gas emissions. The remaining 6% is expenditure to start closing the gap between current levels of resilience and the forecast size of the 2050 service impact of climate change. As part of this enhancement investment, in AMP8 we will be creating an extra 282 ML/day of water to deploy during peak demand and removing 230,000m³ of rainfall from our wastewater system.

Our enhancement expenditure, combined with improvements funded from base, is accelerating progress against the Government's targets for storm overflows (meeting the Government's 2050 target five years early), leakage (meeting the Government's 2050 target five years early) and demand management (meeting the Government's 2038 target eight years early).

Our investment in operational Net Zero means we will continue the momentum we have built over AMP7, offset the upward pressure on our wastewater emissions from more environmental investment, and keep pace with the Government's 2037 and 2050 targets – while forging a pathway for our sector to follow.

Our enhancement investment is also designed to keep options and make sure we can adapt our plans. This investment covers trials, investigations and installing monitoring and telemetry.

We are also fast tracking just over £400 million of enhancement expenditure into the current AMP (AMP7) to deliver outcomes for customers faster, reduce future investment burdens and support efficient delivery by smoothing our investment profile. That's on top of the £566 million (2017/18 prices) additional Green Recovery investment we are already making in this AMP to reveal information about, and reduce the cost of, for example, delivering low-carbon water resources, keeping surface water out of sewers and removing lead pipes.

We have also listened to our customers about what they feel they don't need right now. For example, customer support was relatively lower for bathing rivers, so we have removed them from our AMP8 business plan.

AMBITION ASSESSMENT 4

Evidence demonstrating that best value solutions will be delivered, by considering wider environmental and social benefits, costs, risks, opportunities for third party funding and the affordability of customers' bills.

We will be delivering best value solutions as is illustrated through our approach to: considering different project options; selecting projects under different futures; offsetting costs through third party funding; and taking into account affordability concerns.

Considering different project options

In line with the LTDS guidance, each of our enhancement business cases has followed an extensive optioneering process to identify optimal solutions for customers, taking account of environmental and social benefits, costs, risks and opportunities for third party funding.

To implement the optimisation approach we applied a Benefit Assessment Tool (BAT) that fully considers both best value and least cost solutions to all our enhancement business cases. The BAT considers seven natural capital benefits, marginal benefits for nine common performance commitments, biodiversity metrics, public health metrics and seven non-monetised benefits such as education, recreation and community cohesion. On the costs side, our BAT considers direct costs, risks and carbon impacts. It also takes account of third party funding. This makes sure the LTDS optimisation takes account of best value.

Project selection under different future

Best value is an integral part of the adaptive planning process we have used for the solutions in our LTDS and PR24 business plan. As part of the LTDS we have run over 1,000 optimisations to identify solutions that represent both least cost and best value under all plausible futures, taking account of Ofwat's eight common reference scenarios (CRSs).

Over 99% of our core pathway expenditure represents the best value strategy to meet the 2050 ambitions under all eight of Ofwat's CRSs. This consists of 84% which is best value in all plausible future scenarios and 15% which is the best value option in most scenarios. Across almost all investment areas the best value and least cost plan are the same.

Following stakeholder feedback about the importance of resilience, combined with the results from the cost benefit analysis, we consciously moved from best value in 'all' to 'most' plausible future scenarios for some business cases. The main example of this is water resources. We are proposing to close slightly more than the deficit for water resources in AMP8, although this only represents 1.6% of average daily water delivered. This approach has two advantages given the long term deficit has very high certainty: first, it allows us to reflect customer feedback that they prefer us to spread costs over longer time periods; and second, it allows us to deliver water resources at a lower cost, with an overall saving of £45 million.

Offsetting costs through third party funding

We have already identified more than £180 million of potential third party funding for our AMP8 enhancement expenditure. This is where our proposed schemes have overlapping drivers or solutions with other organisations' schemes in the next five years.

Where these partnerships have been confirmed and specific synergies have been identified, we have reduced our enhancement costs. For example, we have netted off around £10 million from our enhancement case on urban catchments of the future. We have considered the learning from our Green Recovery urban flood resilience programme in Mansfield to help us identify ambitious but realistic expectations for third party funding. In many cases third party funding drives wider benefits for customers and the environment rather than reducing costs.

Taking into account affordability concerns

We considered affordability by looking at the enhancement and base expenditure programmes in the round to take account of the overall effect on customers' bills. We consulted customers and stakeholders on the long term bill impact of our investment programme. To keep bills down we have taken a number of measures, including:

- Supplementing enhancement expenditure with delivering more from base expenditure and shareholder funds at no additional cost to customers;
- proposing base expenditure that is 4.3% more efficient than our expectation of Ofwat's PR24 efficiency benchmark;
- deferring some enhancement schemes, with the Environment Agency's approval, to test new solutions;
- dropping our bathing rivers proposal based on customer feedback;
- putting our proposed enhancement programme through a rigorous adaptive planning process to make sure our core pathway expenditure represents the best value strategy; and
- reducing our enhancement costs following benchmarking based on market testing, industry cost databases and independent engineering consultants' views.

AMBITION ASSESSMENT 5

Evidence of proposals to further enhance affordability overall.

Our customer research finds that the cost of living is now one of the top issue for customers, driven by rising energy bills and inflation. We have reflected customers' views by keeping down the AMP8 bill increase needed to deliver environmental improvements as much as we can.

- **Affordability overall is helped by our positive starting position on customers' bills:**

- We have the second lowest bills of the ten large companies in England and Wales, around £42 per year lower than the average of the other nine large companies.
- Our water bill costs around £35 per month at present compared with £172 per month for council tax, £173 per month for energy bills and £840/£927 per month for rent in the East/West Midlands.
- In the Global Water Tariff survey our bills are in the middle of those for western countries at \$4.26 per m³. This is lower than \$11.19 in Seattle, \$7.93 in Washington DC, \$7.50 in Perth, \$6.58 in Berlin, \$6.46 in Glasgow, \$5.87 in Copenhagen, and \$4.76 in Brussels.
- We are delivering exceptional performance for these relatively low bills:
- We are proud to be the only company to have ever secured 4-star status, the top grade, on the Environment Agency's EPA for four years running.
- We have been in Ofwat's top category for service delivery for the last two years.
- We have been in Ofwat's top category for financial resilience for the last two years.

- **Some of the main ways we will minimise the increase in bills next AMP and help to enhance affordability overall are:**

- We are proposing ambitious improvements in service from our base expenditure, at no additional cost to customers, to enhance affordability overall. This includes funding the following improvements from base: a 20% reduction in pollution incidents, a 10% reduction in storm overflow spills and an 9% reduction in leakage with additional improvements funded through enhancement expenditure. The extent of the improvements we are committing to is illustrated by the fact that our current, leading performance on the common PCs would result in an annual penalty of £200 million based on our proposed stretching targets for 2030.
- We are proposing to provide extensive benefits for customers through base expenditure in AMP8 as set out in Ambition Assessment 1.
- As explained in Ambition Assessment 2, based on Ofwat's models of base cost efficiency we calculate we are currently the second most cost efficient company of the ten large water and sewerage companies, with a much better service performance than the first company. To enhance affordability overall we have been ambitious and challenged our base expenditure submission to fit within Ofwat's draft models for efficient base expenditure including an annual frontier shift of 0.61% efficiency per year. Our PR24 business plan for base expenditure is 4.3% more efficient than our expectation of Ofwat's PR24 efficiency benchmark.
- As explained in Ambition Assessment 2, we have put our proposed enhancement programme through the rigorous adaptive planning process to minimise the risk of technology regret, make sure our costs are efficient and prioritising high-impact expenditure. We have also benchmarked our enhancement costs using market testing, industry cost databases and independent engineering consultants' views.

- As explained in Ambition Assessment 3, we have followed Ofwat's adaptive planning process in our LTDS to enhance affordability overall by making sure customers pay no more than their fair share for the long-term investment required in the water sector. As a result, in our PR24 business plan: 82% of our enhancement investment is statutory by 2030, which is primarily aimed at meeting the environment's needs; 12% of our enhancement expenditure makes good progress towards Government targets due after 2030, to phase the investment efficiently and avoid storing up costs for future customers; and 6% of our enhancement investment starts closing the gap between current levels of resilience and the forecast size of the 2050 service impact of climate change.
- As explained in Ambition Assessment 4, we have deferred and dropped schemes where appropriate to do so. For example, we have deferred some schemes, with the Environment Agency's approval, to test new solutions in AMP8 and based on customer feedback we dropped our proposed bathing rivers scheme for AMP8.

The result of our efforts to minimise the increase in bills in AMP8 is that our water bill will only increase from 1.2% of the median household's disposable income last year to 1.3% in 2029/30.

AMBITION ASSESSMENT 6

Evidence of proposals to enhance affordability for future customers.

Our PR24 business plan and Long Term Delivery Strategy (LTDS) are designed to enhance affordability for future customers as well as current customers.

Our water bill is currently 1.2% of the median household's disposable income, compared with 6% for energy bills. By 2029/30, following the large investment programme to improve the environment, our water bill will have increased slightly to 1.3% of the median household's disposable income based on independent forecasts of income growth.

Our proposals, discussed in Ambition Assessment 5, to keep down the increase in AMP8 bills for all customers will also benefit future customers. These include that: we are proposing ambitious improvements in service from our base expenditure, at no additional cost to customers; our PR24 business plan for base expenditure is 4.3% more efficient than our expectation of Ofwat's PR24 efficiency benchmark; and 99% of our enhancement investment is needed under all, or almost all, scenarios with the remaining 1% required to keep options and make sure we can adapt our plans to benefit future customers.

For intergenerational fairness, to enhance affordability for future customers and to ensure we are not storing up problems for the future, in our LTDS we have chosen to go faster in areas where the science and technology is mature enough to progress now (e.g. greenhouse gas reductions).

To enhance affordability for future customers in AMP6 we spent to within 1% of our total expenditure allowances and we are not seeking totex outperformance in AMP7. This means we are reinvesting any cost efficiencies we make in further service improvements and to strengthen our foundations for future delivery. Our sector leading service performance illustrates that we are not storing up future costs for customers through underspending our totex allowances.

We have a strong focus on innovation to improve services and reduce costs for future customers. We have established an innovation ecosystem that brings creative people and organisations together from multiple sectors across the globe. For example, through our Net Zero Partnership with Aarhus Vand (Denmark) and Melbourne Water (Australia) we are working together to reduce our carbon emissions and identify efficient approaches that can lower the cost of the Net Zero transition for future customers.

In the same spirit we are accelerating investment and trialling new approaches, including our £566 million (2017/18 prices) innovative Green Recovery programme, and fast-tracking over £400 million (2022/23 prices) of AMP8 transitional expenditure into the final two years of AMP7. The Green Recovery programme will help us to reveal information about, and reduce the cost of, for example, delivering low-carbon water resources, keeping surface water out of sewers and removing lead pipes. We are sharing our findings with the rest of the sector to help reduce costs for all future customers, not just Severn Trent's.

To enhance affordability for future customers we are maintaining good financial health, with a strong balance sheet, a track record of raising new equity (£250 million to support our Green Recovery investment) and being rated in the highest category for financial resilience by Ofwat. This enables us to raise money from investors to help spread the cost of investment across the generations of customers who will benefit from it.

We are also taking a prudent approach to the Pay-as-you-go (PAYG) rates and RCV run off rates in our AMP8 business plan to enhance affordability for future customers. Our PAYG rates are lower than at PR19, and our RCV run off rates are within Ofwat's upper limits.

As we describe in the next section, by 2029/30 310,000 more households (775,000 people) will be on the Big Difference Scheme social tariff paying a water bill of on average around £259 per year compared with £379 now (a 32% real terms reduction over seven years). In total, we expect to support up to 512,000 customers with our Big Difference Scheme social tariff and WaterSure by 2029/30. This is higher than the number of customers we forecast to be in water poverty in 2029/30, which will enable us to provide bill discounts to anyone in water poverty and this is helping bring them out of water poverty.

AMBITION ASSESSMENT 7

Evidence of proposals to enhance affordability for residential customers struggling to pay.

Our business plan includes a total package of affordability support for residential customers struggling to pay worth £550 million over 2025-30 in our plan, summarised in Figure 1 below.

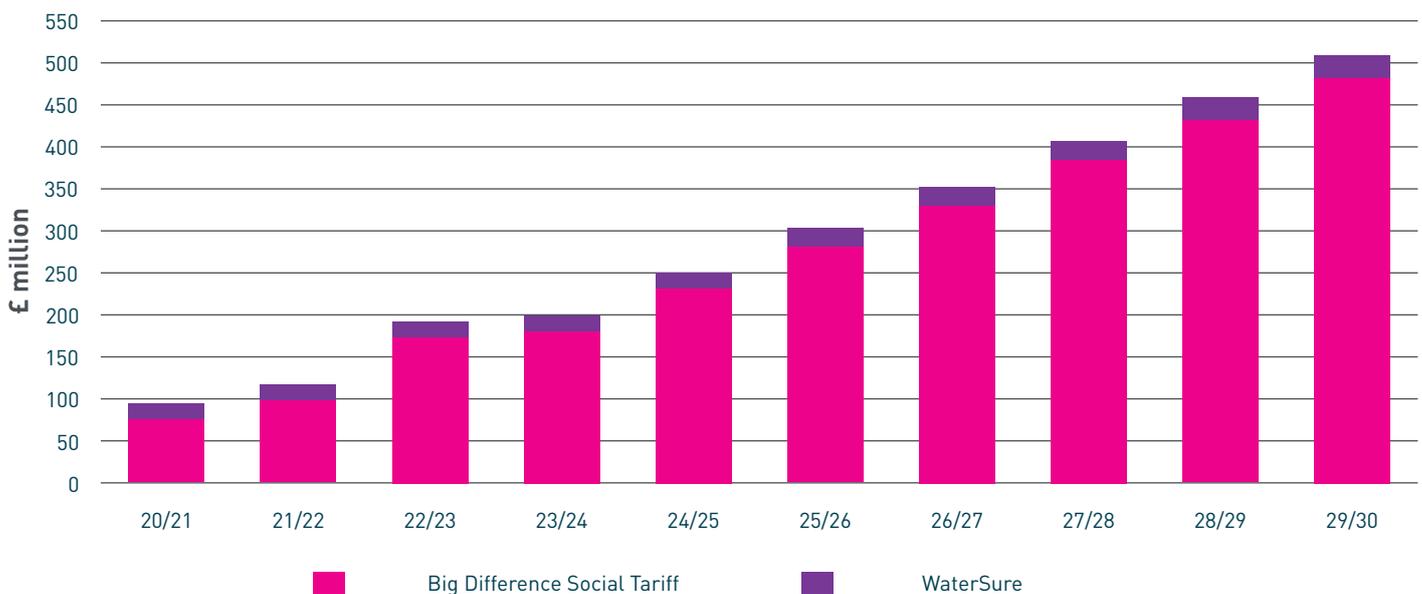
We understand this is the largest support package available from any water company in AMP8, from the information publicly available when we submitted our business plan.

We expect to support up to 512,000 customers (1.3 million people) with our Big Difference Scheme social tariff and WaterSure by 2029/30 through a steady expansion in AMP8, as shown in Table 1. Supporting 512,000 customers is higher than the number of customers we forecast to be in water poverty in 2029/30, which will enable us to provide bill discounts to anyone in water poverty, this is helping bring them out of water poverty.

Table 1: Support available for our residential customers by 2029/30

Support scheme for customers	Number of households benefitting in 2029/30
Big Difference Scheme social tariff (bill discounts)	490,000
WaterSure (bill discounts)	22,000
Innovative charges	3,000
Water efficiency advice / support	55,000
Income maximisation advice	3,000
Payment breaks	60,000
Payment plans	60,000
Total	Up to 693,000 (1.7 million people)

Figure 1: Increasing support for customers through bill discounts (000s households)



We are not waiting until AMP8 to support our residential customers who struggle to pay. For example:

- Last year we expanded our affordability programme to support an additional 100,000 customers with the cost of living crisis.
- This year we launched a scheme to provide up to 50,000 customers on the Big Difference Scheme with debt payment matching support.
- In July Ofwat judged Severn Trent to be 'exemplary' in how we have responded to Ofwat's 143 requirements in its Paying Fair Guidelines.

To make sure we target our support effectively we are improving how we identify those in need through using more granular data combined with more sophisticated analytics, improved systems for our frontline staff and partnerships with others to identify those we might have missed.

We will be providing up to a further 181,000 households (450,000 people) in 2029/30 with other forms of support calibrated to their needs. These are innovative charges (3,000 households), water efficiency advice / support (55,000 households), income maximisation advice (3,000 households), payment breaks (60,000 households) and payment plans (60,000 households).

Early in AMP8 we will introduce a streamlined application process for all our support schemes and free services in one place, which anyone can access to see what they might be eligible for.

Alongside direct support, we are looking to enable customers to take more control of their consumption by installing one million smart meters in AMP8. This has three benefits:

- Faster identification and resolution of customer-side leaks. In our Coventry and Warwickshire trial we have reduced the time it takes to identify and fix a leak on a customer's supply from 134 days with a traditional meter to 32 days with a smart meter, saving customers money.
- Control of consumption. Smart meters provide an opportunity to help our customers, especially low-income customers, take control of and reduce their bills. Responding to our stakeholders' feedback we will be accompanying installation of the meters with advice on how to save water and on how to keep payments stable because some customers are concerned about more variable bills.
- Innovative tariffs. The smart meters will also help us to trial rising block tariffs, which are an innovative way of allowing prudent users of water to benefit from lower charges.

AMBITION ASSESSMENT 8

Evidence of high value and innovative proposals to support customers, such as voluntarily sharing outperformance, making other contributions from investors, or delivering charging innovation. Please give specific references for each proposal submitted.

Our ambitious PR24 business plan covers all three areas Ofwat mentions for high value and innovative proposals to support customers.

Voluntarily sharing outperformance

In AMP7 we created our Severn Trent Community Fund, through which we donate 1% of our profits (around £2 million per year) to community projects. In 2022/23 the Fund awarded £1.82 million to 99 projects. The Fund's donations are supporting the creation or enhancement of 102 community spaces and 388,815m² of the environment. The Community Fund awarded £0.47m to projects in the most deprived communities of our region last year.

Recognising Ofwat's support for the voluntary sharing of outperformance we are proposing to further improve the funding of the Community Fund in AMP8. As the leading performer on ODIs in AMP7, we propose to donate 5% of our (net, after tax) ODI outperformance payments to the Community Fund to share our outperformance with customers. In 2021/22 this would have resulted in funding of £2.7 million for the Fund. In case our ODI performance reduces in any one year, we also propose to guarantee a minimum of £2 million of funding each year for the Community Fund from our ODIs.

Contributions from investors

Our investors are funding our ambitious Societal Strategy, which is a ten-year strategy to:

- help 100,000 people with skills, jobs and work experience over ten years to improve their economic and life chances and make a sustainable difference to the financial stability of their households such that fewer need formal help with bills over time;
- deliver 10,000 hours of free employability training each year in the communities who most need it; and
- work with hundreds of schools in socially-deprived areas to provide work experience to 500 young people per year.

Our investors are also funding a massive expansion of payment matching debt support for our customers from 600 people per year with funding to allow up to 50,000 customers to benefit by 2025. We are doing this by expanding our existing social tariff, the Big Difference Scheme (BDS) to include an arrears payment matching fund called BDS Plus. If fewer than 50,000 customers qualify for payment matching in a year we expect to increase our contribution to debt reduction for those who do qualify. This scheme responds to customer and stakeholder feedback about the mental health consequences of being in debt and the need to support some customers with both their arrears and their ongoing bills.

Charging innovation

We are embracing the new opportunities for charging innovation made possible by Ofwat's 'Conclusions on charging innovation to support affordability' in March 2023. We are proposing a rising block tariff (RBT) trial of 15,000 customers (3,000 a year) who are on smart meters over AMP8. This is ten times the size of Affinity Water's current trial for 1,500 customers.

The RBT trial will test low unit rates for essential water use with higher unit rates for discretionary use. We will implement the trial carefully, learning from earlier trials and improving the design over time as we learn from experience. We will keep CCW and Ofwat informed about customers' behavioural responses to the trial and will share our findings with the rest of the water sector.



QUALITY MINIMUM EXPECTATIONS

How our plan meets
Ofwat's minimum
expectations for quality



MINIMUM EXPECTATION 1

The plan is accessible and follows a clear structure, meeting our requirements as specified in our guidance, such as page and document limits where specified.

Our submission is structured to work within Ofwat’s guidance (<80 documents, a main plan that does not exceed 300 pages, and no single document is over 30MB). Our approach aims to provide a clear

articulation of the outcomes we want to deliver, while ensuring we succinctly present the evidence Ofwat requires to complete the Quality and Ambition Assessment (QAA).

<p>Plan overview</p>	<p>This document is designed for informed stakeholders. It sets out our ambition for the next five years of our service, the transformation we want to make, how and why.</p> <p>The first section has been written for interested customers, as an accessible introduction to our plan, and explains the key changes they will see, and the impact on their bills. A broader customer focused campaign will also help to launch the plan.</p>
<p>Main plan (plan overview plus QAA responses)</p>	<p>Our main plan submission comprises our plan overview (above) and summary information on how we are meeting each of the QAA tests.</p>
<p>Annexes</p>	<p>Our annexes provide more detailed information on our plan and in support of the QAA assessment. They are grouped under each of the QAA test areas for ease.</p> <p>Annex 2 is our Long Term Delivery Strategy.</p>
<p>Strategic enhancement investments</p>	<p>Supporting our plan, and developed using the adaptive planning process set out in our Long Term Delivery Strategy, these documents put forward detailed cases for the enhancement investment we propose to make in the next five years.</p> <p>Developed iteratively over three years, the document numbering is their initial allocation - gaps reflect where we have stopped pursuing cases either because the need for action in the next five years was not strong enough, or the outcomes could be delivered within base expenditure.</p>
<p>Supporting information</p>	<p>This suite of documents include our models, data tables and accompanying commentaries. It also includes additional submissions including our cost adjustment claims and our sludge strategy.</p>

Redacted information

In the public domain version of our plan, we have sought to minimise any redactions. Where these have been made, they are on the basis of:

- Commercial sensitivity. We have redacted historic cost curves, unit costs and supplier quotes on the basis that sharing this information could

prejudice future tendering, and result in a loss of value for customers.

- Security. We have redacted information about some sites, including specific information about location and population served.

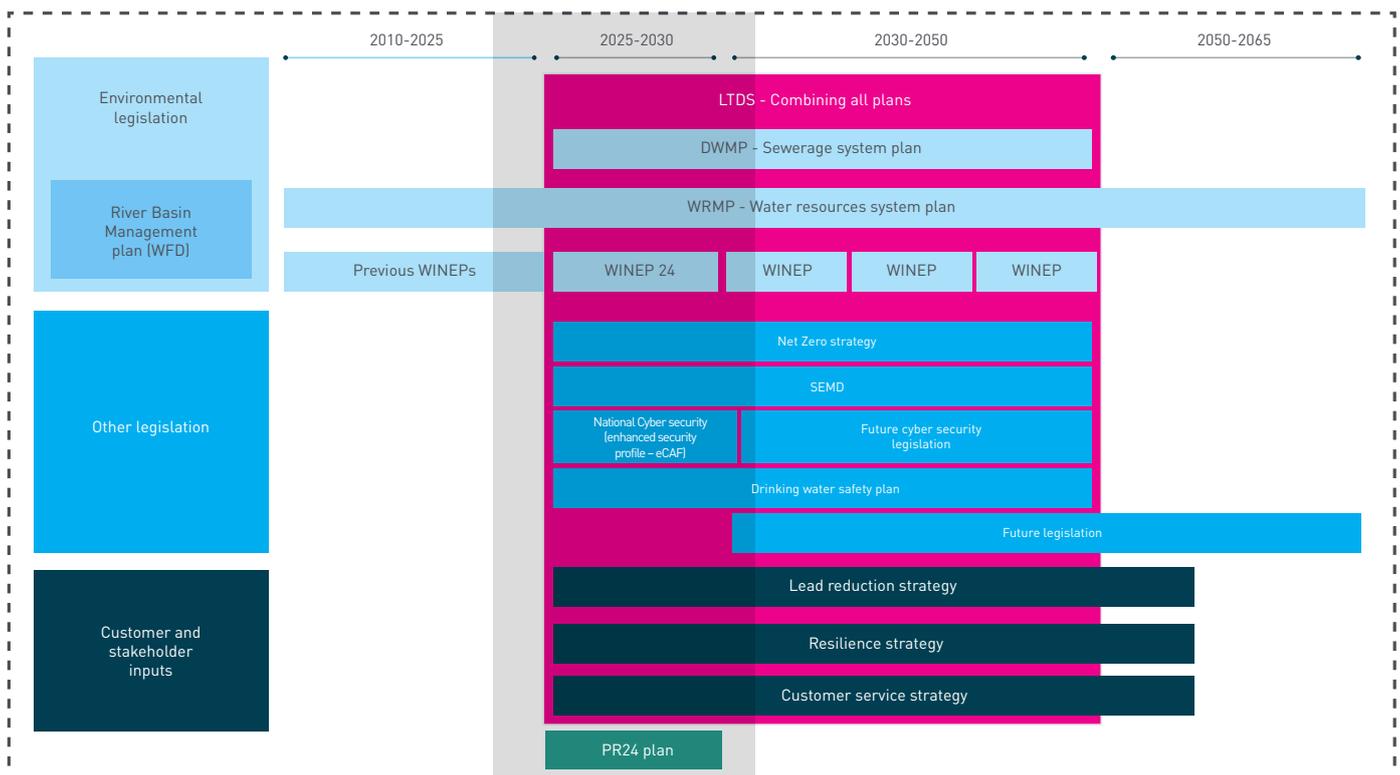
MINIMUM EXPECTATION 2

The company’s PR24 business plan is fully consistent with the Long Term Delivery Strategy (LTDS) and the company presents a single adaptive strategy, rather than multiple alternate plans.

Key points:

- **Our business plan delivers the first five years of our LTDS, working towards a common vision and ambition.** Both our LTDS and business plan work towards the same vision: no matter what the future holds, our customers can depend on our high quality and reliable, sustainable and affordable service.
- **Our vision:**
 - is a progression of our purpose ‘taking care of one of life’s essentials’;
 - embeds what has been, ‘and what we expect to remain fundamentally important to our customers (our customer imperatives) as we achieve that purpose – quality and reliability, sustainability, and affordability – each with underpinning outcomes derived from customer research:
- embraces the context of often rapid changes in our operating environment so ongoing transformation will be needed to continue to meet these imperatives in the future;
- is supported by a strategy that reflects our strengths and how we work best - performance-driven, sustainability-led; and
- is a common anchor for this business plan and our LTDS.
- **Our LTDS and business plan have been developed in full consideration of our statutory requirements, our other strategic planning frameworks, wider legislation, and customer and stakeholder needs, preferences and priorities.** Figure 1 illustrates the inputs into our LTDS, relevant strategic planning frameworks and alignment with our business plan.

Figure 1: Inputs into our LTDS, planning frameworks, and alignment with our plan



- **Our LTDS and business plan work towards a core pathway and three adaptive pathways.**

- Over 99% of our core pathway represents the best value strategy to meet our 2050 ambitions – and remains the case under all eight of Ofwat’s Common Reference Scenarios (CRS). It includes ambitious performance improvements from base expenditure and our enhancement business cases.
- We have created three adaptive pathways (‘adverse climate change’, ‘societal shifts’ and ‘Government-led legislative future’), which reflect plausible and distinctly different routes through the eight CRS that may need to be navigated in order to achieve our 2050 ambitions.
- We have re-optimised our investment programme to compare the three adaptive plans to our core pathway to identify differences and to understand if we would make different investment choices if we knew we were heading to a different future. This led to one change to water resource options - constructing a larger solution in the short term to avoid the future cost. This analysis gives us confidence that we will be able to meet the 2050 ambitions under a range of alternative futures and maintain an optimal investment profile.

- **We have sought to ensure the data used for our adaptive planning is robust, consistent and uses appropriate sensitivity analysis to take account of inevitable uncertainty when projecting trends 25 years into the future.**

Our data quality and assurance activities include:

- **Assessing data quality.** We have reviewed the c.150 data sets that are the inputs to our LTDS against a best practice method for assessing four key factors: availability, quality, usability and security. Over 95% of our datasets were assessed as ‘green’ or ‘amber’, the latter including forecast data (for example, climate change) whereby the inherent uncertainty prevents it being assessed as green. To manage this risk, we have carried out sensitivity analysis on data assumptions and developed improvement plans (linked to our LTDS monitoring plan) to capture data to enable us to capture observed data which will be used to validate models. **When taking account of the eight CRS and all of the sensitivity testing we have run over 1,000 optimisations to identify solutions that represent both least cost and best value under all plausible futures.**

- **Consistency review.** We have developed a robust process and associated governance to check the assumptions and inputs for every aspect of our enhancement programme. This process included both data and logic checks. We have used process description templates (PDTs) to manage the process of transferring inputs between models and then into data tables.
- **Assurance.** In line with our risk-based approach and three lines of defence model (see Minimum Expectation 5), we have undertaken first and second line assurance on the data and inputs included in our strategic enhancement business cases. Jacobs have reviewed the consistency of the data and the evidence presented in the enhancement business cases and LTDS.

- **In total, we have undertaken five packages of assurance on our LTDS.**

As a new requirement, including a diverse range of workstreams, we have designed an iterative assurance process, broken down into the following packages:

- **Package 1:** Our adaptive planning approach and interpretation of the guidance (Stantec).
- **Package 2:** Customer engagement (Sia Partners).
- **Package 3:** The decision-making process (Jacobs).
- **Package 4:** The analysis and tools (split between data inputs and decision support tools) (Stantec and Arcadis Gen). Additional assurance has also been done on our approach to cost benefit analysis and cost robustness and efficiency.
- **Package 5:** Documentation and articulation of our LTDS in the round (Jacobs).

- Our Board’s Assurance Statement includes an explanation of the process we have followed to satisfy ourselves that our LTDS is ambitious, high quality, informed by customers, equitable across the generations it serves, and represents a single adaptive strategy to ensure we are able to deliver our Long Term Delivery Strategy ambitions and statutory obligations.

Read more: Annex 2 Long Term Delivery Strategy sets out in more detail how it was developed, and Annex 1 Data, Information and Assurance explains our assurance processes in more detail.

MINIMUM EXPECTATION 3

The company provides sufficient and convincing evidence to demonstrate how its track record of performance, or lessons learnt from poor performance, support the credible delivery of the proposals in its plan.

Key points:

- We have a strong track record of delivering:**

- **Improvements for customers.** We are the only company to have secured 'leading' status in Ofwat's Water Company Performance Reports in the first two years of this AMP. We have performed at or above our commitment level on 9 out of 12 key outcomes in both years. Our analysis of available comparative data for 2022/23 shows that we continue to offer strong performance in the round, with 79% of our operational measures 'green' and significant comparative strengths in our waste service,

achieving upper quartile performance on total pollutions, external sewer flooding, and strong environmental performance overall as assessed by the Environmental Performance Assessment (EPA) – see Table 1 below.

- **Financial resilience.** We are the only company to have achieved either upper quartile ranking (2020/21) or the top categorisation (2021/22) in Ofwat's Financial Resilience Report, while also achieving 'leading' service delivery performance.
- **Industry leading environmental performance.** We were the only company to achieve 4* on the EPA last year, and the only company to have ever secured 4* for four consecutive years.

Table 1: Ranked cumulative EPA performance ratings over the last 10 years

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total (out of 40)
Severn Trent	4	3	4	3	4	3	4	4	4	4	37
United Utilities	3	3	4	4	4	3	3	4	4	3	35
Wessex Water	3	3	4	4	4	3	4	4	2	2	33
Yorkshire Water	3	4	3	3	3	2	3	4	2	3	30
Northumbrian Water	3	3	3	2	2	4	2	4	4	3	30
Anglian Water	3	3	3	3	3	3	2	3	2	2	27
Thames Water	2	3	3	2	3	3	3	3	2	2	26
Southern Water	1	2	3	3	3	2	1	2	1	2	20
South West Water	1	2	1	2	2	2	2	2	1	2	17

- **We are responsive when action is needed.** This includes:

- Learning from our experience of the 2018 'beast from the east' freeze/thaw event, so that during similar conditions in late 2022, our performance for customers improved by up to 93% on the key metrics. This experience has informed our enhancement investment business case on alternative supplies.
- Investing in catchment management and assets to support drinking water quality compliance over successive AMPs, which in 2020 was recognised by the Chief Inspector as "a commendable approach". We continue to apply this learning as we work to improve our CRI performance (see below).
- Taking early action in May 2022 in advance of post-pandemic cost of living challenges becoming evident by making a further £30 million of affordability support available to customers in this AMP.
- Developing a series of ambitious Get River Positive Pledges in response to public concerns about the condition of our nation's rivers, and our sector's use of storm overflows, including a commitment to tackle 'reasons for not achieving good ecological status' and reducing the average number of storm overflow activations to 20 by 2025 - this has now become the sector benchmark¹.

- **We are well positioned to drive further improvements.** Our performance more broadly gives us scope to propose, and deliver, an ambitious plan:

- **Performance improvements.** We will be setting new industry performance frontiers for pollution incidents and external sewer flooding. For the key wastewater measures, our performance commitment levels are better than forecast upper quartile industry performance in 2029/30 and significantly better in the cases of external sewer flooding and pollution incidents. For the key water measures, our performance commitment levels are better than forecast upper quartile performance for the water and wastewater companies in 2029/30.
- **Lower bills.** Our average combined household bills – at £29 lower than the industry average, and £85 lower than the highest - are comparatively low (third lowest).

- **Financial resilience.** Our gearing, at 60.7% (2022/23) is well below the sector average and close to Ofwat's notional capital structure for AMP7; and as a FTSE 100 Listed company, we have access to a wide range of debt and equity options, strong support from our investors - we were the only listed company to do an equity raise this AMP (£250 million for our Green Recovery programme), and provide high levels of financial transparency in our reporting.
- **Innovation.** Our investment in Net Zero to date, including c.£28 million in international collaboration (with a further £10 million from Ofwat's Innovation Fund) to create the world's first operational Net Zero wastewater treatment works, means we have the knowledge and momentum to pursue operational Net Zero by 2030, and create a pathway for our sector from what we learn.
- **People.** We are continuing with our insourcing strategy, which as well as driving a stronger customer focus, gives us greater resilience to external shocks. And our people are well motivated – our annual engagement scores at 8.4 out of 10 are amongst the top 5% of energy and utility companies globally.
- **Supply chain.** By diversifying our supply chain and investing in our internal capability, we believe our delivery model is unique to the industry and expect to utilise less than 7% of tier 1 industry capacity identified by the Water UK report to deliver our investment programme.

Read more: Minimum Expectation 21 and Annex 4b Deliverability provide detailed information on our diversified supply chain.

- **Our track record gives us confidence that we can deliver the ambitious improvements proposed in our plan,**

including in those areas where our comparative performance (against either other companies or other areas of our service) has not been as strong:

- We are investing today c.£150 million on new technologies, insourcing and customer dedicated roles (including customer leakage inspectors) to support our top three C-MeX ambition and build on the 16% year-on-year reduction in household complaints delivered this year (where we have historically performed below the industry average in CCW's reports).

¹Based on the Environment Agency's measure

- We are driving up the operability of our event duration monitors (EDMs), which the Environment Agency has flagged as being an area we should improve. We are already taking action and are on track for upper quartile performance - and improvement we are making in operability are already yielding positive results so far this year (2022/23), leaving us well positioned to drive ambitious improvements in our storm overflows performance.
- While we have the strongest track record on the EPA for our industry, with one serious pollution in 2022, we have not yet managed to deliver zero serious pollutions. In response, we are redoubling our commitment to zero pollutions and setting an ambitious target for a further 30% reduction in total pollutions (category 1-3) - pushing the frontier for the sector.
- Although our underlying performance has remained stable across AMP7, last year we experienced an increase in coliform failures at large water treatment works for the second year in a row. These failures accounted for 74% of our total CRI score and has led us to take the decision to invest in additional UV treatment this AMP - reducing the risk of future coliform failures.
- Leakage is one part of a broader measure - distribution input (DI) - which when normalised by household or population gives a measure of resource efficiency - the other parts being PCC and business demand. Our plan includes ambitious improvements for both leakage and PCC, including a 16% leakage reduction which would accelerate our progress towards a 50% reduction by 2050, by five years.

Read more: Annex 1 Data, Information and Assurance, includes more information on our track record and Annex 5a Common Performance Commitments, includes more information on our comparative performance and proposed common performance commitment targets.

MINIMUM EXPECTATION 4

The company's full Board provides an assurance statement that meets our Board assurance requirements as specified in our guidance.

Key points:

- **Our robust governance framework ensures that the Board had access to high-quality and accurate data across all aspects of our plan.** As a FTSE100 company, our governance framework meets the requirements of the UK Governance Code 2018 and Ofwat's principles for board leadership, governance and transparency (April 2019). Our governance design allows the Board to provide effective oversight, anticipate risks to the delivery of services (for example, through annual reporting of Principal Risks in our Annual Report and Accounts), and take balanced decisions that work in the interests of all our stakeholders.

- **Our Board is high-functioning, well composed, independent and diverse.** Our Board comprises over 75% independent members. Through the Board's constructive challenge and oversight, our plan has benefitted from a wide range of skills and expertise drawn from multiple sectors including banking and finance, construction, healthcare, the public sector and environmental NGOs. For example, the Board's Sustainability Committee, chaired by Tom Delay – a Non-Executive Director with extensive sustainability and climate change experience, – has led its scrutiny of our LTDS and related strategies. In addition, the Board has had direct access to the company's Expert Challenge Panel (ECP), the Panel's Chair has met the Board throughout the development of our plan.

To inform its challenge, the Board has also kept abreast of the views of others and undertaken a rich programme of site visits and deep dives into areas of particular strategic importance. During 2022/23 this included a visit to Mansfield Green Recovery, and deep dives into resilience and shaping our long term planning approach, and the Water Industry National Environmental Programme (WINEP), alongside the 2022 Board Strategy Day, which focused on resilience and PR24 planning. For the 2023 Board Strategy Day,

a key focus will be AI and big data. Consistent with its obligations under s.172 of the Companies Act, the Board has used this insight to consider a range of these interests in its decision making:

- our regulators (for example, through regular meetings with our regulators at Board level including, the EA, Ofwat, the DWI, CCW and Defra to understand their perceptions of our performance);
- stakeholders (for example, through participation in our 'Your water, your say' event, and reviewing the outcome of stakeholder engagement on our long term strategies);
- employees (for example, through our Company Forum and 'Ask the Board' events); and
- investors, through financial results announcements, our annual AGM and its regular programme of shareholder engagement.

- **Our Board has led the strategic development of our plan.** Over the course of 10 meetings, it has challenged the Executive Team to submit an ambitious proposition for customers and the environment – one that is affordable, financeable and deliverable. The Board:
 - discussed proposals for a further step change in affordability support, following from its earlier decision to increase support available in this AMP by £30 million in response to customers' cost of living challenges;
 - scrutinised the development of enhancement expenditure proposals designed to ensure the company delivers new and forthcoming statutory obligations, notably WINEP, as well as where there are strong customer drivers for taking action;
 - reviewed financing plans and bill impacts, in the context of the company's financial resilience and the impact on gearing, maintaining stable investment grade credit ratings, as well as principles underpinning dividend payments; and

- scrutinised whether our plan was deliverable, discussing the diversification of our supply chain (including a new environmental framework and use of regional suppliers), insourcing key roles (including capital design and mains relay), developing manufactured solutions (moving away from traditional bespoke solutions with an innovative new approach), and ensuring we would hit the required delivery run-rate before the beginning of the AMP. The Board considered these measures not only from the perspective of the company's resilience to deliver for our customers, but also freeing-up national tier 1 supplier capacity for other companies to deliver for their customers.
- **The Board has scrutinised our plan development** in the context of our current and past performance (see also Minimum Expectation 3), including using insight from regular performance reporting, approval of our Annual Performance Report and its engagement with regulators. For example, recognising the need to inject pace into our ambitions, the Board endorsed £150 million of fast-tracked expenditure to:
 - support improvements in customer experience and water efficiency, as early as possible in this and the next AMP; and
 - insource our waste operations to strengthen front lines of delivery for customers, and drive improvements in our response to sewer flooding.

Read more: Annex 1 Data, Information and Assurance explores our past performance in more detail. Annex 5a Common Performance Commitments does so in context of our proposed common performance commitment levels, and Annex 4b Deliverability considers our track record of capital delivery.

- **The Board's Audit and Risk Committee has reviewed assurance findings, and completion of agreed proof points to recommend that the Board signs its assurance statement.** Each sub-statement within the overall assurance statement is designed to match Ofwat's expectations in the methodology. As explained in response to Minimum Expectation 5, we used a risk-based, three lines of defence approach to assurance to determine the evidence required to enable the Board to make those statements.
 - In line with the key principles underpinning our established framework, **our Board has received a statement from each member of our Executive Committee to confirm our management's engagement with, and commitment to delivering our plan.**
 - The Severn Trent Water Board in full Board have signed an **assurance statement that meets Ofwat's Board assurance requirements.** The statement was approved at a meeting of the Board of Directors of Severn Trent Water Limited on from 26 September 2023 and signed by all members of the Board.

Read more: Annex 1 Data, Information and Assurance provides more details on our approach to governance and assurance. Section 4 of Annex 1 provides the Board's assurance statement in full, and the evidence on which it was made.

MINIMUM EXPECTATION 5

The company provides the data and information as requested in our methodology and business plan tables. This data and information is consistent, accurate and assured using effective internal systems, controls and processes.

Key points:

- **Our assurance plan places a strong emphasis on quality, consistency and meeting the expectations in the QAA.**

It was developed using:

- **Risk based approach** – to determine the assurance scope and governance expectations, taking account of the methodology, other regulatory guidelines and our learning from previous submissions.
- **Top down direction** – a review against the proof points and assurance needed to enable the Board to sign the assurance statements.
- **Bottom-up risk assessment** – a review of the underlying risks and assumptions for each workstream of our plan. This assessment considered: i) controls in place; ii) the probability of failure; and iii) the impact of failure.
- **Responding to challenge** - from customers, internal and external experts, the Executive and the Board, and our Expert Challenge Panel (ECP).
- **Learning from previous submissions** - including Green Recovery and PR19, where it was acknowledged in the 'securing confidence and assurance' test that the Board provided the majority of assurance statements and there were no material issues with business plan data, however, there was insufficient evidence to meet all expectations for 'putting the sector in balance'. Since then, we have addressed these issues including on executive pay as set out in Minimum Expectations 32. We also developed our assurance from an end of year to a throughout the year approach, thus allowing greater in-depth review by independent third line providers such as for the leakage and PCC assurance undertaken over 25 sessions by Jacobs for 2021/22 and 2022/23.

- **Taking a backward and forward look** – at all areas where our data quality needed further improvement or greater transparency e.g. feedback from Ofwat past queries, customer queries including complaints, and customer and stakeholder expectations e.g. on environmental compliance.

- **Consistent with our risk assessment, we have applied a three-lines of defence model, using expert assurance partners for areas of higher risk.** Our three lines of defence comprise:

- **First line assurance activities** - embedded within the directorates responsible for the delivery and production of the underlying information and data.
- **Second line assurance** – ensure the first line is working effectively using checks undertaken by varied internal teams with a wide range of expertise.
- **Third line assurance** - using independent challenge, from Internal Audit and external partners as outlined in Table 1.

Table 1: Areas of focus for third line assurers

Workstream	Assurance partner
Customer insight	Sia Partners
Risk and return	PWC and Lambert Smith Hampton
Cost modelling	Frontier Economics
Financial modelling	KPMG
Programme	Internal Audit
Data tables	Jacobs and Internal Audit
LTDS	Jacobs
Enhancement	Jacobs
Base plan	Jacobs
Outcomes	Jacobs
Deliverability	Jacobs

- We have also used 'Red Teams' made of up internal experts and senior management to challenge key areas of our plan from different perspectives. As a result, in more than 200 assurance sessions with external independent experts involving around 100 technical experts across the business, we have rigorously tested our business plan tables from the underlying inputs and assumptions to the final outcomes.
- **For this price review we have enhanced our tools and processes to drive greater consistency and accuracy.** These include:
 - **Clear ownership and accountability** – we developed a line-by-line 'RACI' detailing accountable managers, responsible table owners, data providers, subject matter experts, and internal first and second line assurers.
 - **Process description templates (PDTs)** – we used PDTs to document our reporting processes and ensure they are aligned with Regulatory Accounting Guidelines and the requirements of the final methodology - giving us an auditable methodology for producing data. PwC reviewed a sample of PDTs and the detailed underlying data for twelve material reporting parameters.
 - **Improved automation** – as part of our broader commitment to use developments in digitisation to enhance our oversight of performance and reporting and working with our team of data scientists, we have developed 'ADAM' a new database of regulatory information to

support improved data consistency at PR24 and beyond, data checking for future Annual Performance Reports (APRs) and other regulatory data requests. Using learning from financial institutions – particularly relevant for submissions that span hundreds of thousands of data points – we have used the data system to enhance and automate our checks and controls. These systems, alongside our in-house technical expertise, have enabled us to check consistency across underlying assumptions, varying sources, data tables and narrative. For example, on the data tables, we mapped trends and relationships between activities and associated cost and energy inputs, On data consistency, specifically for our business plan submission, our checks included:

- consistency checks between PR24 data tables and our 2023 APR, where a common Ofwat 'BON' cell reference exists, and updating data tables or providing further clarification in the commentary;
- consistency checks using trends – identifying odd trends requiring rectification or further clarification in the commentary;
- cross checking the data with other linked regulatory submissions such as our APR, Drainage and Waste Management Plan, and Water Resources Management Plan; and
- Ofwat's Proteus system check - ensuring data is appropriately formatted.

Our assurance providers, covering financial and non-financial matters, have not identified any material concerns, as set out in Table 2.

Table 2: Assurance provider findings

Workstream	Assurance partner	Findings
Customer insight	Sia Partners	"Sia Partners is pleased to confirm that in our independent and expert view, Severn Trent's engagement for its PR24 business plan and Long-Term Delivery Strategy has met Ofwat's standards for high quality research and this has been appropriately reflected in the documents reviewed."
Risk and return	PWC	"Overall, your business plan is financeable on the notional company basis, but requires the use of financeability levers in the form of both PAYG and RCV run off rates. In line with Ofwat's PR24 methodology, you have provided the correct financial metrics required to assess financial resilience of the actual company over the 2025-2030 period. You have also modelled a suite of common and combined financial resilience scenarios and have clearly outlined the stress tests performed."
	Lambert Smith Hampton	"Having reviewed the overall approach proposed by SVE, in relation to the methodology and assumptions adopted, PWC consider the approach to be reasonable."
Cost modelling	Frontier Economics	"Overall, having assessed these four CAC claims against Ofwat's criteria, we consider that there is a reasonable basis for each of the claims."
Financial modelling	KPMG	"In accordance with our scope, we tested the Severn Trent model for consistency with the PR24 Final Methodology in a number of defined areas. This included testing the extent to which the Severn Trent model will calculate consistent results with the Ofwat financial model for the following components: <ul style="list-style-type: none"> • Revenue requirement (excluding tax), • RCV, • Financial ratios, • Include inputs for the PR19 legacy true ups. From this testing, we did not identify any areas where the Severn Trent methodology has not been developed in accordance with the PR24 Final Methodology as set out in Ofwat's financial model and/or policy documents."
Programme	Internal Audit	"IA have reviewed the Assurance Framework and can confirm that all required areas were included and the assurance requirements identified have been completed."
Data tables	Jacobs	"We undertook process and data reviews for the items within our scope. For the items within our scope that have been assured there are no outstanding issues from our data audits that have a material impact on your reported numbers. We conclude that in relation to the items we reviewed: <ul style="list-style-type: none"> • you have appropriate systems and processes in place to identify, manage and review your risks; • your processes and internal systems of control are appropriate and effective to derive the data and information on which you have based your decisions; • your processes for reporting business plan data are in line with the guidance; the data has been derived in accordance with your processes and the reporting guidance and has been subject to 1st and 2nd line assurance, with appropriate sign-offs."
	Internal Audit	"All data tables assigned to IA have been reviewed, any queries were responded to and closed. Data using spreadsheets, internal models and those provided by Ofwat. The working tables produced via these models were used for the assurance activity. The supporting evidence provided by first- and second-line assurance to confirm their was provided by several different teams across the business, activities was reviewed for completeness."
LTDS	Jacobs	"Based on the scope of our assurance of the LTDS, enhancement investment cases and separate assurance of the underpinning strategies (WRMP, DWMP, WINEP), we conclude that: <ul style="list-style-type: none"> • The LTDS has been developed in line with the PR24 guidance, • The LTDS delivers the Board's stated long-term objectives, given future uncertainties. • The underpinning strategies (WRMP, DWMP, WINEP) and enhancement investment cases as included in the LTDS are based on meeting your statutory obligations now and in the future, • The LTDS is based on adaptive planning principles, • The LTDS has been informed by customer engagement, • The LTDS has taken steps to secure long-term affordability and fairness between current and future customers, • The AMP8 business plan implements the first five years of the LTDS, • The Company has appropriate systems and processes in place to ensure that the calculations in the LTDS bill impacts model are accurate and consistent with Ofwat's guidance."
Enhancement	Jacobs	"Based on the scope of our assurance we conclude that: <ul style="list-style-type: none"> • You have followed a process for options development and options appraisal which takes into account financial costs and wider costs and benefits. The plan includes price control deliverables covering the benefits of material enhancement expenditure (not covered by performance commitments)"
Base plan	Jacobs	"We carried out a three-stage assurance of the Tagetik Financial Planning System adopted by SVE. During our on and off-site reviews, you have resolved the non-material issues identified during our assurance and there are no outstanding issues."
Outcomes	Jacobs	"Based on the scope of our assurance we conclude that: <ul style="list-style-type: none"> • The forecast performance levels for common performance commitments reflect performance improvements expected from both base and enhancement expenditure. • The approach to and supporting methodology for your bespoke performance commitments reflect appropriate performance levels."
Deliverability and cost efficiency	Jacobs	"You have taken steps and put in place systems and processes to support the deliverability of your AMP8 plan, consistent with the requirements of the Ofwat guidance."

Read more: Annex 1 Data, Information and Assurance sets out our internal controls and assurance processes in more detail. Section 3 of Annex 1 presents assurance findings in full.

MINIMUM EXPECTATION 6

The Long Term Delivery Strategy (LTDS) has been developed in line with our guidance and has taken account of any feedback.

Key points:

- **Our Long Term Delivery Strategy (LTDS) represents an evolution of our strategic asset planning approach, but for the first time brings together all of our long term outcomes into an integrated and adaptive 25-year plan.** It was developed based on:
 - **Adaptive planning principles** – to take account of uncertainty and to build investment plans that remain the best value plan under a wide range of plausible futures.
 - **Top down direction** – our Board have been active in the development of our vision and the long term ambitions that reflect what our customers and regulators expect from us and also how we want to be known to the communities we serve.
 - **Robust insights and analysis from a toolbox of decision support tools** – we have drawn on best practice tools, data and methods to create the best possible and most appropriate insight to help us make our investment decisions.
 - **Culture and commitment to set ourselves up to execute a plan that can adapt to the inevitable uncertainty and still deliver on our promises** - from listening to customers and stakeholders, responding to the feedback, looking for opportunities to shape the future and not just react to it, prepare our workforce and equip ourselves with the necessary skills to meet the future challenges.
- **It conforms with the comprehensive requirements set out in Ofwat's final guidance¹** We have complied with the hygiene factors:
 - **Length, structure and supporting data** – our LTDS is below the 150 page limit and is set out against the five components (Ambition, Strategy, Rationale, Foundations and Assurance), includes all of the supporting data tables and commentary and does not exceed the file size limit.
 - **Includes the Board Assurance statement** – our Board have fully engaged in the development of our LTDS, discussing it on five occasions over the course of the last 18 months before signing the Board Statement with no exemptions.
 - **It is contextualised and aligned to all other statutory planning frameworks** – our LTDS draws together all of our enhancement investment and shows how investment in the next five years is part of a long term plan (with reference to our Strategic Direction Statement) to meet all of our statutory obligations, as well as customer and risk driven investment needs.
- **We have taken a robust and iterative approach to developing the evidence and improving the analysis against each of the five main components.** Table 1 sets out how we have ensured compliance with the five main LTDS components.

¹ https://www.ofwat.gov.uk/wp-content/uploads/2022/04/PR24-and-beyond-Final-guidance-on-long-term-delivery-strategies_Pr24.pdf

Table 1: Ensuring compliance with the main LTDS components

LTDS component	Minimum expectation	Key activity to meet expectations
Customer engagement	You have sought meaningful challenge on your LTDS from your customers and this has been reflected in your plan's ambition and strategy.	<ul style="list-style-type: none"> • Engagement with over 68,000 customers in total. • Invited challenge from our independent Expert Challenge Panel. • 12 stakeholder workshops.
Ambition	You have an established vision for the next 25-years and have set key performance outcomes to meet this. Your key performance outcomes have been informed by your current and future statutory and regulatory requirements in addition to customer expectations.	<ul style="list-style-type: none"> • We have set a clear vision, signed off by our Board, informed by customers, executed by our colleagues. • We have set transparent targets out to 2050, clearly showing our forecast contribution between base and enhancement. • We have ensured we are meeting the minimum statutory obligations and based on customer views, are accelerating in areas where customers have indicated they want increased action and we are confident it can be delivered in a 'no- and/or low-regrets' way.
Strategy	You have an established realistic core strategy. Your strategy is agile and you have identified a small number of alternative delivery pathways.	<ul style="list-style-type: none"> • We have based our core pathway on reliable, and in most cases, conservative assumptions. • We have sought expert views where the risk warrants it (for example, the Met Office have supported our climate analysis). • We have presented just three adaptive alternative pathways in addition to our core pathway.
Rationale	Your pathways reflect the key principles of adaptive planning and have been tested against the common reference scenarios.	<ul style="list-style-type: none"> • We have followed HM Treasury's Green Book guidance on matching the adaptive planning tools to the complexity of the planning problem. This means we have used a combination of DMU (decision making under uncertainty), computational tools and traditional CBA with manual sensitivity tests. • We have tested all eight of Ofwat's common reference scenarios. • We have robustly considered the need for additional future scenarios to reflect local circumstances, but found them not to be sufficiently exogenous and therefore used them to add further sensitivity tests (e.g. supply chain capacity, changes to legislation, skills availability). • We have clearly documented our assumptions. • With support from data specialists, we carried out an extensive review of the core 130 input data sets to ensure they are of appropriate quality and that sensitivity testing reflected any uncertainty ranges. • We have tested our core pathway against thousands of optimisation runs to ensure that we understand how incorrect our assumptions could be, with the outcome still representing best value for our customers now and in the long term.
Assurance	The company Board has challenged management to deliver a high-quality Long Term Delivery Strategy.	<ul style="list-style-type: none"> • We discussed the LTDS with the Board on five separate occasions during its development. • They provided several challenges and steered the ambition and vision. • The Board has signed the Assurance Statement.

- **We have sought and responded to feedback from a wide range of viewpoints, including more than 850 comments from nearly 500 stakeholders, our regulators, Board and our Expert Challenge Panel (ECP).** The main challenges we received, and responded to, include:
 - **Improved and more accessible narrative.** For example, we improved the narrative that draws out the weighting we have placed on different insight sources.
 - **More ambitious assumptions on what base buys (investment and targets).** For example, we moved £58 million of investment from enhancement to base (for activities such as leakage and sewer monitoring) where the evidence to justify a step change was not strong enough or we felt it was important to not ask of customers.
- **Running future sensitivity testing.** For example, we added a sensitivity test to compare investment choices for each future and ensure that our plan was not excluding investment needed under a more likely future but more extreme (still plausible) future.

Read more: Annex 2 Long Term Delivery Strategy and its Appendix 2 includes more detail on the feedback we have received and the actions we have taken.

MINIMUM EXPECTATION 7

The company's plan provides sufficient and convincing evidence that its customer engagement activities meet our standards for research, challenge and assurance.

Key points:

- We have followed Ofwat's standards for high quality research, customer challenge and assurance of customer engagement in developing our plan. Our research and engagement follows best practice, and Ofwat's standards for high quality research are an integral part of the way we have always conducted research. We have designed our approaches to customer challenge and assurance to meet our specific needs, ambition and circumstances.
- Building on what we did at PR19, we have undertaken an extensive programme of customer and stakeholder research, with over 68,000 customers, which has provided us with a meaningful understanding of what is important to customers and stakeholders and has informed and shaped our plan.
- Independent expert challenge on behalf of customers has been provided by the Expert Challenge Panel (ECP), our Independent Challenge Group (ICG). The ECP has focused challenge on four areas where there is scope to influence on issues that matter to customers: customer research; non-statutory strategic investments and the long-term delivery strategy (LTDS); bespoke performance commitments (PCs); and affordability, and also comment on how well our plans meet customers' needs, priorities and preferences.
- We consider we meet all 17 examples of good practice as set out in CCW's review of ICGs in March 2023. Following the review, we bolstered two points to fulfil all CCW's examples of good practice.
- Sia Partners, an industry leading consultancy to regulated utilities and regulators, and authors of CCW's review of best practice triangulation in the water sector, have assessed our key PR24 research and have provided independent assurance on how we have met Ofwat's standards for high quality research and on the line of sight

between customer views and our plan. They found our customer engagement meets Ofwat's standards for high quality research across the relevant criterion and the sources are continuously conducive to research purposes, have practical relevance to customers and highlight any current context which may lead to potential bias. They have assessed each standard as green.

- Having reviewed our PR24 submission and all relevant supporting assurance, including direct feedback from the Chair of the ECP at a number of meetings, the Severn Trent Water Limited Board confirms it has challenged and satisfied itself that the PR24 submission for customer engagement:
 - meets the standards for high quality research on customer engagement; and
 - has been informed by customer engagement and research.

Meeting Ofwat's standards for high quality research.

Ofwat's standards are inherent in how we conduct all our research. We set out below Sia Partner's overall assessment of each standard (assurance is covered in more detail later in this test) and how we have met each standard through our engagement programme:

- **Useful and contextualised (Sia Partners assessed 19/19 research sources as green)**
 - We ensure our research briefs have **clear and agreed objectives** that we regularly review to ensure the research will deliver on our needs. We focus on more valuable **high quality rather than high quantity** research which is reflected in our choice of methodology and research design. And our research findings are triangulated across our own research and with those of CCW, Ofwat and the wider industry to further corroborate and validate our findings.

- **Neutrally designed (Sia Partners assessed 19/19 research sources as green)**
 - Our stimulus materials are designed to be **neutral and free from bias** and participants are encouraged to give open and honest perspectives. We reassure them we are open and listening to their views and they are helping shape our plans – not ratifying decisions already made. For example, during deliberative research on the environmental destination, we carefully presented approaches in a non-leading way, not revealing information about the regulator’s expected outcome.
- **Fit for purpose (Sia Partners assessed 19/19 research sources as green)**
 - Following a review of our PR19 customer engagement **methodology**, we concluded our strategic research framework remains fit for purpose. We adapted to include more online deliberative research and telephone research for the digitally dis-enfranchised during COVID-19 and moved back to greater face to face research in mid-2022.
 - Defining research **sample size** balances cost, robustness and research objectives, and takes into account: materiality of decisions the insight will shape; methodology and whether qualitative or quantitative techniques are needed; and margin of error, given the number of customers we serve.
 - During research, we are explicit in checking whether **participants understand what we are asking them**, e.g. in our research on water resource management plan decision making metrics we asked participants if they could make comparisons between the choices presented to them, and offer free text comments.
 - Where appropriate, **we test the validity and reliability** of results. By **observing qualitative research sessions** ourselves, we witness first-hand participant’s levels of engagement, dialogue and understanding. We also gather **qualitative feedback** on participant’s experience at the end of qualitative research sessions.
 - Forced choice options are limited in surveys, e.g. by ensuring there are ‘neither support nor oppose’ and ‘don’t know’ options such as in our universal metering research. We also seek unprompted, semi-prompted and spontaneous views from consumers where possible, and our social media scraping gathers unprompted views.
- **Inclusive (Sia Partners assessed 19/19 research sources as green)**
 - Throughout our research, we include a wide range of **audiences and demographics** to give us a full understanding of our consumer base. We routinely include: current; future; vulnerable; non-household customers; and specific consumer groups, as well as the digitally disenfranchised. And where sample size allows, our research will identify **whether there are differences in views by socio demographic and customer types**.
 - By using a **variety of research methods**, ranging from face to face in community locations to surveys with online panels, or direct to customers via email/ letter or telephone, we have ensured our research programme is as **inclusive as possible**.
- **Shared in full with others (Sia Partners assessed as green at programme level)**
 - Our research findings are published on our ‘Listening to you’ web page and **shared in full as early as possible**. Access to around 50 research reports and all associated materials is **available to everyone**
 - We share research and jointly undertake research with other water companies – e.g. with South Staffs Water (SSW) and United Utilities we commissioned research on decision making metrics for water resource planning, and jointly commissioned analysis triangulating customer insight. We also collaborated with SSW to share our proposed PR24 wastewater bill to make their Affordability and Acceptability research meaningful to our shared customers.
- **Ethical (Sia Partners assessed 19/19 research sources as green)**
 - Both our internal and external research is conducted in line with the Market Research Society’s Code of Conduct.
- **Independently assured (Sia Partners assessed as green at programme level)**
 - Sia Partners have independently assured our customer engagement programme and how it has been used inform our PR24 decision making. (See below for more detail on assurance).

- **Continual (Sia Partners assessed as green at programme level)**
 - Alongside specific strategic research we undertake for price reviews, our insight gathering is continuous and on-going through thousands of day-to-day touchpoints with customers which identify changes or concerns we act on. In addition, our programme of 'business as usual' research informs our continual understanding of what matters to our customers.

Read more: Annex 3a Customer Engagement sets out our customer and stakeholder engagement, challenge and assurance.

Customer challenge

- The Expert Challenge Panel (ECP), our ICG, provides independent expert challenge on behalf of customers on our business plan and LTDS.
- The ECP comprises of a range of experts from the fields of customer research, natural capital and economics as well as CCW and regional stakeholders specifically recruited to provide informed and constructive challenge and chaired by Professor Bernard Crump. The ECP has brought fresh thinking and highlighted new opportunities to create more value in our plan. It has met nine times since May 2022 and has had over 50 additional interactions with us.
- The ECP has focused on four areas where there is scope for customers to challenge and influence on issues that matter: affordability; non-statutory strategic investment and LTDS; bespoke PCs; and customer engagement and line of sight, and has commented on how well we have responded to challenge and how our plans meet customers' needs, priorities and preferences. The ECP will submit their independent report in mid October 2023.
- In March 2023 CCW published its Review of Independent Challenge Groups (ICGs) setting out 17 examples of good practice that ICGs should follow. We consider we meet all its 17 points.

Meeting Ofwat's standards for customer challenge

We set out below how we meet all eight requirements of Ofwat's standards for customer challenge:

- **Independence**
 - The ECP is made up of seven core members and three associate members from our regulators (the EA, Natural England, and the DWI). ECP members are highly experienced and bring broad and relevant expertise to the panel. Members are independent of us and provide independent challenge of our business plan.

- We have engaged extensively with all our stakeholders including the EA, Natural England, the DWI and CCW reflecting their formal roles in the sector regulation and customer representation.

- **Board accountability**

- The ECP has supported the Board's decision making through its independent challenge of our business plan.
- The chair of the ECP has attended three Board events (a meeting, a strategy day and a visit to Mansfield).
- The ECP Chair took part in our annual Board Strategy Day in October 2022 where the overall package of strategic investments for PR24 was discussed and challenged.
- At the Board PR24 strategy session in June 2023, the ECP Chair provided an independent view of progress on our plan and acknowledged the Board's positive behaviours in engaging with the ECP. The ECP highlighted how the Board's focus on customer engagement was reflected in the plan, especially with bespoke ODIs, unmodelled expenditure, and acceptability, affordability and vulnerability.
- Our CEO has attended three ECP meetings and two other members of our Executive Committee attended the ECP meetings.

- **Ongoing**

- While the ECP is mainly focused on the PR24 business plan, it has, at times, provided feedback on our on-going performance which we have welcomed.
- We have also welcomed regular and ongoing challenge through the nine main ECP meetings over the last 18 months, supplemented by subset-member challenges raised through calls and meetings including between the ECP Chair and our CEO.

- **Informed**

- The ECP has provided informed challenge of our business plan.
- We welcomed the ECP to attend many research sessions with our customers to understand first-hand customers' thoughts on our business plan.
- Where required or requested, the ECP's topic knowledge was strengthened e.g. with bespoke and tailored teach-in sessions on strategic investments and the LTDS.
- The ECP challenged us to send all major PR24 customer engagement briefs to members before being issued to research agencies – enabling us to take their expert comments to improve our research design.

- **Transparent**

- The ECP has provided clear and insightful challenge which has enabled us to respond effectively to each challenge.
- We have published the ECP challenges in the relevant chapters of our plan. The ECP will also submit their own independent report in mid October.

- **Representative**

- While the ECP is not designed to be fully representative of our customers, it has challenged us to take account of how representative our customer engagement is when drawing conclusions. This for example, resulted in not placing undue weight on the feedback during the 'Your water, your say' session.
- We have engaged extensively with, have had challenge from and taken on board the views of our relevant local and national stakeholders in shaping our plan.

- **Comprehensive**

- The ECP has provided challenges across all areas of our business plan that can be influenced and where customers can have a meaningful view. The focus areas have been: customer research; non-statutory strategic investments and the LTDS; bespoke performance commitments; and affordability. How the ECP's challenge has influenced our plan is set out in the relevant parts of our plan.
- The ECP has not challenged areas that Ofwat will decide on centrally or where there is no or limited scope for customers to influence including: cost of capital; base totex; common PCs; and strategic investments driven by statutory obligations.

- **Timely**

- The ECP has provided challenges to us on a timely basis throughout the business planning process with regular formal meetings and supplementary meetings when needed. We have responded to all challenge on a timely basis.

Read more:

Annex 3a Customer Engagement sets out more details about the Expert Challenge panel. Annexes 2 Long Term Delivery Strategy, 3b Affordability, 5b Bespoke Performance Commitments, and our strategic investment enhancement cases each capture the challenges the ECP has made on our plan and how we have responded.

Assurance of customer engagement

- **Board assurance statement.**

Having reviewed our PR24 submission and all relevant supporting assurance the Severn Trent Water Limited Board makes the following statement that confirm it has challenged and satisfied itself that the PR24 submission for customer engagement:

- meets the standards for high quality research on customer engagement; and
- that the plan has been informed by customer engagement and research.

- The Severn Trent Water Board Assurance Statement that supports our business plan and supporting documentation was approved at the meeting of the Board of Directors of Severn Trent Water Limited on 26 September 2023 and are signed by all members of the Board.

- **Independent assurance.** Sia Partners have been appointed to undertake **independent assurance** on our PR24 customer engagement. The Sia Partners team are experienced water industry consultants with significant utility sector and business plan **expertise**. Customer and stakeholder engagement is a core capability. They have advised over 80 engagement strategy, research an assurance project in the last three years, including CCW's report reviewing triangulation and its use at PR19. Across three phases, Sia Partners have assured:

- Our overall customer engagement strategy and programme.
- Quality of customer insight and robustness of evidence, including the Affordability and Acceptability research.
- Triangulation of our insight and line of sight between customer insight and our plans.

- **Overall customer engagement strategy and programme.** Sia partners found:

- We have conducted and planned a strong PR24 engagement programme and our six key customer insight questions (aligned to Ofwat's core areas of engagement) are comprehensively answered by the research delivered.

Figure 1: RAG status of customer engagement coverage for our six key customer engagement questions

Severn Trent's 6 engagement programme questions	Phase 1	Phase 2	Phase 3
Q1. What are our customers' needs and priorities?	Green	Green	Green
Q2. How can we ensure that our service is affordable and accessible for everyone?	Orange	Green	Green
Q3. How, where and in what should we invest to meet customers' and communities' long term needs?	Orange	Orange	Green
Q4. What role can customers play in service delivery?	Orange	Green	Green
Q5. What value do customers place on service improvement?	Green	Green	Green
Q6. Is our plan acceptable and affordable to customers?	Orange	Green	Green

Ofwat's requirements have been met in all six of the key questions.

- Quality of customer insight and robustness of evidence.** Sia Partners found:
 - We have met Ofwat's standards for high quality research across the relevant criteria as per the guidance for all 19 research sources assessed. The sources reviewed are conducive to research purposes, have practical relevance to customers and often highlight any current context which may lead to potential bias.
 - Our PR24 engagement programme continues to meet Ofwat's standards. Continual BAU engagement has been evidenced in addition to targeted PR24 and strategic planning research, and we now have shared around 20 projects on our 'listening to you' webpage. Further research will be published in October 2023. Sia Partners have undertaken independent assurance of our PR24 engagement programme with further scrutiny and challenge provided by the ECP.
 - Their assessment of evidence robustness found all ten key topics have sufficient coverage to inform the business plan with five areas with 'strong' coverage; three areas with 'good' coverage; and two areas with 'moderate' coverage.

Figure 2: RAG scores across Ofwat's quality standards of our insight sources

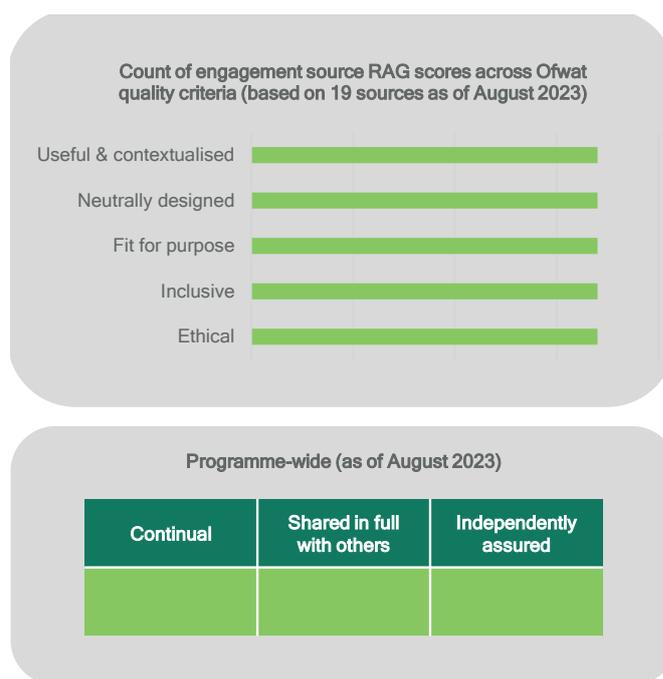


Figure 3: RAG scores for robustness of evidence of key topics

	Strategic priority	Topic	Phase 1	Phase 2	Phase 3
Water	Increase our abilities to source and deliver water to guarantee future water supplies	Future water supplies	87%	90%	92%
		Supply reliability	76%	82%	86%
		Water quality	79%	80%	84%
	Help our customers to be more water conscious to ensure water is used wisely	Demand management	85%	87%	90%
Waste	Improve the resilience of our network to lower the risk of flooding and pollution	Waste network resilience	89%	90%	92%
Environment	Harness the value in our waste to support a more circular economy	Bioresources	63%	70%	72%
	Adopt more sustainable practices to protect and enhance our environment	Sustainable practices	88%	89%	92%
Customer Service	Leverage data and technology to deliver a high quality, affordable service	High quality service	76%	79%	83%
		Affordability	85%	89%	93%
Communities	Work with our communities to make a positive social difference	Community Impact	70%	75%	79%
	Invest in our high performing culture to maintain a safe, inclusive and fair workplace*		*Not assessed as part of this review		

- Sia Partners note that while there is relatively moderate coverage of bioresources and community impact, there is limited or no scope for discretionary PR24 investment in these areas, and these topics may be less understood by customers or seen less as a priority.

- **Affordability and acceptability of our plan.**

Sia Partners found:

- The approach and materials reviewed, for both qualitative and quantitative research, fully meet Ofwat and CCW's prescribed guidance.

- **Triangulation of our plan and Line of sight**

between customer insight and our plans.

Sia Partners found:

- Our review found that Severn Trent's approach to triangulation meets CCW's recommendations for best practice. The overall approach is explained clearly through worked examples as outlined in the Annex 3a: Customer and stakeholder engagement, challenge and assurance. The narrative around the strategic investment enhancement cases and affordability strategy is clearly derived from the sources specified and is well-articulated. It evidently presents how customer views on the topic have been built on across the phases of engagement, and as a result, maintains strong evidence supporting the need and solution for the investment cases.
- Across Annex 3a Customer Engagement there is clear evidence of how customer views have influenced the PR24 proposals in the investment cases and affordability strategy assessed in the review.

Read more: Appendix 3a.1 Severn Trent PR24 Customer Engagement Assurance: Final Report (Sia Partners) sets out the independent assurance of the quality and use of our customer engagement evidence. Annex 1 Data, Information and Assurance sets out our Board Assurance Statement.

MINIMUM EXPECTATION 8

The company's plan explains how it has taken account of views on the affordability of its proposals for all customers, including for those who struggle, or at risk of struggling to pay their bills.

Key points:

Through our extensive engagement, we have sought to understand the views of our customers and stakeholders on affordability. We have:

- **Carried out extensive engagement with our customers on affordability and our PR24 business plan**, through 16 research projects. This has included: tracker surveys, online customer panel (Tap Chat) surveys, in-depth interviews, co-design focus groups, and representative customer sample surveys. Where relevant to our customers, we have also taken account of Ofwat, CCW and other organisations' affordability research.
- **Looked at revealed preference information** from our customers' payment behaviour to understand the affordability pressures they are under.
- **Undertaken extensive engagement on affordability with our Expert Challenge Panel (ECP) (on nine occasions) and stakeholders**, including an affordability workshop with stakeholders on 24 May 2023.
- **Considered both our current and AMP8 planned affordability support for all customers**, those who struggle to pay and those at risk of struggling to pay their bills through our engagement. For example, our large-scale, four-phase, affordability strategy research programme included interviews and focus groups with customers who struggle to pay.

- Our PR24 business plan explains how we have taken account of views on the affordability of our proposals for all customers, including for those who struggle, or at risk of struggling, to pay their bills.

We have taken account of customer views on affordability for all customers

- 72% of household customers found our business plan acceptable in the standardised affordability and acceptability quantitative testing, with the vast majority of household customers finding our business plan acceptable in the more in-depth qualitative testing.
- Our customer research also found that the cost of living and affordability has become the top issue for customers, driven by energy bills and inflation.
- We have reflected customers' views in our business plan keeping down the AMP8 bill increase (driven by the need to deliver environmental improvements) as much as we can.
- Our 2025-30 business plan for base expenditure is 4.3% more efficient than our expectation of Ofwat's stretching efficiency benchmark.
- 99% of our enhancement investment in AMP8 is needed under all, or almost all scenarios, with the remaining 1% required to keep options so we can adapt our plans to benefit future customers.
- We are proposing ambitious improvements in service from our base expenditure, at no additional cost to customers e.g. a 20% reduction in pollution incidents, a 10% reduction in storm overflow spills and a 9% reduction in leakage.

- We are also proposing to provide extensive benefits for customers at no additional costs, through base expenditure, such as:
 - providing dedicated in-person visits for any water service issue;
 - providing free repairs of bursts on private pipes for vulnerable customers;
 - holding a public meeting for every capital scheme with a named contact;
 - training specialist apprenticeships;
 - providing free lessons to schools on water awareness; and
 - providing access to land for community groups.

We have taken account of customer views on affordability for those who struggle to pay

- Our customer research found that around 15% of our customers struggle to pay their water bill. We also found strong customer support for increasing the cross subsidy to these customers. Customers also told us they thought we should help customers in debt reduce their arrears.
- We are not waiting until AMP8 to respond to customer views. In the last 18 months we have launched an expansion of 100,000 customers for our Big Difference Scheme social tariff, our shareholder-funded Societal Strategy to help 100,000 people with employability in our region over 10 years, and our shareholder-funded expansion of debt payment matching support for up to 50,000 customers. These three major initiatives build on our existing extensive support for customers. For example, in July 2023 Ofwat judged us to be “exemplary” in how we have responded to the 143 requirements in its Paying Fair Guidelines.
- We are also responding to customer feedback by including a total package of affordability support worth £550 million over 2025-30 in our plan as summarised in Table 1. We understand this is the largest support package available from any water company in AMP8 from the information publicly available before we submitted our plan.

Table 1: Our support for up to 1.7 million people in 2029/30

Support scheme for customers	Number of households benefitting in 2029/30
Big Difference Scheme social tariff (bill discounts)	490,000
WaterSure (bill discounts)	22,000
Innovative charges	3,000
Water efficiency advice / support	55,000
Income maximisation advice	3,000
Payment breaks	60,000
Payment plans	60,000
Total	Up to 693,000 (1.7 million people)

- Our approach means that in 2029/30 our bill discount schemes will support 512,000 customers. This is higher than the number of customers we forecast to be in water poverty in 2029/30, which will enable us to provide bill discounts to anyone in water poverty thus helping them out of water poverty.
- To further help our customers who struggle to pay our investors are funding a massive expansion of payment matching debt support for our customers from 600 people per year with funding to allow up to 50,000 customers on the Big Difference Scheme to benefit by 2025.

We have taken account of customer views on affordability for those at risk of struggling to pay

- Our customers and stakeholders told us they want us to support those who are at risk of struggling to pay, including those who might not quite qualify for our social tariff.

- We are responding to this feedback by improving how we identify those struggling and at risk of struggling to pay through using more granular data combined with more sophisticated analytics, improved systems for our frontline staff and partnerships with others. We offer schemes such as payment breaks and payment plans to help customers manage their bills to avoid them getting into arrears.
- In AMP8 we will introduce Something for Everyone, a streamlined application process for all our support schemes and free services in one place, which anyone can access and see what they might be eligible for. We plan to encourage people to do this via a targeted communications campaign.
- We will be installing one million more smart meters in AMP8, which will help some customers at risk of struggling to pay by allowing them to take control of and reduce their bills. Responding to our stakeholders' feedback we will be accompanying installation of the meters with advice on how to save water and on how to keep payments stable because some customers are concerned about more variable bills. The smart meters will also help us to spot leaks more quickly (thus lowering customers' bills) and to trial rising block tariffs, which are an innovative way of allowing prudent users of water to benefit from lower charges.
- We recognise that helping those at risk of struggling to pay goes beyond affordability support schemes. That is why we are taking forward our ten-year Societal Strategy, which will be helping 100,000 people improve their economic and life chances and will ramp up to its peak level in 2025-30 providing 10,000 hours of free employability training each year and 500 work experience placements for schools from socially-deprived areas.

Read more: Annex 3b Affordability provides more detail on how we have used customer insight to shape our affordability plans.

MINIMUM EXPECTATION 9

The company's business plan and Long Term Delivery Strategy (LTDS) demonstrates that its proposals are likely to be fair and affordable for both current and future customers.

Key points:

Our PR24 business plan and Long Term Delivery Strategy (LTDS) are fair and affordable for current and future customers.

We are starting in a good place on affordability

- We have the second lowest bills of the ten large companies in England and Wales, around £42 per year lower than the average of the other nine large companies.
- We have the lowest bad debt costs of the ten large companies over the last four years, meaning we pass on lower bad debt costs to our customers.
- Our programme for identifying void properties (which are unbilled) has reduced voids by over 120,000 properties in the first 3 years of AMP7, allowing us to spread costs across more customers and increase funding for the social tariff.
- We have a track record of reinvesting any cost efficiencies we make in further service improvements or to strengthen foundations for delivery for future customers. In AMP6 we spent to within 1% of our total expenditure allowances and we are not seeking to outperform in AMP7.

We are using adaptive planning to ensure fairness between current and future customers

- We have followed Ofwat's adaptive planning process in our LTDS. As a result, in our PR24 business plan:
 - 82% of our enhancement investment is statutory by 2030.
 - 12% of our enhancement expenditure is needed to make progress towards Government targets after 2030. This phases the investment efficiently and avoids storing up costs for future customers.
 - The remaining 6% of our enhancement investment is to start increasing resilience to the level needed by 2050 due to climate change.

- In our customer research on the LTDS most customers preferred a gradual increase in bills to avoid a steep bill increase in any one period and to reduce the risk of wasting money on investments that ultimately are not needed. This supports our adaptive planning approach.
- To make sure we deliver customer benefits on time, we have embraced price control deliverables (PCDs) to bring forward our delivery of customer priorities to earlier in AMP8 than would otherwise have been the case.

We are innovating to improve affordability for current and future customers

- We have a strong focus on innovation to improve services and reduce costs for future customers. For example, our Net Zero Partnership with Aarhus Vand (Denmark) and Melbourne Water (Australia) is helping identify approaches to lower the cost of the net zero transition.
- We are accelerating investment and trialling new approaches, including our £566 million (2017/18 prices) innovative Green Recovery programme, and fast-tracking over £400 million (2022/23 prices) of AMP8 transitional expenditure into the final two years of AMP7. This means we can: deliver outcomes sooner for customers; smooth the bill effects of investment; and support efficient delivery by smoothing our investment profile.

We are keeping base costs down to improve affordability for current and future customers

- We are currently the second most cost efficient company on base costs, with a much better service performance than the most cost efficient company.
- We are proposing AMP8 base expenditure which is 4.3% more efficient than our expectation of Ofwat's PR24 stretching efficiency benchmark.
- We are proposing ambitious improvements in service from our base expenditure e.g. a 20% reduction in pollution incidents, a 10% reduction in storm overflow spills and an 9% reduction in leakage.
- To keep bills down for current and future customers we are proposing to provide extensive benefits for customers through base expenditure such as:
 - providing dedicated in-person visits for any water service issue;
 - providing free repairs of bursts on private pipes for vulnerable customers;
 - holding a public meeting for every capital scheme with a named contact;
 - training specialist apprenticeships;
 - providing free lessons to schools on water awareness; and
 - providing access to land for community groups.

We are financially resilient, which helps ensure fairness between current and future customers

- We are entering AMP8 in good financial health, with a strong balance sheet, a track record of raising new equity (£250 million to support our Green Recovery investment) and being rated in the highest category for financial resilience by Ofwat. This enables us to raise money from investors to help spread the cost of investment across the generations of customers who will benefit from it.
- We are also taking a prudent approach to the Pay-as-you-go (PAYG) rates and RCV run off rates to enhance affordability for future customers. Our PAYG rates before financeability adjustments are lower than at PR19, and our RCV run-off rates before financeability adjustments are within Ofwat's upper limits.
- We will only pay dividends when our performance over time and in the rounds supports it.

- Any executive bonuses for strong performance will be paid from shareholder returns.

We are supporting current and will support future customers who struggle to pay

- We have an extensive range of support available for our customers who struggle to pay. In the last 18 months we have launched an expansion of 100,000 customers for our Big Difference Scheme social tariff, our shareholder-funded Societal Strategy to help 100,000 people with employability in our region over 10 years, and our shareholder-funded expansion of debt payment matching support for up to 50,000 customers. These three major initiatives build on our existing extensive support for customers. For example, in July 2023 Ofwat judged us to be "exemplary" in how we have responded to the 143 requirements in its Paying Fair Guidelines.
- We expect to support up to 512,000 customers with our Big Difference Scheme social tariff and WaterSure by 2029/30. This is higher than the number of customers we forecast to be in water poverty in 2029/30, which will enable us to provide bill discounts to anyone in water poverty thus helping them out of water poverty.
- We do not know what the extent of customer affordability needs will be in the long term, but as a company we will be flexible and innovative to continue to provide support for those customers who struggle to pay their bills.

Read more:

Annex 2a: Long Term Delivery Strategy and Annex 3b: Affordability both set out in more detail how our proposals are fair and affordable for current and future customers.

MINIMUM EXPECTATION 10

The company's plan provides sufficient and convincing evidence that it has followed our guidance for testing customers' views of the affordability and acceptability of its proposals.

We have followed the national guidance developed by Ofwat and CCW on testing customers' views on the acceptability and affordability of business plans. This minimum expectations test is structured around the guidance and covers:

- 1) **Key points** on how we have **followed the guidance overall** - including an overview of how we have: met the minimum requirements for testing; undertaken quality assurance of research; explained our least cost and proposed plans; treated bills and inflation.
- 2) How we have **followed the guidance for using qualitative and quantitative research** to test affordability and acceptability.
- 3) How we **have followed and met the guidance appendices** on the prescribed processes for stimulus materials for deliberative discussions and in-depth interviews.

Key points

- We have conducted a comprehensive piece of qualitative and quantitative research with 4,265 customers to test whether our customers find our proposed plan affordable and acceptable. Through our qualitative research we have sought to undertake research on aspects of our plan where **customers have a meaningful influence**, and in doing so we have better understood the needs and expectations of our customers. We have ensured our preferred plan delivers against these needs and expectations. Our research has also been undertaken in a way that makes it **easily comparable to other water companies**.
- For our qualitative research we have **followed Ofwat and CCW's prescriptive guidance** for the pre-task content, structure for deliberative discussions, and post-task questions as set out in the affordability and acceptability testing appendices. For our quantitative research we have followed Ofwat's guidance for the survey methodology and prescribed questions, including all clarifications issued to the guidance.

- We have **met the minimum requirements for sample sizes for testing**: for our qualitative research – through face to face and online workshops and in-depth interviews - we have spoken to **96 customers across our region in detail** about our proposed plan (alongside a least cost / must do plan and alternative plan), performance targets, and affordability schemes. Our qualitative sample meets the minimum sample requirements for all criteria in the guidance, including 20 medically vulnerable within the household workshops and eight participants on the Big Difference Scheme / financially vulnerable. For our quantitative research we have surveyed 3,969 household (HH) customers (far exceeding the minimum requirements) and 200 non-household (NHH) customers.
- We explored research participants' views of our business plans on five of our key investment areas. The differences between our least cost plan, proposed plan and alternative plan for each investment area followed Ofwat and CCW's guidance and were clearly explained to participants in plain english.
- We included the likely bill amounts when testing customers' views on the affordability of future bills. Bill amounts were based on participants' personal bills for all customers with the exception of a small handful in the deliberative research where we did not receive permission – here, average bills were used instead. Bill profiles included inflation and were presented to clearly distinguish the increase from bill changes relating to the business plan. Bill profiles also included our increase to the social tariff cross subsidy.
- Independent expert challenge on behalf of customers has been provided by the Expert Challenge Panel (ECP), our Independent Challenge Group (ICG). The ECP has engaged with and challenged our affordability and acceptability approach extensively including: iteratively on workshop and material design; methodology; workshop observation and survey design.

- The ECP highlighted the Board’s focus on customer engagement particularly acceptability, affordability and vulnerability in our plan and noted our acceptability and affordability engagement process had been designed and delivered with input from the ECP to ensure its effectiveness.
- Sia Partners, an industry leading consultancy to regulated utilities and regulators, and authors of CCW’s review of best practice triangulation in the water sector, have undertaken an independent quality assurance review of our acceptability and affordability methodology and research design. They found:
 - our approach fully meets Ofwat and CCW’s guidance for affordability and acceptability testing across all criteria including method, time required, sample size, demographics and recruitment;
 - the pre-task and stimulus materials reviewed for the qualitative research follow the prescribed structure and its contents meet Ofwat’s guidelines; and all graphs and tables provided meet the requirements for showing comparable information.
 - Regarding the quantitative testing, Severn Trent have followed the prescribed survey, including the latest guidance on the presentation of comparative performance information.
- Having reviewed our PR24 submission and all relevant supporting assurance, including direct feedback from the Chair of the ECP at a number of meetings, the Severn Trent Water Limited Board confirms it has challenged and satisfied itself that the PR24 submission for customer engagement:
 - meets the standards for high quality research on customer engagement; and
 - has been informed by customer engagement and research.
- We have been **fully transparent** throughout our affordability and acceptability testing process. Our research materials and findings are published on our ‘Listening to you’ web page and have been shared in full as early as possible.

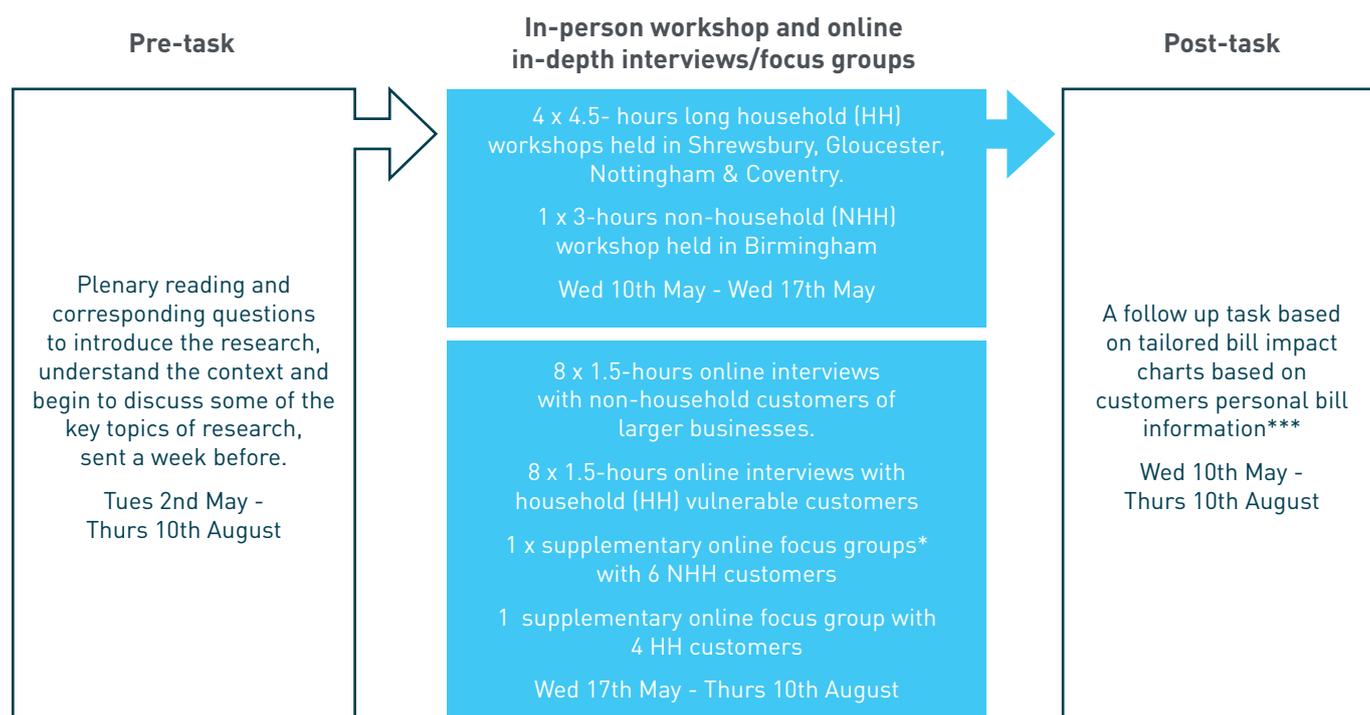
Following Ofwat’s guidance for qualitative research

We appointed Thinks Insight & Strategy (‘Thinks’) to conduct deliberative research in Spring 2023. Through face to face or online, and in-depth interviews, we have spoken **to 96 customers broadly spread across our region** in detail about our proposed plan (alongside a least cost, and alternative plan), performance targets and affordability schemes.

Methodology

- we used a multi-stage deliberative research approach to take research participants on a journey to understand our long-term plans.

Figure 1: Methodology approach



- We held four in-person workshops with household (HH) and one in-person workshop with non-household (NHH) customers. A further two online HH and NHH supplementary workshops were held to reach the minimum target sample size, due to a few drop outs in the fieldwork.
- Future and health vulnerable customers (as there were no specific PSR (Priority Services Register) proposals being discussed) were included in the main HH workshops.
- In-depth interviews were conducted on-line (a face-to-face option was offered) with larger NHH, and financially vulnerable customers.
- The post-task was completed individually on-line after workshops, using Ofwat's prescribed post-task questions in the guidance.
- We observed every session ourselves and two sessions were observed by ECP members. All ECP members attended the research agency-led de-brief.

• Sample recruitment

- In line with Ofwat and CCW guidance, HH participants were contacted from our customer database via email or letter. Any sample gaps were filled via free find recruitment by Thinks.
- NHHs were recruited via free find, while financially vulnerable customers were targeted from the Big Difference Scheme database, with free find top up where required.
- 32 participants were recruited at random from our customer database and 64 through free find.

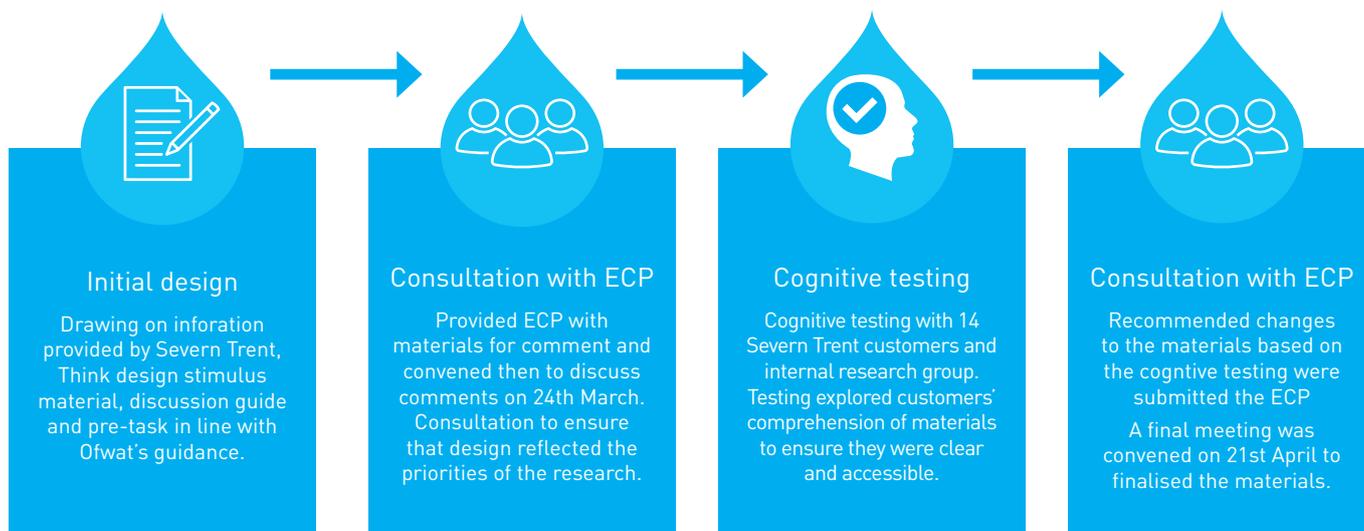
Table 1: Sample breakdown

96 participants in total 64 household (HH), 8 financially vulnerable (FV), 24 non-household (NHH)					
Household age	Household gender	Household SEG	Household rural/urban	Household metered/unmetered	Businesses
11 x 16-24 (x 8 future customers)	29 x male	16 x AB	16 x Rural	36 x metered	16 x less than 10 employees
15 x 25-34	41 x female	34 x C1 & C2	32 x Urban	26 x unmetered	8 x more than 10 employees
12 x 35-44	2 x prefer not to say	22 x DE	24 x Suburban	10 x don't know	Mixed in terms of reliance on water, bill size etc.
15 x 45-54					
9 x 55-64					
10 x 65+					

• Research design

- Materials were designed through an iterative process in collaboration with the ECP.
- Cognitive testing explored the material's comprehension, clarity, and accessibility leading to iterative improvements including video recording the pre-task to make it more accessible, providing visual cues and icons to improve information navigability and slightly reducing the explanation of inflation.
- Research materials were tailored to each audience including separate stimulus materials for HH, NHH and financially vulnerable customers.
- Investment options were chosen based on having the highest impact on bills, and after discussion with the ECP.

Figure 2: Design iteration



The cognitive testing revealed that the materials were broadly engaging and accessible, however it identified improvements that could be made throughout - including, recording the pre-task information as a video to make it more accessible, using visual cues and icons to improve navigability of the information and provide a more simplified explanation of the impact of inflation.

Enhancements to the research process

- The research follows Ofwat and CCW's guidance for acceptability and affordability testing. However, we made some small amendments to enhance the guidelines following the cognitive testing.

Figure 3: Guideline amendments

<p>A digital narration recording of the pre-task material.</p>	<p>This was to help participants engage with and digest the information within the pre-task. It was felt to be of particular benefit for those who face literacy issues.</p>	<p>Removing the pre-task from in-depth interviews, covering content and questions within the interviews.</p>	<p>This change was to help maximise participation in the research (by decreasing the 'ask' of participants). This was felt to be necessary as the longer length of interviews meant recruitment was a little more difficult than with shorter interviews.</p>
<p>Cog testing of research materials both in house and with customers.</p>	<p>This enables us to identify any issues with the materials, mainly relating to comprehension and clarity. Material were then updated accordingly ahead of field, and the workshops were extended beyond the minimum to account for these changes.</p>	<p>Moving questions on financial context to the start of the interview for NHH interviews.</p>	<p>This change was made to help with flow of the guide. The financial context was found to be more pertinent for NHH customers, so we opted to lead with these in NHH interviews.</p>
		<p>Additional questions on the recruitment and research process within the post-task.</p>	<p>This was to enable us to gather feedback for future research, and to potentially refine the research as it went on. As the feedback was all positive, we proceeded with no changes.</p>

Following Ofwat's guidance for the quantitative phase of research

We appointed Explain Research who carried out quantitative research for us in August 2023. 3,969 HH and 200 NHH customers undertook the survey.

• Methodology

- Our survey methodology followed the guidance provided by Ofwat and CCW (including all the latest clarifications and additions to the guidance), and used a push to web methodology with a random sample of customers extracted from our customer billing database.
- Personalised survey links were used to ensure each respondent received a personalised bill prediction for the future. Care was taken to ensure this was as representative as possible of what customers will pay, including the inclusion of the additional proposed contribution to the social tariff scheme going forwards. This meant it was a more realistic representation compared to just presenting the bill increase to the average HH combined bill.
- Customer contact details (either email or letter) were extracted along with their 2022/23 bill, those customers on the social tariff scheme were flagged. Exclusions were kept to an absolute minimum (such as those who have requested not to be contacted for research, deceased accounts in or about to be in probate, and a small number of customers with severe vulnerability who are highlighted as finding contact distressing, e.g. those with dementia). Customers on the PSR were included but those receiving specialised bill services such as braille were excluded.
- Customers were given the option of more accessible and inclusive ways to take part on request, including face to face, a paper version of the questionnaire, translation into other languages, and on the telephone. We sent a reminder contact to all customers by letter or email.
- A panel approach was used for NHH customers. These customers were asked to tell us of their most recent annual bill amount in the survey, but where this was unknown, a bill graph based on a £1,000 start bill was used. We found that around 60% of NHH respondents were able to tell us their bill.

• Survey design

- We conducted a phase of cognitive testing on the survey, and we invited ECP challenge. As a result of the challenge, we made some small changes primarily to the end of the survey. These are detailed in Annex 3a Customer Engagement.

• Research findings

- We find that our plan receives a high level of acceptability, with 76% saying it is acceptable. The main reasons identified are that they support what we are trying to do for the long term, the plan focuses on the right services, and they trust us to do what is best. Only 10% find the plan unacceptable – these customers say company profits are too high, the plan is too expensive, or that companies should fund service improvements. The survey asks whether the future bill is easy or difficult to afford. We find that 11% of household customers say they will find the future bill easy, and 53% find it difficult. The results are a bit more positive for NHH customers with 62% saying they will find it easy and 15% difficult. Our understanding is that many other water companies will report very similar results.
- While it is clear that customers are concerned about the future bill, our research tells us that customers are often reluctant to view plans as 'easy to afford' – influenced by the current economic situation, financial uncertainty and a general reluctance to agree to increasing bills. The lack of any contextual information at this point in the survey about the plan, the need for investment, service improvements, the financial support available, and the role of shareholders will also have influenced the results. To support those who will find the bill hard to afford, in our plan we are proposing a comprehensive package of support worth £550 million over 2025-2030, and by 2030 we will support up to 693,000 households.

Sia Partners' evaluation of how we have met the affordability and acceptability guidance

- We have followed Ofwat and CCW's prescribed processes for deliberative discussions and in-depth interviews for HH, NHH, future bill payers and vulnerable customers as per the acceptability and affordability testing guideline appendices.
 - We have followed the qualitative and quantitative guidance for the methodology.
 - For the qualitative methodology this included providing the required prescribed materials for the pre-task (section ref pre-task A-H and covering the required prescribed content (section ref 5-9) for deliberative discussions and in-depth interviews to help participants decide how acceptable and affordable our plans are.
- We have also followed the guidance for the survey methodology and using the prescribed questionnaire.
- Sia Partners has reviewed and assured our pre-task materials, the structure we followed, and content we covered, and confirm we have met all guidelines. These are set out in Tables 2-6 below.

Table 2: Qualitative research methodology for HH, financially vulnerable, future bill payers and NHH customers

Customer type	Criteria	Ofwat requirements or guidelines	Severn Trent approach	Guidance met
Household bill payers	Approach	Deliberative discussion (either online or face-to-face), with pre and post tasks	Deliberative discussion with pre and post tasks	
	Time required	3+ hours	4.5 hours	
	Sample size	72 customers	72 customers, including 8 future bill-payers and 8 medically vulnerable	
	Sample demographics	<ul style="list-style-type: none"> • Should include good sample of those eligible for and/or on the Priority Services Register, eligible for and/or on financial support tariffs, and people with other health vulnerability. • Should include low income households and households which are just about managing 	Recruited a mix of participants on key demographics such as ethnicity and medical vulnerability (breakdown provided in report)	
	Recruitment	Either: <ul style="list-style-type: none"> • Complete use of customer database or; • Combination of company customer lists backed up by traditional recruitment methods where needed 	Recruitment method was a mix of: <ul style="list-style-type: none"> • contacting customers via email / letter (from a random extract from the customer database surrounding each location), inviting them to complete a screening Microsoft Forms if they were interested and able to take part in the research, with subsequent screening by Thinks (to ensure we had a suitable mix of participants) • free find to top up this recruitment. 	

Table 2 (cont.): Qualitative research methodology for HH, financially vulnerable, future bill payers and NHH customers

Customer type	Criteria	Ofwat requirements or guidelines	Severn Trent approach	Guidance met
Financially vulnerable customers	Approach	In-depth interviews or paired in-depth interviews or triad in-depth interviews (which can be assisted)	In-depth interviews	
	Time required	1 hour	1.5 hours	
	Sample size	Low income customers - 8 Health vulnerable customers - 8	8 health vulnerable included in household sample 8 financially vulnerable in IDI	
	Sample demographics	<ul style="list-style-type: none"> Should include good sample of those eligible for and/or on the Priority Services Register, eligible for and/or on financial support tariffs, and people with other health vulnerability. Should include low income households and households which are just about managing 	A mix of customers on Big Difference scheme (social tariff) and those who are just about managing	
	Recruitment	Either: <ul style="list-style-type: none"> Complete use of customer database or; Combination of company customer lists backed up by traditional recruitment methods where need 	Severn Trent provided Thinkins an extract of Big Difference scheme database and free find to top up.	
Future bill payers	Approach	Deliberative discussion or paired or triad in-depth interviews (either online or face-to-face)	Deliberative discussion with pre and post tasks	
	Time required	3+ hours	4.5 hours	
	Sample size	8	8	
	Sample demographics	No prescribed quota	A mix of future customers	
	Recruitment	Either: <ul style="list-style-type: none"> Specialist recruitment agency using on-street or off-street methods From customer households 	Recruitment via free find	

Table 2 (cont.): Qualitative research methodology for HH, financially vulnerable, future bill payers and NHH customers

Customer type	Criteria	Ofwat requirements or guidelines	Severn Trent approach	Guidance met
Micro-organisations with less than 10 employees	Approach	Deliberative discussion (either online or face-to-face)	Deliberative discussions	
	Time required	3+ hours	3 hours	
	Sample size	24	24 NHH customers	
	Sample Firmographic	No prescribed range	Mix of water reliance and bill size	
	Recruitment	<ul style="list-style-type: none"> Customer lists such as Dunn and Bradstreet Required to confirm their most recent wholesale water and wastewater charges in order to take part 	Recruitment via free find	
Small to large organisations with 10 or more employees	Approach	In-depth interviews or paired in-depth interviews of triad in-depth interviews (either online or face-to-face)	In-depth interviews	
	Time required	1 hour	1.5 hours	
	Sample size	8	8 NHH customers	
	Sample Firmographic	No prescribed range	Mix of water reliance and bill size	
	Recruitment	As above	As above	

Table 3: Quantitative research methodology for HH and NHH customers

Customer type	Criteria	Ofwat requirements or guidelines	Severn Trent approach	Guidance met
Household customers	Sample size	500 household customers	3,969 household customers	
	Recruitment	<ul style="list-style-type: none"> Proportional to geographical area Areas of higher deprivation should be proportionally higher than population to ensure representation 	<ul style="list-style-type: none"> Random sample of customers extracted from the billing database Severn Trent utilised ACORN data (comprising of a combination of geographical, demographic, behaviour characteristics and customer data) to ensure oversampling in areas of higher deprivation (the breakdown of which provided to Sia Partners in supporting document) 	
Non-household customers	Sample size	200 non-household customers	200 non-household customers	
	Recruitment	No prescribed mode	• Business customer panel	

Table 4: Prescriptive materials for HH, NHH and future bill payers - qualitative research

Section ref	Section content	Materials provided	Guidance met
Pre-task A	Map of water companies in England and Wales	Map provides clearly illustrated water companies across England and Wales, and Severn Trent	
Pre-task B	Map or areas served	Map of Severn Trent's service areas and provision of number of customers clearly illustrates extent of services Explanation of retailer companies and who they are (for NHH customers only)	
Pre-task C	Explanation of role of customer research in PR24	Prescribed wording used	
Pre-task D	High level explanation of what water company does	Clear definition of Severn Trent's key core service as well as regulatory and financial context	
Pre-task E	Explanation of how water company performance is monitored	Prescribed wording and clear content on penalties, rewards and recent performance	
Pre-task F	Comparative company performance on key performance commitments	Prescribed wording and formatting	
Pre-task G	Explanation of what customer's water bills pay for	Prescribed breakdown of £1 of water and waste bill pays for – energy, taxes, rates and licences, people, and materials, maintaining equipment, building new assets, interest on borrowing, return to equity investors, performance incentives	
Pre-task H	Engaging summary of company's proposed business plan	Plan on a page covers key headlines of AMP8 plan, the performance targets of the six prescribed common PCs and an overview of the five key investment areas set out Statutory vs discretionary elements are explained clearly across investment areas Bill phasing explained for all three plans tested and clear explanations about impact of inflation. This was summarised slightly following cognitive testing of the prescribed wording	

Section ref	Section content	Materials provided	Guidance met
5	Focus on long-term picture to 2050	The long-term strategy section provides a good introduction to the development of Severn Trent's priorities and the associated 2050 outcomes Phasing introduced	
7	Focus on short-term picture (proposed business plan)	Clearly defined context, cost, description, impact and bill impact for each investment area Bill phasing provided up to 2030 (with comparison graph at end)	
8	Shorter-term picture (least cost 'must-do')	Clearly defined context, cost, description, impact and bill impact for each investment area Bill phasing provided up to 2030 (with comparison graph at end)	
9	Alternative plan	Clearly defined context, cost, description, impact and bill impact for each investment area Bill phasing provided up to 2030 (with comparison graph at end)	

Table 5: Prescriptive materials for financially vulnerable customers - qualitative research

Section ref	Section content	Materials provided	Guidance met
Pre-task A	Map or areas served	Map of Severn Trent's service areas and provision of number of customers clearly illustrates extent of services	
Pre-task B	Explanation of role of customer research in PR24	Prescribed wording used	

Section ref	Section content	Materials provided	Guidance met
Pre-task C	High level explanation of what water company does	Clear definition of Severn Trent's key core service as well as regulatory and financial context	
Pre-task D	Explanation of how water company performance is monitored	Prescribed wording and clear content on penalties, rewards and recent performance on prescribed six common Pcs as in HH customer AAT guidance	
Pre-task E	Comparative company performance on aspects of priority services, social tariffs	Limited comparative information provided on social tariffs due to variations in eligibility, structure, discount across companies	
Pre-task F	Business plan proposal for service aimed at people with health and financial vulnerabilities	Includes outline to general water company support, overview of eight schemes which will continue to be offered in 2025-30 to those struggling to pay and four new affordability schemes	
Pre-task G	Explanation of what customer's water bills pay for	Prescribed breakdown of £1 of water and waste bill pays for – energy, taxes, rates and licences, people, and materials, maintaining equipment, building new assets, interest on borrowing, return to equity investors, performance incentives	
Pre-task H	Engaging summary of company's proposed business plan	Plan on a page covers key headlines of AMP8 plan, the performance targets of the six prescribed common PCs and an overview of the five key investment areas set out Statutory vs discretionary elements are explained clearly across investment areas Bill phasing explained for the plan tested and clear explanations about impact of inflation	
7	Focus on proposals in the proposed business plan for services aimed at people with health and financial vulnerabilities	Outline to general water company support Overview of eight schemes which will continue to be offered in 2025-30 to those struggling to pay and four new affordability schemes	
8	Shorter-term picture (proposed plan')	Clearly defined context, cost, description, impact and bill impact for each investment area	
9	Alternative plan	No alternative plan provided for this audience	

Table 6: Prescriptive materials for customers – quantitative research

Customer type	Ofwat requirements or guidelines	Severn Trent material	Guidance met
All	Prescribed survey questions (respectively for household and non-household)	<p>Prescribed questions followed with some minor changes made following challenge from ECP and CCW. These changes were predominantly additional questions at the end of the survey in order to not compromise comparability.</p> <p>Survey provided with options for more accessible ways to take part, including face-to-face, telephone, paper version of survey and language translation)</p>	
	Stimulus material introducing summary of proposed business plan, including past performance against a list of PCs (prescribed and optional) and bill impact for 2025-2030	<p>Stimulus material covering prescribed and optional PCs adheres to 'Showing comparable information' document and subsequent additional guidance</p> <p>Further information provided via information buttons</p>	
	Question on acceptability of company plan	Prescribed question on acceptability followed	
	Prescribed question at end about phasing of investment looking beyond 2025-230 period	Prescribed question on phasing followed	

Read more: Annex 3a Customer Engagement sets out more detail on this research. Appendix 3a.1 Severn Trent PR24 Customer Engagement Assurance: Final Report (Sia Partners), Appendix 3a.2 Severn Trent Acceptability and Affordability qualitative research report (Thinks Insight & Strategy), Appendix 3a.3 Severn Trent Acceptability and Affordability quantitative research report (Explain).

MINIMUM EXPECTATION 11

The company's business plan includes plans for supporting customers to pay their bills using social tariffs and other methods.

Key points:

- **We are not waiting until AMP8 to support our residential customers who struggle to pay.** In the last 18 months we have launched an expansion of 100,000 customers for our Big Difference Scheme social tariff, our shareholder-funded Societal Strategy to help 100,000 people with employability in our region over 10 years, and our shareholder-funded expansion of debt payment matching support for up to 50,000 customers.
- **These three major initiatives build on our existing extensive support for customers.** For example, in July 2023 Ofwat judged us to be "exemplary" in how we have responded to the 143 requirements in its Paying Fair Guidelines. These requirements include communicating effectively and sensitively with customers in vulnerable circumstances, offering more frequent billing to encourage customers to pay, and making efforts to re-engage with customers after an initial failed repayment arrangement.
- Our business plan includes a total package of affordability support for our customers worth £550 million over 2025-30, as summarised in Table 1.

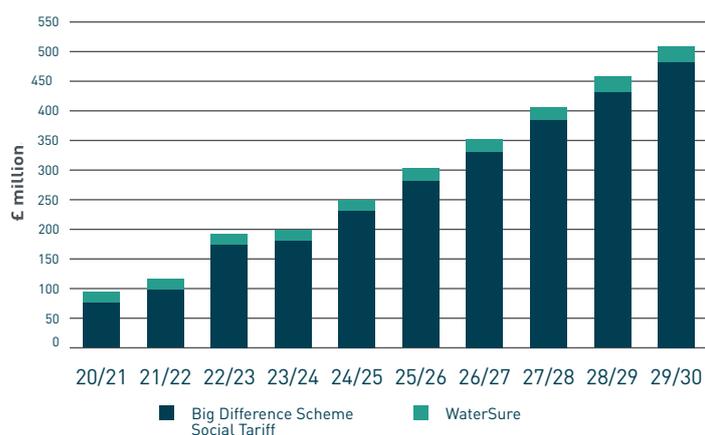
Table 1: Our support for up to 1.7 million people in 2029/30

Support scheme for customers	Number of households benefitting in 2029/30
Big Difference Scheme social tariff (bill discounts)	490,000
WaterSure (bill discounts)	22,000
Innovative charges	3,000
Water efficiency advice / support	55,000
Income maximisation advice	3,000
Payment breaks	60,000
Payment plans	60,000
Total	Up to 693,000 (1.7 million people)

- We understand this is the largest support package available from any water company in AMP8, from the information publicly available before we submitted our plan.

Social tariffs

- **We are proposing to support up to 512,000 customers with our Big Difference Scheme social tariff and WaterSure by 2029/30.** This is higher than the number of customers we forecast to be in water poverty in 2029/30, which will enable us to provide bill discounts to anyone in water poverty thus helping them out of water poverty.

Figure 1: Our increasing bill discount support 2020-2030

- To make sure we target our support effectively, we are improving how we identify those in need through using more granular data combined with more sophisticated analytics, improved systems for our frontline staff, and partnerships with others to identify those we might have missed.

Other methods of support

- As mentioned above, **our shareholders are providing funding for up to 50,000 customers for the Big Difference Scheme social tariff for debt payment matching support** to help customers with both their current water bill and the arrears they have built up.
- We will be providing up to a further 181,000 households (450,000 people) per year in AMP8 with other forms of support calibrated to their needs.** These are innovative charges (3,000 households), water efficiency advice / support (55,000 households), income maximisation advice (3,000 households), payment breaks (60,000 households), and payment plans (60,000 households). These schemes can help customers not eligible for bill discounts with their affordability and help them avoid getting into arrears.
- In AMP8 we will introduce Something for Everyone, a streamlined application process for all our support schemes and free services in one place, which anyone can access and see what they might be eligible for. We plan to encourage people to do this via a targeted communications campaign.
- We will be installing one million more smart meters in AMP8**, which will help some customers at risk of struggling to pay by allowing them to take control of and reduce their bills.

Responding to our stakeholders' feedback, we will be accompanying installation of meters with advice on how to save water and keep payments stable as some customers are concerned about more variable bills. The smart meters will also help us to spot leaks more quickly (thus lowering customers' bills) and to trial rising block tariffs, which are an innovative way of allowing prudent users of water to benefit from lower charges.

- We recognise that helping our customers goes beyond support for individual households. That is why our shareholders will continue to fund additional support for our communities.**

As mentioned above, our shareholder-funded ten-year Societal Strategy will help 100,000 people, improve their economic and life chances, and will ramp up to its peak level in 2025-30, providing 10,000 hours of free employability training each year and 500 work experience placements for schools from socially-deprived areas. We are also proposing to increase the shareholder funding of our Community Fund in AMP8. As the leading performer on ODIs in AMP7, we propose to donate 5% of our (net, after tax) ODI payments to the Community Fund to share our outperformance with customers, with a minimum guaranteed amount of £2 million each year. In 2021/22 this would have resulted in funding of £2.7 million for the Fund.

Read more:

Annex 3b on Affordability sets out more detail on how we are supporting customers using social tariffs and other means.

MINIMUM EXPECTATION 12

The business plan sets out the benefits of the company’s proposals, specifically: the impact on performance levels delivered through base for all performance commitments.

Key points:

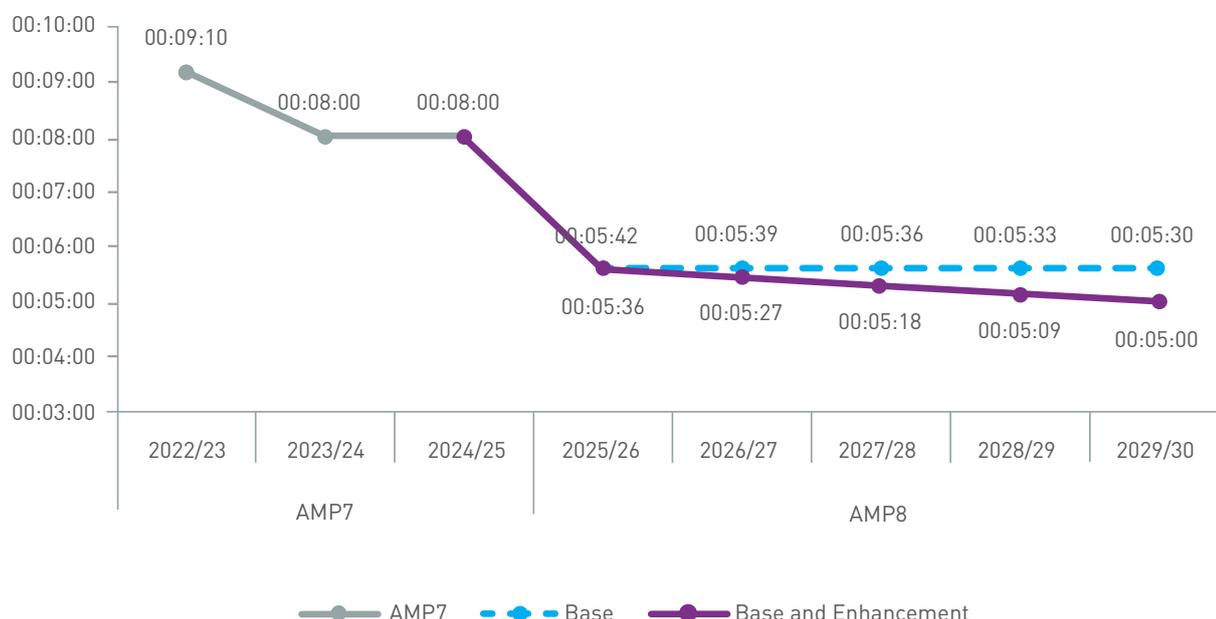
- Our business plan sets out the impact on performance levels delivered through base expenditure for all our performance commitments (PCs).

Common performance commitments

- We present the impact on performance levels delivered through base expenditure for all the common PCs in the data table OUT2 ('Outcome performance from base expenditure - Performance commitments') and the data table LS2 ('Forecast outcomes from base expenditure').
- We present diagrams of the impact on common PC levels of base and enhancement expenditure in Annex 5a. For example, the diagram below shows the first diagram in the annex. It shows a 3 minute improvement in supply interruptions by 2029/30 compared with 2024/25; 2 minutes 30 seconds of the improvement comes from base expenditure in 2025/26; and 30 seconds of the improvement comes from enhancement expenditure.

- In Annex 5a Common Performance Commitments we explain how we have set our PC levels for the common PCs.
- Our approach to setting PC levels involves a five-step process for each PC: establishing a baseline; benchmarking our performance; taking account of Government and regulators' requirements and ambitions; reviewing our base and enhancement investment plans; and reviewing forecasts in the round to make sure they are sufficiently stretching.
- We reviewed our investment plans to calculate the base expenditure to offset deterioration, offset climate change and stretch performance and the enhancement expenditure driving further improvements. We used our long-established OoAR (Outcomes, Outputs, Activities and Resources) model to understand how our investment plans will impact future performance, including PC levels.

Figure 1: Improvement in supply interruptions in AMP8 from base and enhancement expenditure



- We are proposing stretching improvements from base expenditure on the key common PCs for customers. For example, in relation to the three totemic issues for the sector of leakage, pollution incidents and storm overflow spills, we are proposing very significant improvements from base expenditure in AMP8:
 - Pollution incidents – a 20% reduction in incidents from base expenditure, contributing to a 30% reduction overall. This improvement is from a starting point of being upper quartile on pollution incidents.
 - Storm overflow spills - a 10% reduction in the average number of storm overflow spills from base expenditure, contributing to a 30% reduction overall based on the Environment Agency's definition. This improvement is from a starting point of being upper quartile on storm overflow spills and already being ahead of Ofwat's expectation for 2025.
 - Leakage - a 9% reduction in leakage from base expenditure, contributing to a 16% reduction in leakage overall. This improvement is from a starting point of being the frontier performer on distribution input (leakage plus water consumption).

Read more: Annex 5a Common Performance Commitments, data table OUT2 and data table LS2.

Bespoke performance commitments

- We are proposing three bespoke PCs, in line with Ofwat's guidance. These are:
 - Frontier catchments;
 - Reducing disruption from our work; and
 - Capital carbon.
- We present the impact on performance levels delivered through base expenditure for our three bespoke PCs in an excel workbook appended to Annex 5b on bespoke PCs. This reflects Ofwat's query response 352, which states that for bespoke PCs companies should provide an equivalent level of information to that required in Ofwat's data tables for common PCs in a separate excel workbook.
- In Annex 5b for each of the three bespoke PCs we explain how we have developed our proposals for the performance level improvements we are proposing from base expenditure. For example, for the bespoke PC Reducing disruption from our work, we have considered our own past performance, changes in the work we will be carrying out in AMP8, publicly available information on traffic management fines, and other companies' similar PCs to propose a 10% reduction in the average number of days of road works. This is equivalent to a stretching 30% improvement, given the change in the jobs mix in AMP8.
- The performance level improvements we are proposing for all three bespoke PCs - Frontier catchments, Reducing disruption from our work, and Capital carbon, are being delivered entirely through base expenditure. There is no enhancement expenditure contributing to the performance level improvements.

Read more: Annex 5b Bespoke Performance Commitments. Excel workbook appendix to Annex 5b with bespoke PC data tables.

MINIMUM EXPECTATION 13

The business plan sets out the benefits of the company’s proposals, specifically: the impact of enhancement expenditure on performance commitments for 2025-30 and the longer term (i.e. to at least 2050).

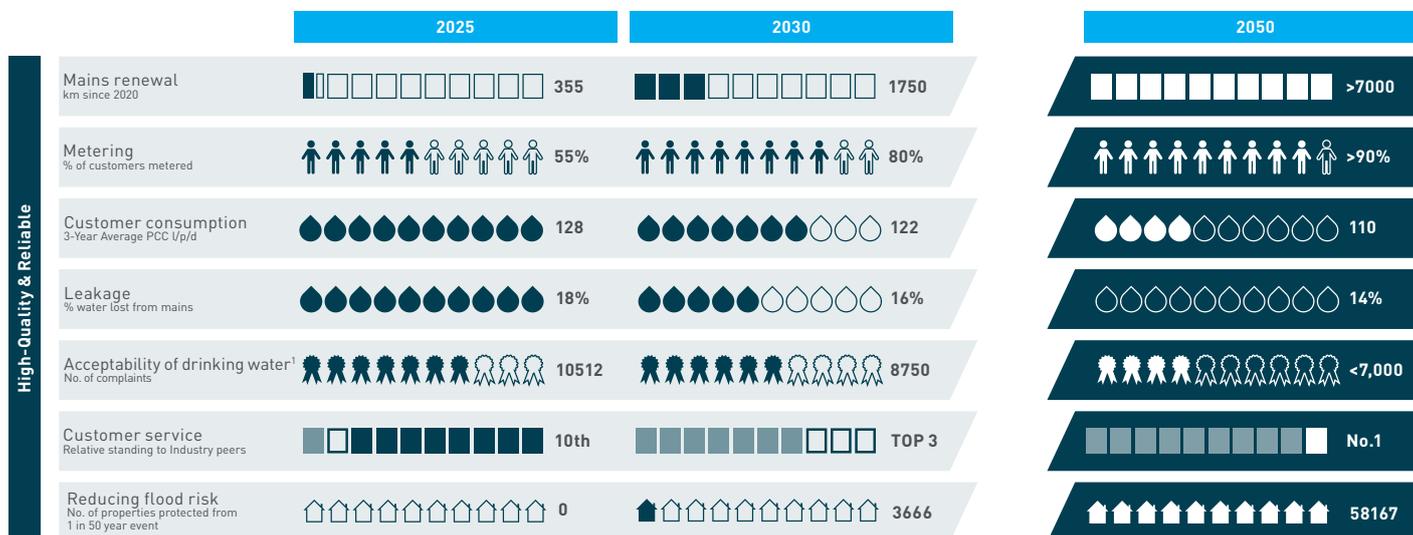
Key points:

- **Our enhancement programme will deliver a transformation in performance needed to meet the long term requirements of customers and the environment.** It has never been more important that we are clear about the impact the investment will have on performance. We are doing this in two main ways:
 - transparent presentation of the benefits from enhancement investment in our business plan; and
 - being ambitious about the benefits, and the cost per benefit delivered, now and over the long term.

Transparent communication to customers

- First, as part of our customer research (see Annex 3a Customer Engagement) we shared our performance relative to other water companies, and second, we shared our long term projections of how AMP8 contributes to our 2050 vision - illustrated in Figure 1. This is described in full in Annex 2 Long Term Delivery Strategy.

Figure 1: Communicating long term projections to customers



¹ in line with the AMP8 definition

Note: Excerpt of how AMP8 contributes to our 2050 vision.

Transparent presentation of benefits

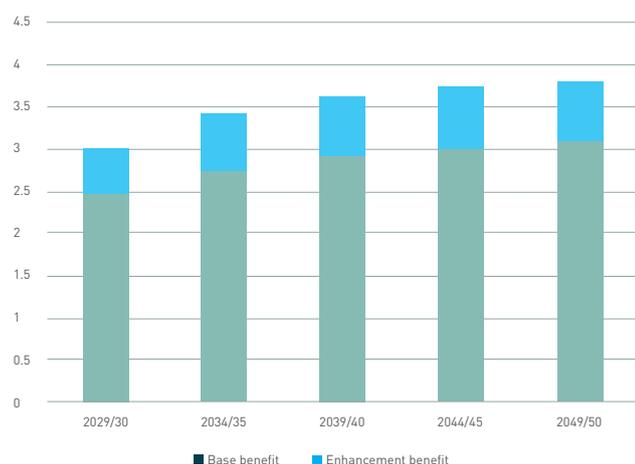
- Data tables LS1 and 2 (in combination with OUT1 & 2) clearly state our performance commitment (PC) targets.
 - We have specified the contribution towards the targets from base and enhancement expenditure and provided associated commentary in Annex 5a Common Performance Commitments (PCs)

- focusing on AMP8, and Annex 2 Long Term Delivery Strategy - focusing on the longer term. Figure 2 sets out an example of how we are presenting this information.

- Within each enhancement business case we set out the benefits delivered by each investment programme – both in terms of PCs and wider benefits.

- Where applicable, we have increased our performance commitment level (PCL) for common PCs to take account of coincidental benefits from enhancement cases. We have also ensured that the full benefit of AMP7 investment is taken into account before defining the AMP8 baseline (starting point), this has been through our robust three lines of assurance process.

Figure 2: Water supply interruptions investment benefit



Ambitious about benefits to ensure all enhancements drive notable improvements

- We created a strict, self-imposed filtering process for what constitutes enhancement – we filtered out around 50 investment needs that now form part of our base maintenance programme because we could not demonstrate a clear performance step change.
- We have forecast the PC target improvements driven by enhancement spend out to 2050 however in many cases enhancement spend is offsetting future pressures that would otherwise result in worsening performance. This means that in most cases, optically, enhancement spend appears to have limited contribution to common PC improvements. We have described the pressures that our enhancement spend will mitigate and the enhancement business cases include forecast performance driven by enhancement spend out to 2050.

- We have carefully considered the role of technology in ensuring efficient costs of future enhancement performance improvements. We reduced the cost of delivering the long term targets by around 20% following a comprehensive review of the impact of potential future technology improvements (see Annex 2 Long Term Delivery Strategy section 4.2 and Appendix J).
- Wherever possible, we have drawn a clearer link between costs and performance by benchmarking costs on a cost per benefit basis. Across our most material investment programmes, we have carried out benchmarking on a cost per benefit basis. Most notably for our phosphorous reduction – within enhancement case 04 Wastewater WINEP and enhancement case 08 Meeting future water needs. In both cases we ensure we are performing at upper quartile per improvement unit as a minimum (also see Minimum Expectation 15).

Read more: Data tables LS1 & 2 (and OUT1&2) and associated table commentary. Annex 2 Long Term Delivery Strategy sets out more detail on long term targets. Annex 5a Common Performance Commitments sets out more on the impacts of enhancement expenditure on PCs.

MINIMUM EXPECTATION 14

The business plan sets out the benefits of the company's proposals, specifically: the benefits of any price control deliverables proposed.

We have engaged fully with Ofwat's recently published requirement for price control deliverables (PCD). We agree that it is important to transparently commit, and then report on the delivery of the enhancements. Our plan includes 23 PCDs to hold ourselves to account for the 13 enhancement business cases.

Key points:

- **We have thoughtfully considered and then defined the proposed PCDs to ensure delivery can be evidenced** (in a repeatable and auditable way) and that it reflects the outcome (or output) that customers care about and can understand. The main ways we have done this are:
 - We sought challenge and review. PCDs were reviewed and debated by Directors, and our independent assurance partners reviewed the approach and assured the final definitions, targets and penalty rates.
 - We calibrated the PCD penalty rate to ensure we understand the balance of incentives across PCs, totex sharing and PCDs to ensure the combined effect protects customers overall and **returns more to customers than bills have incurred to compensate them for both late or non-delivery.**
 - In the extreme and unlikely case of both late and non-delivery of the entire enhancement programme, we would return all of the investment plus up to around 10% more than customers have funded.
- **We have challenged ourselves to ensure the benefit profile means customers are getting benefits as soon as possible** and the sequence is configured to deliver the most impactful benefits sooner across both water and wastewater. For example:
 - To ensure we are ready to start delivering benefits from year one of AMP8 we have accelerated around £400 million through the transition programme. This ensures preparatory work will be complete and we will be optimised to operate at a constant rate of circa £1 billion annual enhancement investment over the next five years. This will enable us to drive a constant stream of customer benefit.
- Customers will receive a step change in the pace of improvement in rivers - we will have delivered the equivalent cost and benefit of our entire AMP7 wastewater WINEP (including additional Green Recovery investment) before we reach the half way point in AMP8.
- We have accelerated our smart metering programme into the AMP8 transition programme this means 250,000 customers have the information to help them save water from day 1 of AMP8.
- We are using innovative pipeline planning and delivery tools to accelerate investments within our '01 Resilient water networks' business case. We will be delivering critical resilience improvements each year until completion in year 3 – two years ahead of the traditional delivery cycle.
- We present diagrams of the impact on common PC levels of base and enhancement expenditure in Annex 5a. For example, the first diagram in Annex 5a (also set out in Figure 1 in Minimum Expectation 12), shows a 3 minute improvement in supply interruptions by 2029/30 compared with 2024/25; 2 minutes 30 seconds of the improvement comes from base expenditure in 2025/26; and 30 seconds of the improvement comes from enhancement expenditure.
- **We have explained how our overall performance reporting landscape works together to help us show both short term delivery and progress towards long term targets.** Taking care to show the relationship between PCs, monitoring plan and other reported data to show how they work in combination and can be used to correlate data to inform our future plans and drive efficiency.

Read more:

Annex 2 Long Term Delivery Strategy provides more detail on our monitoring plan.

Each enhancement business case sets out our proposed PCDs within sections on customer protection.

MINIMUM EXPECTATION 15

The business plan is consistent with the achievement of statutory requirements and relevant Government targets.

Key points

- **We have risen to the challenge set out by Government and all regulators** and undertaken early and proactive engagement across a wide range of new statutory obligations. We have also taken steps ahead of time to prepare ourselves and our supply chain. We have listened to our customers to understand how their expectations align to the statutory timeline and have been bold - pushing further where issues demand urgency.
- A programme of this size inevitably triggers questions about deliverability, we have therefore **proposed an extensive package of PCDs to ensure full transparency** on our progress throughout the five year period, this is set out in more in Minimum Expectation 14.
- **All statutory obligations have been given careful consideration.** Due to the requirement to enhance standards across a diverse range of statutory obligations, we have given them all thoughtful consideration to ensure we are making balanced and proportionate progress across all service areas. These obligations include:
 - environment drivers including the WFD, Environment Act, and UWWTD;
 - Government policy on Net Zero;
 - the Security and Emergency Measures Direction (SEMD);
 - the Levelling up Act (driving improvements in nutrient neutrality areas);
 - water quality (water supply) regulations; and
 - the Reservoir Safety Act.
- **We have fully engaged with all our regulators to ensure we are meeting their expectations and have received positive feedback at each stage.** Any feedback or suggested improvements have been dealt with positively at all times, most notably:
 - We submitted all data requests on time and in line with requirements including recent additional requests such as on: reservoir data in August 2023; Industrial Emissions Directive (IED) data in August 2023; and WINEP costs data in July 2023 – demonstrating our willingness to fully understand and respond to our regulators, and enable improvements to cost modelling to inform efficient cost assessments at PR24.
 - We have shared our learnings with the industry, for example the IED application for Toton - which was one of only a handful of permit applications approved - and considered by the Environment Agency (EA) to be of the correct standard.
 - We take an active part in working groups to shape and inform statutory obligations and wider policy. The breadth and depth of the role we play include, for example:
 - We are the water industry representative on pan-Europe group - the European Sustainable Phosphate Platform – which pushes for EU legislative changes in areas such as incentivising phosphate recovery.
 - We provide input to the Chief Medical Officer for England on anti-microbial resistance.
 - We are the water company lead on the WINEP chemical investigations programme (PSG).
 - Two senior experts within our business have been actively involved on the WINEP reform task force.
 - A senior policy expert within our business is on the Water UK lead Board.
 - Two technical experts within our business are on the Defra/EA task and finish group on river quality monitoring.
 - We co-chair a strategic steering group on hazardous chemical control strategy - a joint EA/WaSC group that will influence policy and strategy for hazardous chemical control.

- **We have letters of support for all our enhancement cases to meet new statutory obligations.**

- The EA has fully endorsed our WINEP. The EA only made very minor changes to our agreed WINEP since the first submission in November 2022, fully approving it by May 2023 and making only minor changes in the final WINEP publication in September 2023 - which resulted from Defra policy changes such as on e.g. river quality monitors.
- The DWI has confirmed support for all of our water quality and SEMD proposals and our broader cyber security obligations.
- Our PR24 plan and final WRMP are consistent. While there are some technical differences resulting from guidance requiring the information to be presented in a different way (e.g. price base) - these are explained in our final WRMP.
- Our PR24 plan is consistent with our DWMP and its outputs have informed both our statutory storm overflow improvement requirements and enhancement business case '07 Urban Catchments of the future'.

Read more: Minimum Expectation 18 sets out more on WINEP; Minimum Expectation 17 sets out more on our WRMP; and Minimum Expectation 19 sets out more on our DWMP.

- **The scope of our assurance process included specific checks to ensure our PR24 plan is consistent with the underpinning strategies** (i.e. WINEP, WRMP and DWMP), and our LTDS is consistent with, and based on meeting our statutory obligations now and in the future. This has been part of the evidence the Severn Trent Water Board has considered before signing the assurance statements associated with the LTDS.

Read more: All our enhancement business cases set out the need for investment. Where the need is statutory, business cases also include evidence of relevant regulatory support setting out the feedback we received and how we have acted on it.

The most relevant enhancement investments include:

- 04 a, b and c WINEP (Water, Wastewater and Bioresources), which sets out we are meeting our environmental statutory obligations;
- 06 a and b SEMD Physical security at CNI sites and SEMD alternative water supplies;
- 12 Enhancing cyber security, which sets out statutory obligations under CAF2025 and 2028 requirements;
- 13 Raw water deterioration and our statutory obligations under Water Quality Water Supply Regulations; and
- 15 Reservoir Act extension, which sets out how our proposed activity is needed to meet the tightening of reservoir safety obligations.

MINIMUM EXPECTATION 16

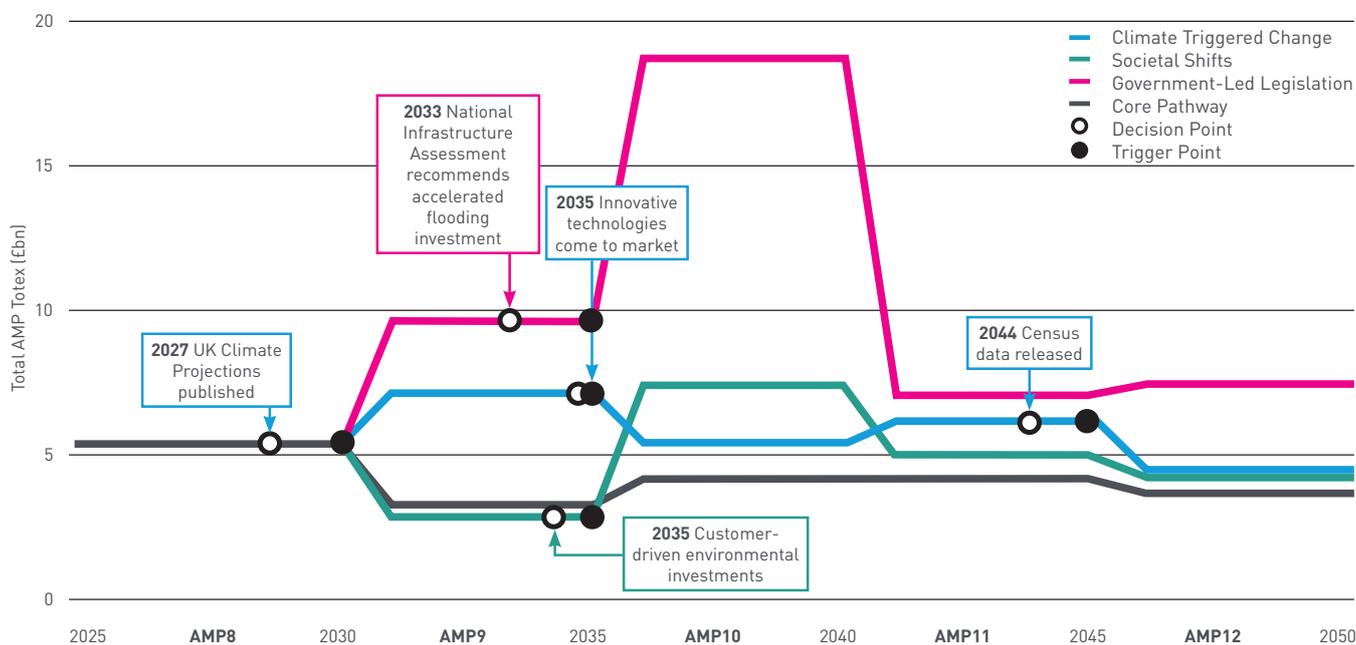
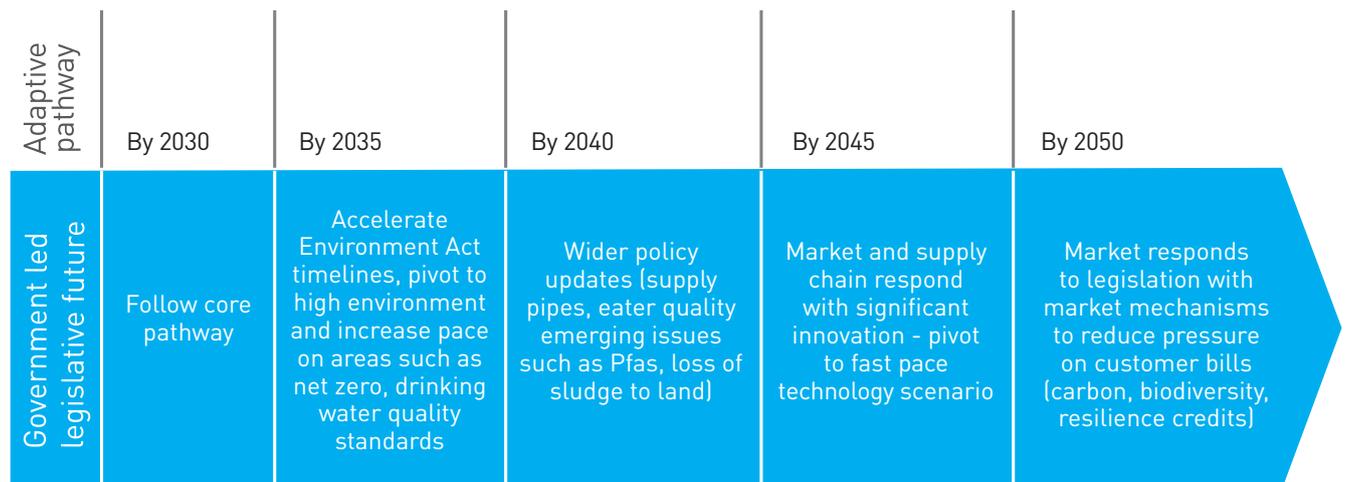
The Long Term Delivery Strategy (LTDS) is consistent with the achievement of statutory requirements and relevant Government targets.

Key points

- **94% of the enhancement programme we are proposing is driven by statutory drivers** - around 82% of the investment needs to be delivered by 2030 and the remaining 12% **by 2050** or dates in the intervening period. The main new and long term statutory obligations are:
 - environment drivers including the WFD, Environment Act, and UWWTD;
 - Government policy on Net Zero;
 - the Security and Emergency Measures Direction (SEMD);
 - the Levelling up Act (driving improvements in nutrient neutrality areas);
 - water quality (water supply) regulations; and
 - the Reservoir Safety Act.
- **Our plan meets at least the minimum Government target** - where there is both evidence and support to go further, we are challenging ourselves to accelerate activity in order to meet the targets ahead of the statutory deadline, including in:
 - leakage;
 - pollution reduction; and
 - storm overflows.
- **We have shown ambition in areas where customers have a strong and clear voice on the benefits they wish to see delivered sooner**, or where there is either a technical or cost efficiency reason for accelerating learning in order to inform future roll out such as our 'Net Zero investments' business case. Here, our LTDS scenario planning shows the urgency of the issue and the potential scale of the problem requires action to be taken now - even though trials and learning is on-going. This is echoed in the June 2023 Climate Change Committee report to Parliament which states, "pace should be prioritised over perfection". In all other areas, we have paced investment to share the costs of meeting new statutory obligations evenly across generations, in line with what customers have told us.
- **We have applied adaptive planning principles and stress tested our plans against a wide range of plausible futures** to take account of uncertainty - this ensures our plans remain no-regrets and represent the optimum means of meeting our statutory obligations. Figure 1 shows how we have also considered an adaptive pathway that considers the Government's legislative led changes that may be required over the next 25 years.

¹ <https://www.theccc.org.uk/publication/2023-progress-report-to-parliament/>

Figure 1: Adaptive pathway planning for the LTDS



- Figure 1 shows that changes in our statutory obligations have a material impact on future costs (and bills). As a result, we have integrated a policy index into our long term monitoring plan which includes two lead measures:
 - Hansard key term trend; and
 - Defra question time key term trend
- We will track these sentiment measures monthly to understand which policy areas are the subject of political debate, this will help us predict and prepare - and even influence policy and statutory changes.

Read more: Annex 2 Long Term Delivery Strategy sets out more on our proposed monitoring plan, and our Government led adaptive pathway.

MINIMUM EXPECTATION 17

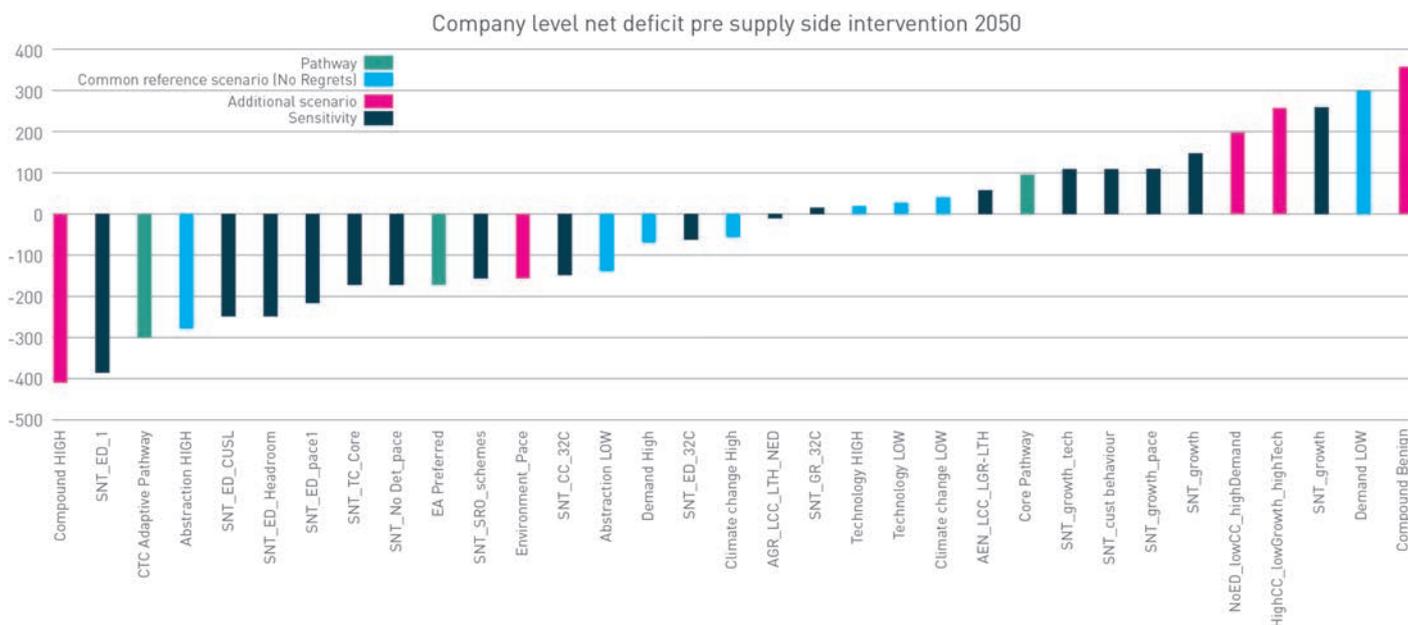
The business plan and Long Term Delivery Strategy (LTDS) include investment options which are consistent with the company's finalised Water Resources Management Plan (WRMP). Where have you addressed any feedback previously provided on these?

Key points

- **Our PR24 plan and final WRMP are consistent:**
 - Our 'core pathway' in our PR24 plan is the same as our WRMP 'preferred plan' for AMP8.
 - In line with Ofwat's guidance, we have included our WRMP preferred plan as an alternative pathway in data table LS5.
 - We have followed Ofwat's guidance and Table 1 sets out the key differences between our WRMP preferred plan and PR24 core pathway.
 - While the underlying costs are the same - Ofwat require costs to be included in 2022/23 prices and the EA require the WRMP costs to be included in 2020/21 prices.
 - There are some technical differences driven by intentional variations in definitions and requirements set out by the EA for the WRMP compared to those set out by Ofwat for PR24.

Table 1: Key differences between our WRMP preferred plan and PR24 core pathway

Ofwat common reference scenario assumptions	WRMP (water preferred plan)	PR24 Plan (core pathway)
Climate change	– UKCP18 probabilistic projections, RCP6, 50th percentile probability level	– UKCP18 probabilistic projections, RCP6, 50th percentile probability level
Demand (population growth)	– High growth (local planning authority) – High demand reductions	– High growth (local planning authority) – High demand reductions
Environment	– High environment (phased BAU+ Environmental Destination from 2035-2050) – Drought standard required by 2040	– Includes studies to investigate environmental destination – Drought standard required by 2040
Technology	– Includes cost savings associated with smart meters and innovative leakage technology	– Includes cost savings associated with smart meters and innovative leakage technology
Other	– Includes headroom uncertainty	– Does not include headroom uncertainty

Figure 1: Range of supply / demand balances between different plausible future scenarios

- **We have tested the same plausible futures in both our PR24 plan and the WRMP** as set out in Figure 1. We have however undertaken a higher number of sensitivity testing within the WRMP analysis compared to the LTDS – testing combinations of futures to help us determine the most material assumptions. These were then brought forward into the optimisation process when creating our programme wide adaptive plans.
- **We have listened and acted on feedback** received from regulators, customers, and stakeholders (such as regional water resource groups, other companies, and our Expert Challenge Panel) at every stage of the process.
 - We engaged in the process through small but important steps such as submitting timely consultation materials to allow stakeholders sufficient time to consider the information, holding pre-consultation sessions, and presenting our draft WRMP in a simple and engaging way including through both face to face and online sessions.
 - Our Statement of Response published in June 2023 sets out how we took on board feedback in our draft plan.
 - Our enhancement business case ‘08 Meeting future water needs’ includes a “you said, we did” summary (in section 2.7), and Appendix G explains how we have taken on board customer feedback, and triangulated different views when making decisions about the final plan.
 - Our updated WRMP (main narrative stakeholder engagement section table 6.2) describes how we have responded to stakeholder feedback on the draft plan.

Read more:

Enhancement business case 08 Meeting future water needs, includes evidence to demonstrate alignment between our PR24 plan and WRMP.

Annex 2 Long Term Delivery Strategy section 2.4.2, and 3.6.1 sets out more on consistency and responding to feedback.

The final WRMP due to be published in October 2023 sets out how we responded to feedback alongside the statement of response published in June 2023.

MINIMUM EXPECTATION 18

The business plan and Long Term Delivery Strategy (LTDS) include investment options which are consistent with the company's finalised Water Industry National Environment Programme / National Environment Programme (WINEP/NEP). Where have you addressed any feedback previously provided on these?

Key points

- **Our business plan is consistent with our final WINEP, and where evidence supports it, we have challenged ourselves to go further.** The Environment Agency (EA) confirmed the final outcomes of WINEP should 'proceed' in September 2023. Obligations confirmed as 'proceed' denote there are no outstanding clarification requests on our proposals nor instances where our preferred interventions have been rejected.
- **We have been responsive to recent dialogue with the EA, Defra and Ofwat,** which has sought to understand the need for, and scope of, potential changes to WINEP obligations to address deliverability or affordability concerns. As confirmed in the 5 July 2023 letter from the EA to all water companies, we have ensured:
 - River quality monitor changes have been reflected in our PR24 plan – reducing the number of monitors from 3,000 to 1,000 in AMP8.
 - As requested, no changes have been made to the WRMP and specifically phasing of the WFD licence cap, as this is still being discussed. We have included the investment in our PR24 plan.
- **We have sought and responded to feedback throughout this process - the most notable feedback stages are:**
 1. Pre-submission of the draft WINEP, we undertook multi regulator meetings held over the course of 2022.
 2. We engaged with the EA to resolve any outstanding queries on our draft WINEP submission:
 - Our November 2022 submission was made as per the EA's original timeline. Minor, agreed changes were made during the EA's 12 week assessment period, culminating in a revised WINEP programme issued on 31 March 2023.
 - The EA issued further revised iterations of WINEP in May and July 2023. We made minimal (primarily administrative) changes during this period.
 - The final WINEP was published in September 2023 with the only changes resulting from Defra policy clarifications (on the extent of river quality monitors and emergency overflow monitoring). We have included the final WINEP in our PR24 business plan.
 3. We have engaged with customers at several stages throughout the development of our plan, and customer feedback on the pace we tackle wastewater long term obligations has influenced our plan. This, alongside the actions we have taken, is set out in Annex 3a Customer Engagement.

Read more:

Enhancement business case 04a Water, 04b Wastewater and 4c Bioresources WINEP.

Appendix 1 of Enhancement business case 04 Wastewater WINEP provides details of how we have triangulated customer and other views, leading to our proposal to accelerate an additional 198 storm overflow improvements.

Annex 2 Long Term Delivery Strategy section 2.4.2, 3.6.1.

Annex 3a Customer Engagement

MINIMUM EXPECTATION 19

The business plan and Long Term Delivery Strategy (LTDS) include investment options which are consistent with the company's finalised drainage and wastewater management plans (DWMP). Where have you addressed any feedback previously provided on these?

Key points

- **Our business plan and LTDS is consistent with our final DWMP:**
 - The outputs of the DWMP have influenced our PR24 plan through two enhancement cases – '04b Wastewater WINEP' and '07 Urban catchments of the future'. Both enhancement cases use the same robust modelling to inform baseline and long term risks aligned to LTDS scenarios, with intervention appraisal consistent with the same 'hybrid' solutions to inform best value.
 - For our PR24 plan, the 'core pathway' aligns to the same evidencing used to inform our DWMP 'core pathway'.
 - In data table LS6, we have set out wastewater enhancement expenditure by common reference scenarios. This includes the outputs from our DWMP. Our DWMP sets out 2050 choices, based on 'do nothing', 'best value', 'maintain', and 'zero risk' scenarios, with our final DWMP based on best value. In response to feedback from the EA on our final DWMP that we have not met the requirement set out in WISER (to not let sewer flooding performance deteriorate), we have used the DWMP 'maintain' scenario to maintain current levels of sewer flood risk by 2050.
 - We have followed Ofwat's guidance and Table 1 below sets out the key differences between our DWMP preferred plan and PR24 core pathway.

Table 1: Key differences between our DWMP preferred plan and PR24 core pathway

Ofwat common reference scenario assumptions	DWMP (drainage and wastewater preferred plan)	PR24 Plan (core pathway)
Climate change	– UKCP18 probabilistic projections, RCP6, 50th percentile probability level	– UKCP18 probabilistic projections, RCP6, 50th percentile probability level
Demand (population growth)	– High growth (local planning authority)	– High growth (local planning authority)
Environment	– n/a	– n/a
Technology	– Factored in cost savings over long term from smart sewers	– Factored in cost savings over long term from smart sewers
Other	– Our final DWMP set out 'do nothing', 'best value', 'maintain' and 'zero' risk scenarios informed by 'hybrid' solutions where nature-based blue/green solutions have not emerged as best value	– We have used the same DWMP analysis to inform PR24 with an accelerated nature-based blue/green intervention as part of business case 07, with a long term target to maintain current baseline risk (aligned to WISER)

- Since the publication of our final DWMP in March 2023, we have used the same programme appraisal methodology used to inform our DWMP, but updated input parameters to reflect latest willingness to pay research, benefit valuation, customer market research, and construction cost data. However, the underlying risk analysis, benefit assessment tool and option selection process which underpinned our DWMP remains constant.
- **We have tested the same plausible futures in both our PR24 plan and the DWMP.**
We have, however, undertaken a higher number of sensitivity testing within the DWMP analysis compared to the PR24 plan – testing combinations of futures to help us determine the most material assumptions. These were then brought forward into the optimisation process when creating our programme wide adaptive plans.
- **We have listened and acted on feedback received from regulators, customers, and stakeholders** (including local authorities, other flood authorities, and our Expert Challenge Panel) at every stage of the process.
 - We engaged in this process through small but important steps such as submitting timely consultation materials to allow stakeholders sufficient time to consider the information, and finding engaging ways to present information to make it easy to understand. In doing so, we won an award for our innovative interactive GIS mapping tool developed to address the inability to hold workshops or community discussions during COVID.
 - We tailored our engagement process to make it accessible to local stakeholders – taking our plans to our communities, and reaching out to household and business customers to ensure we obtained a wide range of views and inputs.
 - Our final DWMP (section 1.4) includes an overview of our customer and stakeholder engagement and Appendix 7 includes a full description of feedback and how it has influenced our plan.
- In August 2023 we received a cross-regulator letter with industry reflections from the EA, Ofwat, Defra and CCW. Company specific feedback from the EA and Ofwat on our final DWMP identified improvements they wanted to see addressed in PR24 – including a concern from the EA that our final DWMP best value plan did not meet the expectation formalised in WISER that water companies will be reducing the risk of sewer flooding. We followed this up and published an addendum to our final DWMP setting out how we have reflected the feedback on our final DWMP in our PR24 and the differences.
[\(https://www.severntrent.com/about-us/our-plans/drainage-wastewater-management-plan/\).](https://www.severntrent.com/about-us/our-plans/drainage-wastewater-management-plan/)
- Enhancement business case '07 Urban catchments of the future', includes a summary to explain how we have taken on board customer feedback and how we have triangulated different views when making decisions about the final plan.

Read more:

Enhancement business case 07 Urban catchments of the future, includes evidence to demonstrate alignment between our PR24 plan and DWMP.

Annex 2 Long Term Delivery Strategy section 2.4.2, 3.6.1

The final DWMP published in March 2023 includes our Statement of Response in Appendix 7 and sets out how we responded to feedback.

MINIMUM EXPECTATION 20

The company proposes to use direct procurement for customers (DPC) to deliver eligible schemes, in line with our 'DPC by default' approach.

Key points:

- **We are supportive of DPC to introduce competition in the delivery of major capital infrastructure projects.** We are proposing a plan that uses DPC to deliver eligible schemes above the size threshold of £200 million lifetime totex.
 - Table 1 highlights the four schemes we have assessed as suitable for delivery via DPC.

Table 1: Proposed DPC projects at PR24

Scheme	Description	Whole Lifecycle Cost (WLC)
West Midlands Raw Water Storage	Conversion of a third-party owned quarry into a pumped raw water storage reservoir.	£491 million
Carsington to Tittesworth	Transfer of raw water from the River Derwent and Carsington Reservoir to Tittesworth.	£363 million
Minworth Water Recycling Strategic Resource Option (SRO)	Providing the sole source of raw water for GUC SRO (see below) to transfer to Affinity Water's area.	£426 million
Grand Union Canal (GUC) Strategic Transfer SRO	Raw water abstraction from the GUC supported by Minworth SRO (see above) and new treatment works and connection to Affinity Water's existing distribution system.	£729 million

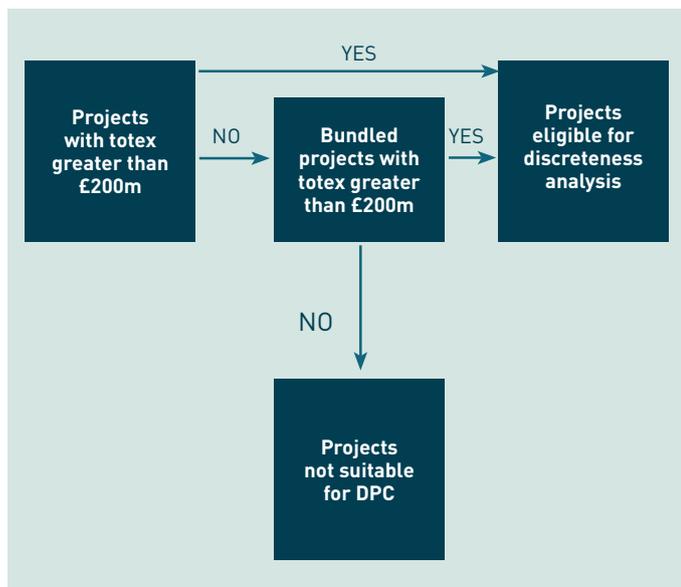
- **We have carefully applied Ofwat's criteria to ensure we have considered DPC comprehensively throughout the plan:**
 - We commissioned external consultants KPMG to independently assess 324 capital projects proposed in our PR24 Business Plan against Ofwat's DPC eligibility criteria.
 - In accordance with Ofwat's guidance, we have also considered low-capex projects that exceeded the size threshold on a whole life totex basis, and we have considered the whole lifecycle costs rather than the costs over a typical contract length of 25 years.
 - In addition, we have implemented Ofwat's feedback from our DPC engagement meeting held on 31 March 2023 and proposed the Minworth Water Recycling SRO as a DPC scheme. This is despite our reservations about a third party operating an aspect of our largest treatment works. However, we understand the policy aim and we will look to mitigate potential risks through contract terms.

Ofwat DPC test: Size test

- **We automatically put forward schemes exceeding the £200 million threshold for discreteness analysis.**
 - Particular attention was given to the possibility of bundling schemes to help identify packages of work that could be combined to meet the £200 million DPC eligibility threshold.
 - For projects below £200 million, we considered potential bundling opportunities across AMP8 and successive price controls.
 - The bundling assessment took into consideration: grouping of similar assets or works; assets within similar geographical location; assets with a similar risk profile; or where there is a logical grouping based on the schedule for delivery.

- Bundled projects greater than the £200 million were taken forward for further analysis.
- We also considered whether smaller local assets or works could be combined with a large discrete project that already exceeds the £200 million threshold.
- Figure 1 illustrates the process we have followed.

Figure 1: DPC size test analysis



Ofwat DPC test: Discreteness test

The Ofwat discreteness test comprises two elements - the Construction Risk test, and the Operation and Maintenance Risk test:

- **Construction Risk test: we considered whether it was possible to transfer construction risk to the Competitively Appointed Provider (CAP) or if the risk could be mitigated using contractual arrangements.**
 - Where the risks could not be appropriately managed, we considered the aspects of the project which were suitable for delivery via DPC and adapted the scope accordingly. Where the scope was reduced, the size test was repeated.
 - Schemes passing the Construction Risk test were taken forward for the Operation and Maintenance Risk test analysis.

- **Operation and Maintenance Risk test: we considered whether it was possible to transfer the maintenance or the operation of the assets to the CAP or whether it could be managed through contractual arrangements.**

- Where the risks could not be appropriately managed, we considered elements of the scheme which could be constructed by a CAP and transferred back to us post-construction. Depending on the responsibilities that could not be transferred, alternative DPC models such as Design Build Finance (DBF) were considered.
- Additionally, where the scope of the scheme was reduced, the size test was repeated to ensure the eligibility threshold was met.

Figure 2: Our systematic approach to understand construction risk and maintenance risk for our schemes

1. We identified risks specific to each scheme.	2. We devised an initial risk allocation between Severn Trent, the CAP, and the customer.	3. Where appropriate, we set out the mitigation for each risk.
- This was based on Ofwat’s table of risks (set out in its DPC guidance), and we also identified additional risks specific to each scheme.	- We compared this against Ofwat’s allocation of risks, considering which party was best placed to manage the risk and whether the market would accept responsibility. - We also considered whether transferring the risk was likely to drive value for money or result in excessive risk pricing in the procurement process.	- This would support the ability to effect risk transfer e.g. contractual mitigation such as compensation events.

All schemes passing both the size and discreteness tests were proposed as suitable for delivery via DPC.

Read more:

Annex 4c Supporting Markets and Direct Procurement for Customers provides detailed information on the analysis we undertook to select eligible schemes for delivery via DPC.

MINIMUM EXPECTATION 21

The company provides sufficient and convincing evidence that the investment proposals within its PR24 business plan are deliverable. This should take into account delivery in the 2020-25 period and any measures the company has put in place.

Key points:

- We have created an ambitious and challenging plan for AMP8 to meet our statutory and regulatory obligations and fulfil our customers' expectations. Our plan requires a £6.6 billion package of core¹ capital investment, roughly equal to £1.2 billion per year of the AMP - in line with our year 5 run-rate for AMP7. We have challenged and satisfied ourselves that our plan is deliverable, and we have the appropriate measures to satisfy ourselves that our supply chain risk is manageable.
- We believe our investment plans are both financeable and can be delivered successfully without adverse impacts on the deliverability of the rest of the sector's plans.
- We have fully reviewed the Ofwat commissioned Water UK report delivered by Stantec on infrastructure delivery capacity and are delighted to confirm we have already enacted all relevant mitigations proposed. We are confident we will go beyond the suggestions in our AMP8 plan.
- We are already operating at the right capital run-rate, have a much wider and deeper supply chain than our peers, and have invested heavily in innovation to create further capacity. Furthermore, our internal analysis, learnings from AMP7 and Green Recovery, and discussions with our supply chain partners corroborate we are in a unique position for deliverability of our plan.

The following sets out our key evidence to support the deliverability of our plan:

- **A strong track record of successful delivery across our AMP7 programme.** We are confident of our ability to deliver based on our experience and strong delivery performance across both AMP6 and AMP7, including a significant step up in delivery as part of our sector leading Green Recovery programme.

- We successfully stepped up our run-rate to accommodate additional Green Recovery spend during AMP7. This will see us delivering £1.4 billion a year at peak - greater than our expected AMP8 average run-rate of around £1.2 billion a year - thus demonstrating our management processes and supply chain can - and already do - deliver at this scale.
- We are operating and delivering our regulatory commitments. In AMP6 we delivered our regulatory commitments, investing to within 1% of our Final Determination and reinvested some of our out performance. In AMP7 we are on track to deliver our regulatory commitments despite aggressive market conditions across energy and construction. We continue to manage our plan effectively as well as deliver additional customer service benefits through choice investment.
- **A highly skilled internal design team.** The design process was brought in-house during AMP6 to provide greater control over process and aid cost control and standardisation. We now have a team of over 230 professionals to manage the quality and flow of work to our supply chain more effectively and efficiently. In addition, we have access to 16 consulting firms who continue to provide additional capacity and peak demand support when needed.
- **An established, diverse and experienced supply chain.** Building on our AMP6 approach to diversify and deepen our supply chain at a time when other water companies were consolidating theirs, we have grown from six delivery partners to 60 today. Consequently, it is an all round win-win with reduced supplier risk and extra resilience in our supply chain - while also adding £1 billion of new AMP capacity to the sector by not reducing available capacity for others.

¹ Excludes elements outside usual delivery areas (e.g. cyber) and those with separate supply chains (e.g. property, transport etc.)

- **Extensive supply chain engagement.** We have collaborated with our supply chain on our AMP8 plans to understand their risk appetite and to reduce potential barriers to programme delivery. This is improving our delivery plans while ensuring the supply chain has sufficient commitment to retain and increase resources for AMP8. We have extended our current frameworks, enabling us to move swiftly from AMP7 to AMP8 activity without having to return to the open market.
- **Detailed delivery modelling.** We have undertaken detailed modelling to identify the optimal design and delivery pathway, diagnose potential risks, and identify the skills mix needed. As a result, we are accelerating £400 million of AMP8 activities into the last two years of AMP7 - releasing enough of the programme by the end of AMP7 to meet our £1 billion target by the end of year 1 of AMP8 and shortening the AMP8 ramp up time.
- **Continued innovation.** Our continued innovation across all aspects of design and delivery help reduce potential pinch points noted in Stantec's review of delivery capacity - and release more capacity into the sector.
 - In AMP7, we procured circa £70 million of critical items in advance using a supply chain outside of our traditional tier 1, giving us greater security of supply, price stability and demand smoothing. We will continue to use **advanced procurement** in AMP8.
 - We will introduce more standardisation and off-site pre-fabrication through our potentially patentable, **Plug & Play approach**. Through advanced, standardised modular designs, assets are built in part or full in controllable factory conditions, resulting in significantly faster on-site installations compared to typical methods. Our Plug & Play programme will reduce design and delivery costs and unlock manufacturing capacity outside the traditional water sector supply chain such as in the motor industry supply chain.
- **Confirmed supply chain capacity.** We have had our supply chain capacity independently tested. Our analysis confirms our capacity is circa 120% of our AMP requirement and 103% of our expected peak. Allowing for the growth indicated by our suppliers, this would equate to 144% and 124%

respectively, thus confirming sufficient capacity available to fully deliver on our plans – even with modest capacity shrinkage, our programme would remain unaffected. Furthermore, this capacity will improve as we flow more of our programme through our Plug & Play delivery route.

- **Predicted tier 1 supply chain utilisation of less than 7%.** While we have diversified our supply chain, other companies remain heavily dependent on tier 1 contractors. Our analysis shows our plans would only involve 11 of the 60 suppliers identified in the Water UK / Stantec report, and we would represent just 6.3% of their £43.5 billion available AMP8 capacity. This outlines both the benefits of diversification and shows our plans will not disadvantage the rest of the sectors' activities. Using Water UK's analysis, we in fact use £3.5 billion less AMP capacity than set out as expected in the report.

Our Board makes the following assurance statement:

- Having reviewed the Severn Trent PR24 submission, and all relevant supporting assurance papers, the Severn Trent Water Limited Board makes the following statement to confirm that it has challenged and satisfied itself that the PR24 submission presents plans and expenditure proposals which are deliverable and the Company has put in place measures to ensure that they can be delivered, in doing so the Company has ensured that supply chain risk is manageable and delivery plans account for:
 - ability of Company and its supply chain to expand capacity and capability at the rate required to deliver the required investment;
 - the impact of similar levels of growth across the sector and any overall sector and supply chain capacity constraints; and
 - key supply chain risks and capacity constraints such as the availability of specialist resource or components.

Read more: Annex 4b Deliverability sets out in detail our evidence that our plans are deliverable; Annex 1a Data, Information and Assurance sets out our Board assurance statement in full.

MINIMUM EXPECTATION 22

For ODI rates for common PCs, the company uses our view of indicative marginal benefits, or provides compelling evidence for any alternatives.

Key points:

- We have applied Ofwat's view of indicative marginal benefits to our incentive rates without exception. This is set out in table OUT7 and confirmed in the table below.

Table 1: Ofwat indicative ODI rates compared to ODI rates used in our plan

Common performance commitments	Ofwat's indicative ODI rates for Severn Trent £m	ODI rates used in our business plan £m	Are they the same?
Internal sewer flooding	18.488	18.488	✓
External sewer flooding	8.277	8.277	✓
Customer contacts	22.093	22.093	✓
Compliance Risk Index (CRI)	2.198	2.198	✓
Water supply interruptions	2.234	2.234	✓
River water quality	0.001	0.001	✓
Bathing water quality	0.056	0.056	✓
Total pollution incidents	2.083	2.083	✓
Serious pollution incidents	1.138	1.138	✓
Discharge permit compliance	5.528	5.528	✓
Storm overflows	1.599	1.599	✓
Leakage	0.365	0.365	✓
Per capita consumption	3.089	3.089	✓
Business demand	0.365	0.365	✓
Mains repairs	0.417	0.417	✓
Unplanned outage	3.013	3.013	✓
Sewer collapses	2.004	2.004	✓

MINIMUM EXPECTATION 23

For ODI rates for common PCs the company uses our view of indicative benefit sharing factors, or alternatives supported by sufficient and convincing evidence consistent with the considerations we have set out in our final methodology.

Key points

- We have also applied Ofwat's view of indicative benefit sharing factors at 70% for all common ODIs where this applicable. This is set out in table OUT7.

Table 1: Ofwat indicative benefit sharing factors compared to those used in our plan

Common performance commitments	Ofwat's indicative benefit sharing factor	Sharing factor used in our business plan (table OUT7)	Are they the same?
Internal sewer flooding	70%	70%	✓
External sewer flooding	70%	70%	✓
Customer contacts	70%	70%	✓
Compliance Risk Index (CRI)	70%	70%	✓
Water supply interruptions	70%	70%	✓
River water quality	70%	70%	✓
Bathing water quality	70%	70%	✓
Total pollution incidents	70%	70%	✓
Serious pollution incidents	70%	70%	✓
Discharge permit compliance	70%	70%	✓
Storm overflows	70%	70%	✓
Leakage	70%	70%	✓
Per capita consumption	70%	70%	✓
Business demand	70%	70%	✓
Mains repairs	70%	70%	✓
Unplanned outage	70%	70%	✓
Sewer collapses	70%	70%	✓

MINIMUM EXPECTATION 24

If the company's business plan includes bespoke performance commitments, the company sufficiently demonstrates how it has responded to any feedback we have provided on its bespoke performance commitment submission. The company should also provide complete, consistent and well evidenced incentive rates for bespoke performance commitments, demonstrating how its proposals are consistent with our final methodology and any relevant guidance.

Key points:

We have acted upon Ofwat's feedback on our April 2023 bespoke ODI submission. We have reviewed all feedback and made significant changes to our proposals so as to fully meet Ofwat's expectations.

- **Limiting the number of bespoke PCs and including a PC on capital carbon.**

Recognising that Ofwat wants to limit the number of bespoke PCs, we are now only submitting three.

- We have withdrawn both our industrial water recycling, and keeping water out of sewers PCs, noting the feedback from Ofwat on potential overlaps.
- We have included a bespoke PC on capital carbon following Ofwat's encouragement for companies to develop a bespoke PC to encourage companies to make greater and more rapid progress in the drive to Net Zero.
- The capital carbon bespoke PC is also proposed in addition to bespoke PCs on frontier catchments and reducing disruption from our works.

- **Evidence of significant additional benefits.** We have been clearer about the benefits of our proposals and have quantified the benefits we expect to arise. We have also explained why the benefits would not be realised without a bespoke performance commitment:

- **Frontier catchments** – The East and West Midlands have the highest pesticide application rates across England, as well as the largest surplus of nitrates left over in the environment from agricultural production. Together, this creates a wide variety of water quality challenges, and agriculture is currently the foremost Reason for Not Achieving Good Status

(RNAGS) in our region. Our bespoke ODI will target nitrate reductions across 66 catchments and in excess of 783,000 hectares, delivering real load reductions at source while minimising agricultural productivity losses.

- We estimate our proposed performance commitment level – based on circa 200 farms committing to a 10% reduction could deliver benefit to water quality, air quality and climate regulation of between £149 million and £446 million over five years. Bespoke ODIs will be capped at 0.5% of RORE – around £12.4 million which is 70% of the benefit. This means we could deliver £17.6 - £17.7 million of benefits each year before reaching the cap – equating to nearly £88 million of benefits for customers and the environment over five years, should we deliver maximum outperformance.
- **Reducing disruption from our work** - in AMP8 we are proposing to more than double our mains renewal rate. Given that the West Midlands already has the highest car dependency (the average driver covers 9,000 miles, almost double the second highest region¹ this ODI will incentivise a reduction in the average duration of roadworks that would not be achievable under the TMA regime (which doesn't incentivise lower time, but rather compliance to a set of rules). This ODI will reduce time lost in travel delays, improve the environment from reduced air pollution, and avoid negative wellbeing impacts on nearby households. NERA - using the same valuation approach Simetrica used, which Ofgem relied upon to approve a collaborative streetworks ODI in the energy sector - calculated the average value of avoided streetworks is £12,692 per day.

¹Department for Transport - <https://www.vanarama.com/blog/cars/the-uks-most-car-dependent-regions>

- By 2030, over 7,200 days of disruption would be saved, yielding £92 million of benefits. If we deliver the maximum outperformance, we may be able to deliver a further £89 million in benefit if we could reduce disruption by another 6,975 days during the period before we are capped.
- **Focus on outcomes.** We have linked our proposed commitments more clearly to the overall outcome they are intended to deliver:
 - We have changed our measure for frontier catchments from the number of farms on our scheme to tonnes of nitrate removed to give a more direct link to outcomes - specifically improved raw water quality upstream of treatment works; water that's good to drink; and making a positive difference.
 - Reducing disruption contributes to improvement in overall quality of our service – reducing travel delays and environmental nuisances. Less time working in the road also means reduced air pollution and carbon – outcomes supporting the transition to Net Zero – but not measured within the common PC for operational greenhouse gasses. We also note that this measure has greater alignment to outcomes than the collaborative road metric proposed by Thames (and used in energy) as that focuses on just one means to reduce road works, rather than the end outcome.
- **Customer research to support the ODI.** We have explained more clearly our overall approach to customer engagement, and we chose the final bespoke PCs to take forward based on customers' views. For each bespoke PC we set out the specific customer research findings and our responses:
 - Customers strongly supported catchment management in both rounds of qualitative research – perceiving it a commitment that went over and above our core business.

- Customers believe our more ambitious proposal – going beyond the collaborative streetworks ODI accepted in the energy sector – was more practical. Customers saw it saving time and having a positive financial and environmental impact. In our quantitative research, 82% of respondents supported a PC on streetworks and 61% supported a financial ODI. One in four customers reported they had been inconvenienced by roadworks over the last three months and we estimate on average our roadworks delay every person in our region by over two hours per year.
- **Overlap with other PCs.** We set out more clearly how overlaps with other PCs are avoided. Where we consider there is an overlap – either perceived or real – we address how we ensure customers do not pay twice, such as by adjusting reward value to exclude benefits linked to other PCs or deducting the common ODI value from the bespoke ODI reward rate if it cannot be done at source.
 - For frontier catchments, we have changed the measure to make it more obvious there is no overlap with the common PC for river water quality and address Ofwat's comments on overlap in scope with common PCs.

Table 1: Addressing overlap for frontier catchments

Common PC	Measures to deal with overlap if any
Biodiversity	Interventions very unlikely to qualify for biodiversity PC No biodiversity net gain valued within incentive rates to avoid double-counting
River water quality	Targets different pollutants (nitrates and pesticides not phosphorus) RWQ is a wastewater incentive, catchment management is water resource
Operational GHGs	Catchment management will not reduce GHGs during AMP8 No carbon benefits included in incentive rate to avoid double counting

- We consider our proposed streetworks PC does not overlap with any common PCs and address Ofwat's comments of overlap with other PCs and incentives:

Table 2: Addressing overlap for reducing disruption from our works

Common PC	Measures to deal with overlap if any
C-MeX	No need for adjustment. The qualitative element of C-MeX and BR-MeX is also influenced by many aspects of service that are incentivised through separate PCs
BR-MeX	
D-MeX	As above but interaction even more limited
TMA permit	TMA permits are designed to ensure road works meet a certain set of criteria including maximum time (as opposed to minimising time)
Totex efficiency incentive	This will have the opposite effect – a disincentive – as reducing time in roads will require additional spending (eg more gangs, different working conditions etc)

- we have developed complete, consistent, and well evidenced incentive rates for our three bespoke PCs. Our proposals are consistent with Ofwat's final methodology and relevant guidance.
- **Frontier catchments**
 - Incentive rates are based on two elements: the benefit arising from catchment management; and treatment costs avoided. We developed a benefit assessment tool (BAT) with economic consultants Economic Insight. The tool is compliant with Ofwat and EA guidance and has also been used to consistently assess all plan investment options.
 - Total NPV of benefits over 30 years – consistent with PR24 methodology - is £726 million, giving a benefit to cost ratio of 5.33.
 - Cost savings were assessed in conventional treatment costs of farm pollutants in each catchment for a 5 year period (reviewing 4,212 farms in 25 catchments) compared to average cost savings of £33,612 per farm for regenerative farming.

- While conventional treatment of farm pollutants costs were compared with regenerative farming costs, however, with no certainty of take up, we based our rates on benchmarked actual cost of delivery – the grants to incentivise farmers to reduce their loads. Rates assume a minimum 10% load reduction, for those farms achieving a 25% or more load reduction, an additional outperformance value double the 10% rate will be achieved. Outperformance can only be claimed on farms achieving the reduction targets above the 200-farm threshold.

Table 3: ODI incentive rates for frontier catchments

Annual target	Units	Under performance	Out performance
Load reduction 10-25%	Per farm	£104,000	£104,000
Load reduction 25% or more	Per farm	N/A	£312,000

- **Reducing disruption rates**
 - We commissioned NERA to undertake valuation of the effects of benefits to customers, using Simetrica's methodology used for calculating an energy sector ODI.
 - NERA calculated an average benefit of £12,692 per day based on a range of case studies and we have applied the standard sharing rate of 70% to the calculated benefit value. It is highly likely the value of our benefit is higher than Thames' as Thames already has an incentive to clear road works in London as quickly as possible - some of the benefit from reducing time is already taken into account through a lane rental scheme.

Table 4: ODI incentive rates for reducing disruption from our works

Common PC	Units	Under performance	Out performance
Total days above/below PCL	Per 0.1 days average	£5.014 million	£5.014 million

² Valuation of greenhouse gas emissions: for policy appraisal and evaluation - GOV.UK (www.gov.uk)

• **Frontier catchment rates**

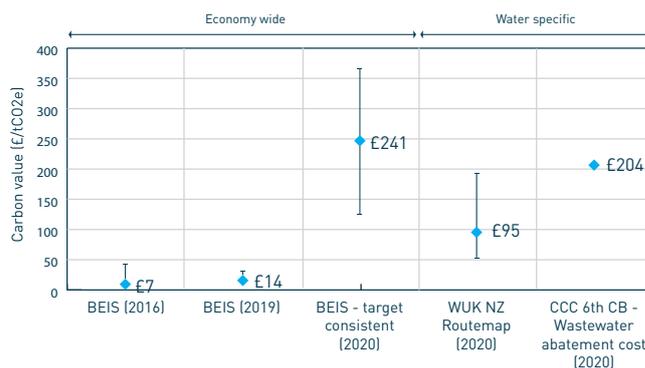
- The bringing forward of ‘embedded carbon’ ODIs will lead to a range of different performance measures, however, we assume Ofwat will set a common incentive rate linked to the price of carbon.
- We think it is more appropriate to set a rate for capital carbon that **is higher than operational carbon**, as achieving capital programme reductions is likely to be more challenging.
- The UK government guide to the valuation of greenhouse gas emissions for policy appraisal and evaluation has been used in PR24 for costing the carbon impact of the programme. They represent a broader economic cost to society than costs to abate and provide a possible reference.

Table 5: Government valuation for GHGs for policy appraisal and valuation³

Year	Low series	Central series	High series
2030	140	280	420
2031	142	285	427
2032	144	289	433
2033	147	293	440
2034	149	298	447

- Ofwat also commissioned Frontier Economics to review the incentives for Net Zero. It suggested the market should be allowed to establish a rate through competition, however we are not sure how feasible this is for capital carbon. Companies need to know what carbon price to include when undertaking a cost-benefit analysis and if there is uncertainty, are more likely to adopt business as usual solutions.

Figure 1: Frontier Economics comparison of carbon values³



Source: Data from BEIS Carbon values, Water UK Net zero Routemap, Climate Change Committee 6th Carbon Budget

-We would suggest Ofwat should allow a carbon price from the middle range to stimulate the development of low carbon approaches in AMP8. As techniques improve valuations can be refined, although it is equally likely the rate may need to increase in future (i.e. because further improvement is more difficult to achieve).

Read more:

Annex 5b Bespoke Performance Commitments sets out more on how we have responded to Ofwat’s feedback, and developed incentive rates.

³Frontier Economics: Incentivising Net Zero Incentives for PR24 (ofwat.gov.uk)

MINIMUM EXPECTATION 25

The business plan uses our early view of the allowed return on capital or provides compelling evidence that another rate is more appropriate.

Key points:

We have used Ofwat's early view of the allowed return on capital in our business plan.

We consider it is essential that Ofwat:

- **Appropriately updates its early view of the cost of capital to reflect relevant interest rate movements.**
 - Market developments since the 30 September 2022 data cut-off point Ofwat used has left some input assumptions well out of line with current market evidence and no longer reliable. Most notably, applying the same risk free rate methodology using a data cut-off point of 31 August 2023 would increase the WACC estimate by around 36 basis points to 3.65%.
- **Gives further careful consideration to the appropriateness of its WACC input assumptions and ranges to ensure a balanced approach is adopted.**
 - Particular areas of concern include: the upper bound that has been identified for the Total Market Return (TMR), given available evidence; and the asymmetric allocation of inflation risk implied by the assumed RPI-CPIH wedge.
- **Ensures the allowed return on capital is determined in a way that is consistent with the design and calibration of the price control framework.**
 - For example, Ofwat's ODI proposals to date would imply an asymmetric package with material negative ODI-related returns expected on average. We consider that such a package would be inconsistent with setting the allowed return on equity equal to the mid-point of the cost of equity range.

- **Carefully stress tests the compatibility of its cost of capital assessment with the scale of investment and equity additions that will be needed in AMP8:**

- On 8 September, Ofwat wrote to Regulatory Directors at water companies to say that companies could adopt an allowed return, based on Ofwat's methodology, updated for more recent data. Ofwat said adopting an allowed return updated for recent data would be unlikely to fail this Minimum Expectation. We have continued to use Ofwat's early view of the allowed return on capital in our business plan and have explained what adjustments we consider need to be made to it.

Read more: Annex 6a Risk and Return sets out more detail on how we have used Ofwat's early view of the allowed return on capital and the adjustments we have made.

MINIMUM EXPECTATION 26

The company’s plan provides sufficient and convincing evidence that the overall business plan provides an appropriate balance of risk and return.

Key points:

- **Our plan provides sufficient and convincing evidence that the overall business plan provides an appropriate balance of risk and return.**
- We have followed Ofwat’s framework for assessing the balance of risk and return that involves identifying how different potential scenarios could affect the Return on Regulatory Equity (RoRE). We have used the P10 to P90 range to investigate how returns vary under a relatively typical range of circumstances, with the range excluding the more extreme top and bottom 10% of potential outcomes.
- In our business plan we present the P10/P90 numbers we have calculated for the: customer measures of experience; financing; outcome delivery incentives (ODIs); retail costs; totex costs; revenue incentives; and biosolids disposal compliance costs. We have used information on past industry performance and our performance with what we currently know about Ofwat’s PR24 framework to calculate the P10/P90 RoRE ranges. We present the RoRE ranges for these main components of our business plan in Figure 1 below.

Figure 1: PR24 RoRE risk range in our business plan



- An example of the evidence we have provided in Annex 6a Risk and Return is for ODIs. We have carried out Monte Carlo simulation modelling of performance outcomes based on past performance levels and Ofwat’s proposals on the structure and calibration of ODIs. For the RoRE analysis in our plan, we set the median (P50) for each ODI equal to the performance commitment (PC) levels we anticipate for AMP8 - on the basis of Ofwat’s most recent proposals. Although we set the P50s in this way, the ODI RoRE range still has a negative skew of -2.14% to +0.98% because of factors such as some ODIs being penalty only, the removal of exclusions, and the probability that distributions of the ODI payments for some common PCs being skewed to the downside.
- We understand that Ofwat’s Minimum Expectation 26 is concerned with providing an appropriate balance of risk and return for customers. We consider our business plan provides an appropriate balance of risk and return for customers. At 3.07% of RoRE our potential P90 outperformance is within Ofwat’s indicative RoRE range, which has a 4.80% P90 value.
- Our analysis suggests that the overall RoRE range is biased to the downside, i.e. there is more scope for company underperformance than outperformance with a P10 of -8.44%. We are assuming that in reaching its Final Determination, Ofwat will correct this asymmetry of expected returns ‘at source’ to bring the RoRE range in line with its indicative -4.85% to +4.80% range, or Ofwat will offset the asymmetry through some use of aiming up on the allowed return on capital. Examples of how the RoRE range could be made more symmetric include introducing deadbands for some ODIs, providing inflation indexing of retail costs, or providing a biosolids disposal compliance costs uncertainty mechanism.

Read more: Annex 6a Risk and Return sets out more evidence on how our plan appropriately balances risk and return.

MINIMUM EXPECTATION 27

If the company's business plan includes bespoke uncertainty mechanisms and notified items then these meet the expectations we have set out in our methodology.

Key points:

- We are proposing one bespoke uncertainty mechanism (UM) in our AMP8 business plan on biosolid recycling to agricultural land. Our UM meets the expectations Ofwat has set out in its methodology.
- The bioresources sector is currently faced with significant uncertainty regarding biosolid recycling to agricultural land during AMP8. The main drivers of the uncertainty are anticipated legislative changes including Farming Rules for Water (FRfW), the Environment Agency's sludge strategy, and possible shifting public perceptions.
- The costs associated with a shift to alternative routes of disposal for biosolids are expected to be material. We are proposing a bespoke UM as an effective means of managing the risk we are facing while remaining mindful of the impact on customer bills.
- Our UM meets each part of Ofwat's assessment framework for uncertainty mechanisms as set out below.

Materiality

- **Evidence that the uncertainty would have a material impact on the business**
 - We have modelled different scenarios to evaluate the potential cost impacts of a requirement to find alternative routes for biosolids disposal during AMP8. The costs range between £108 million and £743 million for our low and high impact scenarios. This is based on current market prices and availability from third-party treatment because we do not currently operate any incineration plants. Based on these above, we expect the impact to the business to range between 10% and 72% of the bioresources price control at AMP8.

For the bioresources control, there is no cost sharing and therefore this represents a material impact on the business. An UM would allow us to request an increase in allowance only in the event of future changes in: legislation; regulation; guidance, or its interpretation; or a change in biosolids acceptability by end users, leading to a proportionate impact on customer bills. On this basis, we think that an UM is a more appropriate way to manage the risk we are facing.

- **RoRE analysis demonstrating efficient net impact**
 - The net impact of our proposed UM as a percentage of RoRE is an average of 2.29% in the P10 low case. The downside risk of us having to find alternative routes for disposal are therefore significant and cannot be mitigated without the additional allowance requested in the UM.

Table 1: RoRE - impact of proposed uncertainty mechanism 2025-30

RoRE - impact of proposed uncertainty mechanism	2025/26	2026/27	2027/28	2028/29	2029/30	Average
RoRE impact of proposed uncertainty mechanisms -high case (P90)	0.00%	0.00%	0.00%	0.00%	1.55%	0.31%
RoRE impact of proposed uncertainty mechanisms - low case (P10)	0.00%	3.14%	2.93%	2.76%	2.63%	2.29%

- **Steps that the company could take to manage the effects of risk**

- We have carefully considered how we could mitigate the risks associated with a requirement of an alternative route for biosolids disposal. Our base costs will fund two further Advanced Anaerobic Digestion (AAD) sites, however, the primary purpose of these is to reduce volumes from projected biosolids growth in our area. Our WINEP Bioresources enhancement investment business case also allows for short term measures which will have the effect of delaying the full impact of the required changes. For example, pelletisation technology is being planned for two sites, this will allow us to store more biosolids for the short term. However, these changes alone are not sufficient for the possible scale of change in some scenarios. The uncertainty covered by the UM is beyond what can be reasonably incorporated within our base cost plans and enhancement case.

Efficiency of risk allocation and customer protection

- **Why the consequences of the risk in question is outside of prudent management control**

- Our ability to plan for the safe disposal of biosolids at AMP8 is impacted to a large degree by the uncertainty regarding the requirement for an alternative route for disposal. Annex 6a sets out in more detail the uncertainties relating to potential future changes in: legislation; regulation; guidance or its interpretation; and biosolids acceptability by end users. These risks are outside of prudent management control.

- **Why the risk would be more efficiently allocated to customers than to the company and its investors**

- Biosolids treatment is a core part of the business, with our legal responsibility to ensure the safe disposal of biosolids, and these costs are usually expected to be borne by the customers who benefit from the service. The potential changes covered by this UM are outside of company control and beyond what we can reasonably accommodate within our base costs and planned enhancements. Therefore, the costs of any policy decision by government bodies or a change in biosolids acceptability by end users which impact disposal, are most efficiently borne by customers.

- **Provide details of ability to manage risk without the uncertainty mechanism**

- We set this out in more detail in Materiality: steps that the company could take to manage the effects of risk.

Cost-benefit

- **The implementation of the mechanism needs to be such that it is proportionate and protects the interest of customers**

- We are mindful of the impact requesting additional totex can have on bill affordability to customers. As it is our legal duty to ensure the treatment and disposal of biosolids, we need to ensure that we can continue to undertake these responsibilities despite the uncertainty. It is for this reason we have requested an UM which will only be triggered if the business is unable to reasonably fund the additional costs through the existing totex allowance. We consider this is more appropriate than requesting additional funds at the Final Determination because of the high degree of uncertainty we are facing and the associated negative impact on customer bills and affordability. We have set the materiality threshold at 10% of the bioresources AMP8 totex allowance, which we believe strikes a fair balance between both protecting customers and our ability to undertake our legal obligations.

- **Reference the extent to which the provision for the uncertainty mechanism might already be provided for in cost allowances**

- The allowance in the UM is in addition to the provision in our base and enhancement case and therefore, does not involve double counting. Our base plan has been designed to manage the anticipated growth from catchments and continues to improve efficiencies throughout our business to keep costs down for customer bills.
- Our WINEP Bioresources enhancement investment business case has been designed with the focus on meeting priorities set by the EA regarding resilience in the supply chain.
- Therefore, neither the base nor enhancement costs have been designed to reflect the additional cost requirement for alternative routes for disposal of biosolids. Furthermore, we are upper quartile in terms of efficiency in the bioresources space and therefore, the request for additional funds is not reflective of internal inefficiency.

- **The triggers the mechanism may require and how the proposed mechanism would be applied**

- The trigger is a company application to Ofwat where costs have increased by at least 10% of the bioresources AMP8 totex allowance.
- The scope of the re-opener is a material increase in bioresources compliance costs associated with disposing biosolids, driven by a change in:
 - legislation;
 - regulation;
 - guidance;
 - the interpretation or application of existing legislation, regulation, or guidance; and/or
 - biosolids acceptability by end users.

- Ofwat would apply the mechanism by reviewing the company's application and determining whether an additional allowance should be released during AMP8.

Read more: Annex 6a Risk and Return sets out more on our proposed bespoke uncertainty mechanism.

MINIMUM EXPECTATION 28

The company's Board provides assurance that its business plan is financeable on the basis of the notional structure and this is supported by sufficient and convincing evidence that demonstrates financeability and the steps taken to provide this assurance.

Key points:

- The Severn Trent Board Assurance Statement says that Severn Trent "is financeable on the basis of the notional capital structure using Ofwat's definition of the financial ratios".
- Table 1 below sets out the credit metrics over AMP8 on a notional company basis for our business plan. These are consistent with Ofwat's requirements for the notional company to have a credit rating of BBB+/Baa1, two notches above the minimum investment grade.

Table 1: AMP 8 credit metrics - notional company

Credit metric	Threshold for BBB+/Baa1	2025/26	2026/27	2027/28	2028/29	2029/30	AMP average
Funds from operations / net debt - (Ofwat)	9.0%	9.60%	9.66%	9.85%	9.81%	9.86%	9.77%
Funds from operations / net debt - (Alternative)	9.0%	9.07%	9.02%	9.05%	9.04%	9.04%	9.04%
Adjusted cash interest cover ratio - (Ofwat)	1.5x	1.53	1.73	1.94	1.97	1.92	1.83
Adjusted cash interest cover ratio - (Alternative)	1.5x	1.12	1.32	1.50	1.56	1.59	1.44
Gearing - Appointee	72%	58.40%	61.20%	63.61%	65.52%	66.33%	63.29%

- We have used Ofwat's early view of the allowed return on capital to make this assessment. However, as explained in our response to Minimum Expectation 25, we consider it is essential that: the allowed return on capital is updated to reflect relevant interest rate movements; Ofwat gives further careful consideration to the appropriateness of its allowed return on capital input assumptions and ranges to ensure a balanced approach is adopted; Ofwat ensures the allowed return on capital is determined in a way that is consistent with the design and calibration of the price control framework; and Ofwat carefully stress tests the compatibility of its cost of capital assessment with the scale of investment and equity additions that will be needed in AMP8.
- We have calibrated the Pay-as-you-go (PAYG) and RCV run-off rates in our plan to address notional company financeability constraints that would otherwise arise.
- The Board received information on all the key components of the business plan, the financial ratios and credit metrics at dedicated meetings on PR24 during Summer 2023.
- Independent consultants PwC, provided third line assurance to the Board that our business plan is financeable on a notional company basis. They also provided third line assurance that we have provided sufficient evidence to support the approach to the PAYG and RCV run-off rates, and other key assumptions such as the approach to the allowed return on capital and dividends.

Read more: Annex 6a Risk and Return sets out more on the financeability of our plan.

MINIMUM EXPECTATION 29

The business plan provides sufficient and convincing evidence to support PAYG and RCV run-off cost recovery rates. RCV run-off rates are within our expectations set out in Chapter 8 of the final methodology and take account of intertemporal fairness and considerations of affordability for customers now and in the future.

Key points:

- The Pay-as-you-go (PAYG) and RCV run-off cost recovery rates we use in our business plan reflect Ofwat's expectations and take account of intertemporal fairness and considerations of affordability for customers now and in the future.
- We have made adjustments to the underlying rates to make sure our business plan is financeable at Ofwat's early view of the allowed return on capital.

PAYG rates

- We consider that to provide for a fair balance of charges and affordability between current and future customers, PAYG rates should broadly reflect the underlying structure of costs over time, but remain relatively stable and only be adjusted in response to relatively clear and significant changes to the structure of costs.
- The scale of our planned AMP8 enhancements is such that we expect there to be significant change to our cost structure and it is appropriate to take this into account when setting PAYG rates. We have reflected the changes in our PAYG rates in a relatively cautious way to take account of the inevitable uncertainties and sensitivities associated with forecasting the structure of costs.
- Our proposed underlying PAYG rates are presented in Table 1. They are all lower than our equivalent AMP7 PAYG rates, reflecting the large capital programme in AMP8. In proposing these PAYG rates, we have considered the PR19 PAYG rates, the AMP7 natural rate outturn (for operating expenditure (opex) and infrastructure renewals expenditure (IRE)), and our forecast AMP8 natural rate.

Table 1: The PAYG rates used in our plan

Price control	Underlying PAYG rate	PAYG rate adjusted for financeability
Water Resources	64.8%	64.9%
Water Network Plus	56.9%	57.1%
Wastewater Network Plus	41.7%	41.8%
Bioresources	26.9%	26.9%

- On the right-hand side of Table 1, we present the PAYG rates we have used in our plan, which have been adjusted for financeability. The rates are calibrated to address notional company financeability constraints that would otherwise arise. They make sure our business plan is financeable on a notional company basis using Ofwat's early view of the allowed return on capital.
- The adjustments are relatively small and the adjusted PAYG rates remain below our PR19 rates.

RCV run-off rates

- We consider that to provide for a fair balance of charges and affordability between current and future customers, RCV run-off rates should broadly reflect the underlying structure of costs over time, but remain relatively stable and only be adjusted in response to relatively clear and significant changes to the structure of costs.
- For our underlying RCV run-off rates, we have considered our PR19 RCV run-off rates and the natural rate (the rate of current cost depreciation or CCD) outturn for 2021/22.
- Our proposed underlying RCV run-off rates are all well within Ofwat's limits for RCV run-off rates.

Table 2: The RCV run-off rates used in our plan and Ofwat's upper limits

Price control	Underlying RCV run-off rate for opening AMP8 RCV	Ofwat's upper limit	RCV run-off rate adjusted for financeability
Water Resources	3.33%	4.5%	3.83%
Water Network Plus	4.06%	4.5%	4.50%
Wastewater Network Plus	3.94%	4.5%	4.44%
Bioresources	6.21%	8.0%	6.71%

- On the right-hand side of Table 2, we present the RCV run-off rates we have used in our plan, which have been adjusted for financeability. The adjusted rates are calibrated to address notional company financeability constraints that would otherwise arise. They make sure our business plan is financeable on a notional company basis using Ofwat's early view of the allowed return on capital.
- Our adjusted RCV run-off rates for the opening AMP8 RCV are within or at Ofwat's limits.

Read more: Annex 6a Risk and Return sets out our evidence in more detail to support our PAYG and RCV run-off rates.

MINIMUM EXPECTATION 30

The company's Board has provided assurance that it will maintain financial resilience during 2025-30 and in the long term, taking account of its business plan under its financing and capital structure. We also expect this to be supported by sufficient and convincing evidence of the steps taken to provide this assurance and of the steps to improve financial resilience where necessary.

Key points:

- The Severn Trent Water Limited Board statement confirms that it has challenged and satisfied itself that the PR24 business plan submission enables the actual company to remain financially resilient over the 2025-2030 period and beyond.
- The UK Corporate Governance Code, which applies to UK listed companies such as Severn Trent, sets out a requirement for company directors to produce an annual viability statement assessing the long term prospects of their companies. In line with this, we have well-established processes in place to enable our Board to reach robust conclusions on financial resilience, and our Board presents a long term viability statement (LTVS) each year in our Group Annual Report and Accounts.
- The analysis that underpins the assurance our Board provides on financial resilience annually, and for this PR24 business plan, is developed within a well-established framework that provides for rigorous investigation and oversight. It includes:
 - The Audit and Risk Committee, consisting of four independent non-executive directors, reviewing the extent to which the testing approach that has underpinned our previous LTVS (including choices on time horizon, scenarios, and key input and mitigation assumptions) remains appropriate in light of relevant developments and the latest Enterprise Risk Management (ERM) evidence.
 - The Audit and Risk Committee approving the testing approach, reviewing the stress testing analysis, and reviewing the assessments this analysis supports.
 - The Severn Trent Executive Committee reviewing and challenging throughout the process the approach to stress testing, the base assumptions, and the detailed calculations and assessments.
 - Independent assurance of our stress testing by our financial auditor as part of the robust three lines of assurance model we operate.
- In our base case and stress testing we have used Ofwat's 'early view' of the allowed return on capital. This gives rise to financeability constraints in relation to our target credit rating of BBB+/Baa1 for the notional company. A consequence of these notional company constraints, our forecast credit metrics on an actual company capital structure basis would not support a BBB+/Baa1 rating. In particular, given our efforts to minimise our use of financeability levers to address constraints, our Board concluded in our PR24 business plan that we should target a credit rating for the actual company one notch lower than for the notional company: BBB/Baa2. We note, however, that we would not expect our plan to give rise to financeability constraints on a notional or actual company basis at a target credit rating of BBB+/Baa1 following appropriate revisions to Ofwat's early view of the allowed return on capital.
- To deliver our substantial investment programme for AMP8 while maintaining an appropriate level of gearing, we raised £1 billion of new equity on 29 September 2023. We have assumed £1 billion of new equity for the modelling that underpins our PR24 business plan, and in our financial resilience base case and stress testing. This equity raise is part of our extensive preparations for AMP8 to provide strong foundations for making rapid progress in the delivery of our investment programme for customers and the environment.
- Table 1 summarises the results of our stress testing and shows that before mitigating actions are considered, all downside scenarios result in a material deterioration in our financial position, and for some scenarios the impact would be a downgrade of our credit rating below investment grade and/or a breach of covenants. However, after mitigating actions are taken into account, we have identified only a limited impact across all relevant metrics under all scenarios.

MINIMUM EXPECTATION 31

The business plan sets out the company's dividend policy for 2025-2030 and the policy is in line with our expectations.

Key points:

- We have aligned our dividend policy for 2025-30 with Ofwat's expectations and the recent licence change.
- We have a strong track record on responsible dividend payments, evidenced by one of the lowest gearing levels in the water sector.
- We are going beyond Ofwat's expectations with the following stretching commitments:
 - We will continue to manage the balance of dividends and retained earnings so that our gearing stays below 70% and our credit ratings remain robust throughout AMP8.
 - We will pay a dividend yield of only 2% in the absence of additional equity coming from investors¹.
- We have revised our dividend policy to reflect Ofwat's PR24 expectations and the recent licence change. Our dividend policy has four core principles for 2025-30:
 1. Dividends will not impair the ability of the Company to finance the Appointed Business.
 2. Dividends will take account of service delivery for customers and the environment over time.
 3. Dividends will reward efficiency and the effective management of risks to the Appointed Business.
 4. Dividends will be transparent.
- Tables 1, 2 and 3 show how our dividend policy for 2025-30 aligns with Ofwat's three principles in the licence condition and all of Ofwat's expectations for dividends in its PR24 final methodology. We provide more detail on how we meet these principles and expectations in Annex 6b on financial resilience, dividends and performance-related executive pay.

Table 1: How our dividend policy for 2025-30 complies with Ofwat's three principles in the licence condition

Ofwat licence condition principle for dividend policies	Summary of how our dividend policy for 2025-30 meets the licence condition principles
Dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business, taking account of current and future investment needs and financial resilience over the longer term.	<ul style="list-style-type: none"> • Our first core dividends principle is: "Dividends will not impair the ability of the Company to finance the Appointed Business". - Under our dividend policy the Board will have regard to the results of our financial viability assessment, which takes into account scenarios such as increased investment.
Dividends declared or paid take account of service delivery for customers and the environment over time, including performance levels, and other obligations.	<ul style="list-style-type: none"> • Our second core dividends principle is: "Dividends will take account of service delivery for customers and the environment over time." - We will only distribute amounts above the base return that are supported by sustained outperformance over time when the Company's financial position and prospects indicate that it is prudent to do so.
Dividends declared or paid reward efficiency and the management of risks to the Appointed Business.	<ul style="list-style-type: none"> • Our third core dividends principle is: "Dividends will reward efficiency and the effective management of risks to the Appointed Business." - We recognise that efficiency and effective risk management are key prerequisites for delivering sustainable performance for customers and sustainable returns for shareholders.

¹ This is on the assumption that Ofwat's PR24 final determination for Severn Trent includes considerable RCV growth as expected.

Table 2: How our dividend policy for 2025-30 meets Ofwat's expectations for dividend policies

Ofwat expectations for dividend policies	Summary of how our dividend policy for 2025-30 meets Ofwat's expectations
<p>Companies should set out:</p> <ul style="list-style-type: none"> • details underpinning their approach to dividends and factors that influence dividends transparently in their published dividend policy; • how their approach takes account of delivery for customers; • the dividend policy in their Annual Performance Report. This should be clear and is consistent with all other narrative in relation to dividend policy or dividends declared or paid within the remainder of their Annual Performance Report, within their statutory accounts and within any other publication; and • any changes to their dividend policy in their Annual Performance Reports. 	<ul style="list-style-type: none"> • Our fourth core dividends principle is: "Dividends will be transparent". <ul style="list-style-type: none"> - In our Annual Performance Report (APR) we explain our dividend policy and how the decisions leading to the payment of a dividend align with that policy, including how delivery for customers and the environment has been taken into account. These make our dividend policy and decisions taken on dividends transparent to customers and other stakeholders. We include any changes to our dividend policy in our APR. - Over a number of years, and taking account of helpful feedback from Ofwat, we have developed an approach to reporting our cumulative returns, amounts distributed and amounts available for future distribution in a fully transparent manner. - We will continue to transparently disclose in 2025-30 the returns earned in year and cumulatively, the amounts distributed as dividends, and the matters considered by the Board in applying the dividend policy and setting the dividend.
<p>Companies should set out how total dividends declared or paid have been determined and how they are consistent with the company's dividend policy.</p>	<ul style="list-style-type: none"> • Our fourth core dividends principle is: "Dividends will be transparent". <ul style="list-style-type: none"> - Over a number of years, and taking account of helpful feedback from Ofwat, we have developed an approach in our APR to reporting our cumulative returns, amounts distributed and amounts available for future distribution in a fully transparent manner. - In our APR we explain how the decisions leading to the payment of a dividend align with our dividend policy.
<p>Companies should clearly explain and provide justification for any deviations from the policy.</p>	<ul style="list-style-type: none"> • Our fourth core dividends principle is: "Dividends will be transparent". <ul style="list-style-type: none"> - In our APR we will clearly explain and provide justification for any deviations from our dividends policy for 2025-30. We are not anticipating any deviations are likely to occur.

Table 3: How our dividend policy for 2025-30 meets Ofwat's factors in the design and application of dividend policies

Ofwat's factors that companies should take into account in the design and application of their dividend policies	Summary of how our dividend policy for 2025-30 meets Ofwat's expectations
Performance in meeting their obligations including their statutory and licence obligations.	<ul style="list-style-type: none"> • Our second core dividends principle is: "Dividends will take account of service delivery for customers and the environment over time."
The commitments they have made to customers.	<ul style="list-style-type: none"> - This includes the Company's performance in meeting its statutory and regulatory obligations, the performance commitments the Company has made, performance against regulatory metrics and benefit sharing. The Board will also consider matters that become the subject of public scrutiny when making decisions on dividends.
Out/underperformance against regulatory metrics and benefit sharing.	
Employee interests.	<ul style="list-style-type: none"> • Our employees tell us that their key priorities are: <ul style="list-style-type: none"> - Job security - Fair rewards • Our first core dividends principle is: "Dividends will not impair the ability of the Company to finance the Appointed Business". <ul style="list-style-type: none"> - This is closely related to employees' job security. By ensuring that dividends do not impair the Company's financial resilience we also mitigate the risk of redundancies. • All our employees can become part-owners of the Company through our popular Sharesave Scheme and around 75% participate. These employees benefit from the dividends paid by Severn Trent's parent company.
Pension obligations.	<ul style="list-style-type: none"> • Whenever dividend payments are under consideration, the Company performs a pension covenant test to ensure that proposed dividend payments are equitable relative to the level of deficit contributions being paid to the Company's defined benefit pension schemes. • The Company takes advice from its independent actuaries on the nature of the test to ensure that all matters that might impact its pension covenant are considered and that dividends do not inequitably act to the detriment of pensioners.
Actual capital structure, including whether, for a company with high gearing, it has considered maintaining the same dividend yield as under our notional structure.	<ul style="list-style-type: none"> • Our first core dividends principle is: "Dividends will not impair the ability of the Company to finance the Appointed Business". <ul style="list-style-type: none"> - We will continue to manage the balance of dividends and retained earnings so that our gearing stays below 70% and our credit ratings remain robust throughout AMP8.
The need to finance future investment (RCV growth) or fund costs not covered by the price review.	<ul style="list-style-type: none"> • We recognise that funding material growth in RCV requires an appropriate balance between equity and debt in order to maintain financial resilience. • We will pay a dividend yield of only 2% in the absence of additional equity coming from investors.
Financial resilience.	<ul style="list-style-type: none"> • Our first core dividends principle is: "Dividends will not impair the ability of the Company to finance the Appointed Business".

Read more: Annex 6b Financial Resilience sets out more on financial resilience, dividends and performance related pay.

MINIMUM EXPECTATION 32

The business plan sets out the company's policy for performance related executive pay during 2025-30 and the policy is in line with our expectations and Board leadership, transparency and governance principles.

Key points:

- **We understand the deep concern around executive pay and are actively addressing and factoring stakeholders' expectations into our approach.** We are in no doubt that the issue of executive pay has struck a powerful chord with the public and is understandably under scrutiny; nor is there any doubt that water companies need to demonstrate robust principles on executive pay. We are actively addressing and factoring these expectations into our approach.
- **Our performance related executive pay policy for 2025-30 is in line with Ofwat's expectations** and its Board leadership, transparency and governance principles¹ as explained below and in full in Annex 6b.

Our performance related executive pay policy:

- **Is aligned to delivery for customers and the environment.** Both the annual bonus and long term incentive plan (LTIP) contain a strong link to performance for our customers and the environment. For example, in 2023/24 60% of the annual bonus is linked to performance covering our PR19 performance commitments for customers and the environment, river health, health and safety and the Environment Agency's EPA.
- **Is based on stretching targets.** For example, 35% of the annual bonus is based on Ofwat's stretching PR19 performance commitment levels, 12% is based on our sector-leading river pledges and 5% is based on getting the EA's top 4 star category on the Environmental Performance Assessment (EPA) with nothing for 3 star or less.

- **Takes account of overall performance.** When determining executive pay outcomes, the Remuneration Committee does not simply follow the formulaic outcome of each performance measure but also undertakes a thorough assessment of 'performance in the round' drawing on wide-ranging data and information on the overall performance of the company.
- **Involves appropriate underpins, malus and clawback clauses.** Our incentive scheme rules contain malus and clawback provisions. These provisions allow the Remuneration Committee to reduce or recoup any past incentive payments from individual executives if the Remuneration Committee later learns of information that was materially adverse to the incentive scheme outcome after the time of the award.

Substantial use of deferral mechanisms facilitates the Remuneration Committee's ability to operate malus and clawback provisions, for example, 50% of Executive Directors' annual bonuses are awarded in shares that are deferred for three years.

- **Takes account of the position of the regulated company within the group.** For 2022/23, our Executive Director bonuses were charged in their entirety to, and will be paid for, by the holding company Severn Trent Plc, not customers.
- **Ensures targets remain appropriate.** For example, the Remuneration Committee does not simply follow the formulaic outcome of each performance measure, but examines whether formulaic outcomes are appropriate in the context of overall business performance for customers, the environment and wider stakeholders.

¹ Ofwat recognises that listed companies, such as Severn Trent, are required to agree new remuneration policies with shareholders at least every three years, which means that a remuneration approach cannot be fixed in advance for a whole five-year price control period.

- **Is transparent and accessible.** We strive for clear and transparent remuneration reporting and were delighted to be recognised for the quality and transparency of our remuneration reporting disclosures in 2021 by winning both the PwC Building Public Trust Award and the Chartered Governance Institute Award.
- **Is clear about the quantum of awards and the reasons for them even when funded by shareholders.** For 2022/23, our Executive Director bonuses were charged in their entirety to, and will be paid for by the holding company Severn Trent Plc, not customers. Our Directors' Remuneration Report and the Annual Performance Report provided full clarity of the quantum of awards, the reasons they were made and their alignment with delivery for customers, communities and the environment.
- **Is clear about when remuneration committees have used their discretion to adjust the formulaic outcomes of short- and long-term schemes in the year.** For example, in the most recent Annual Report and Accounts for 2022/23 the Remuneration Committee states: "Following the Committee's assessment of these factors in the performance in the round, no discretion has been exercised to override the formulaic outturn of either the 2022/23 annual bonus or the standard element of the 2020 LTIP award."
- **Is in line with Ofwat's Board leadership, transparency and governance principles, which expect companies to be transparent in their reporting of different aspects of executive pay.** Each year we publish a Directors' Remuneration Report, providing an explanation of our executive pay policy and the way in which executive pay elements are substantially linked to stretching performance delivery for customers and the environment.

Read more: Annex 6b Financial Resilience sets out more on performance - related executive pay.

Thank you and next steps

We are grateful to the 68,000 customers and 630 stakeholders who took part in our research, attended workshops, responded to our consultations and attended our first ever 'Your water, your say' open challenge session.

The insight you have given us has been invaluable to developing our plan, and we hope that every participant can see the spirit of what they told us (even if it has not always been possible to replicate the exact detail) reflected in our proposals.

Thank you too to our Expert Challenge Panel (ECP), chaired by Professor Bernard Crump and comprising a range of experts who have shown considerable dedication to challenging us at every step through the development of our plan, and pushing us to deliver more for our customers and the environment. You can read more about the membership of the ECP and its work [here](#).

Our plan is now with Ofwat, our economic regulator for further review and scrutiny, and there will be an opportunity in May/June 2024 for everyone to have their say again, as Ofwat consults on its draft findings.

We look forward to the outcome, and getting on with delivering our plan.



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WONDERFUL ON TAP

