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Dear Tim,

## Severn Trent Water green recovery draft decision: company response

We welcome the green recovery draft decision that Ofwat published on 17 May 2021. We really appreciate the constructive and open approach that Ofwat has taken throughout this innovative process to support the country's green recovery from the Covid-19 pandemic.

The draft decision will deliver a range of benefits to both our customers, the environment and society. The opportunity to deliver innovative solutions, particularly in Mansfield and creating bathing standard rivers will also help future customers by revealing learnings that can be applied at PR24 and beyond. We are therefore pleased to accept our draft decision including:

- The totex allowance of £564.627m.
- The allocation of 15% PAYG in-AMP.
- The proposed adjustment to bills over 2022-25.
- The additional green recovery reporting requirements.
- The creation of new performance commitments.
- The mechanism for adjusting the RCV at PR24.
- The amendments to the shadow RCV reporting in table 4c in the APR.
- The proposed treatment of the tax impacts.

In our review of the Draft Decision and the performance commitments in Appendix A1.2 of the consultation we have identified two drafting points that could have unintended consequences. We have therefore suggested some refinements to the draft decision in appendix 1 to make sure the schemes will deliver their full benefits for customers and the environment. These refinements do not change the cost or benefits that will be delivered to customers and simply ensure that we can move at speed. We discuss these points below.

### Flood resilience

We fully understand and accept the condition for 11% third party funding for our flood resilience scheme. However, the current wording of the condition could slow down our delivery because it implies the other 89% of funding is dependent on the 11%, which will take time to secure. [REDACTED

]. This change underlines our commitment to delivering the flood resilience scheme quickly to benefit our customers and the environment in Mansfield.

We are also proposing a more precise definition for the flood resilience scheme in Appendix 1 to make sure the cost sharing and third-party contribution calculations interact correctly.

#### **Accelerating AMP8 WINEP**

We also want to clarify a point on WINEP that you might have missed in our proposals. The draft decision says in table A1.1 that we need to deliver 48 points by 2024/25. However, we also need to carry out capital maintenance activity at the sites, which cannot be completed until AMP8. In our business case we explain that we can deliver and achieve sign off on 7 points by 2024/25, with the remainder signed off over the first three years of AMP8. We suggested that the EA could run a progress review and confirm that the activity has been carried out even though full sign off could not be achieved by 2024/25 and this is acknowledge in the definition.

In Appendix 1 we suggest updated text to clarify and emphasise the role of the interim EA assessments of our green recovery investment. In addition, we suggest an improved approach to address the overlap of the green recovery improvements with the AMP7 measures (table A4.1.3). Our suggested approach is to include a list of excluded sites (the 36 named sites in our green recovery proposal) that cannot contribute the AMP7 PC rather than altering the AMP7 target.

#### Other technical points

In Appendix 2 we set out a small number of other technical clarifications that if addressed would ensure a smooth transition to the delivery phase and reduce ambiguity during the sign off phase.

#### Next steps

You will be glad to hear that we are already progressing the delivery phase to meet the challenging timelines across our ambitious set of proposals. We are due to meet with Nottinghamshire County Council this week to discuss the Mansfield Scheme and will be shortly meeting the CEO of Mansfield Council. We are also engaging extensively with media in the region to promote what is a ground-breaking scheme (including BBC Coventry and Warwickshire radio and BBC East Midlands Today).

We are looking forward to working with your team to resolve the remaining couple of points so that we can move fully into delivering these green recovery schemes to provide huge benefits for our customers and the environment and to support the economic recovery from the Covid-19 pandemic.

Yours sincerely,



**Shane Anderson**  
**Director of Strategy and Regulation**